CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

Literature Review in the present study has covered dimensions related to CG and corporate frauds prevalent in the Indian financial sector. Mentioned below are the topics reviewed by the researcher:

- Review of CG committees, their recommendations from India and other countries.
- Review of similar studies conducted on disclosure practices of CG, especially with reference to the financial sector.
- Review of CG guidelines stated by SEBI and RBI for the banking sector.
- Review of parliamentary reports, journals, case studies and statistics on corporate frauds that occurred in the Indian banking sector.
- A detailed review of research work conducted on stakeholders’ opinion with regards to current CG practices and the occurrence of frauds.

The above-mentioned literature were obtained from the following sources (i) Dissertation on CG and banks available in the libraries, (ii) The research / studies carried out by the institutions like RBI, National Foundation for CG (NFCG), Confederation of Indian Industry (CII), SEBI and business magazines viz., Business Standard, Times of India, Economic Times, (iii) Peer-reviewed research reports , and (iv) websites of RBI, Govt. of India and websites of scheduled commercial banks. The present study was undertaken in the light of the method adopted and conclusions emerged in the earlier studies relating to how CG can be an effective tool in combating frauds.

The classification of reviewed papers published in related journals all over the world is presented in Table 2.1. Evidently, empirical evidence of the impact of CG has been widely published in all journals.
2.1 Source Reviewed

Following is the list (alphabetical) of prominent journals from which the articles were studied.

Table 2.1 LIST OF SOURCES FOR REVIEW OF LITERATURE

<table>
<thead>
<tr>
<th>Name of the journal</th>
<th>No. of articles referred to</th>
<th>Oldest</th>
<th>Latest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting, Auditing and Accountability Journal</td>
<td>3</td>
<td>2009</td>
<td>2012</td>
</tr>
<tr>
<td>Asia Pacific Journal of Management</td>
<td>4</td>
<td>2008</td>
<td>2012</td>
</tr>
<tr>
<td>Asian Business and Management</td>
<td>2</td>
<td>2009</td>
<td>2013</td>
</tr>
<tr>
<td>CG</td>
<td>6</td>
<td>2007</td>
<td>2013</td>
</tr>
<tr>
<td>CG: An International Review</td>
<td>7</td>
<td>2006</td>
<td>2011</td>
</tr>
<tr>
<td>CG e Journal</td>
<td>7</td>
<td>2005</td>
<td>2013</td>
</tr>
<tr>
<td>Chartered Secretary</td>
<td>5</td>
<td>2004</td>
<td>2010</td>
</tr>
<tr>
<td>IUP Journal of CG</td>
<td>2</td>
<td>2010</td>
<td>2013</td>
</tr>
<tr>
<td>Journal of Accounting and Economics</td>
<td>6</td>
<td>2007</td>
<td>2009</td>
</tr>
<tr>
<td>Journal of Accounting Research</td>
<td>6</td>
<td>2010</td>
<td>2010</td>
</tr>
<tr>
<td>Journal of Banking &amp; Finance</td>
<td>4</td>
<td>2002</td>
<td>2005</td>
</tr>
<tr>
<td>Journal of Banking Regulation</td>
<td>4</td>
<td>2008</td>
<td>2012</td>
</tr>
<tr>
<td>Journal of Business Ethics</td>
<td>5</td>
<td>2007</td>
<td>2013</td>
</tr>
<tr>
<td>Journal of Corporate Finance</td>
<td>4</td>
<td>2003</td>
<td>2010</td>
</tr>
<tr>
<td>Journal of Finance</td>
<td>14</td>
<td>2006</td>
<td>2011</td>
</tr>
<tr>
<td>Journal of Business &amp; Economics</td>
<td>2</td>
<td>2007</td>
<td>2011</td>
</tr>
<tr>
<td>Review of Accounting Studies</td>
<td>1</td>
<td>2008</td>
<td>2010</td>
</tr>
<tr>
<td>Review of Financial Studies</td>
<td>1</td>
<td>2009</td>
<td>2011</td>
</tr>
<tr>
<td>Unpublished/Reports/Conferences</td>
<td>40</td>
<td>2000</td>
<td>2013</td>
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</tbody>
</table>

*Source: Compiled from literature review obtained from various databases*
2.2 Global Milestones in the Emergence of CG

Numerous frauds and scams have been reported in the corporate arena all over the world. It was felt that the present regulatory and compliance structure is not adequate, and it requires significant external regulations where the wrongdoers should be adequately penalized. Several committees were formulated to study the issues in-depth and make recommendations. Codes and guidelines on CG that were to be put in practice were formed and given recommendations based on the governance problems faced by the countries. All these measures have brought about a metamorphosis incorporate that realized that investors and society are serious about CG.

Developments in the USA: CG gained importance with the occurrence of the Watergate scandal in the United States. This culminated in the Foreign and Corrupt Practices Act (1977), which specified and formalized the systems of internal control. After this, the Securities and Exchange Commission’s proposals for mandatory reporting on internal financial controls followed, in the year 1979.

Developments in the UK: In England, the idea of modern CG was initiated by the BCCI Scandal. To deter such corporate failures in the future and make up for the lack of regulatory measures, the Committee of Sponsoring Organizations was formed. The report produced in 1992 suggested a control framework and was endorsed in a refined manner in four reports: those of Cadbury, Ruthman, Hampel, and Turbull.

The CG committees of the last decade have analyzed the problems and crises creating challenges for the corporate sector and the markets, attempting to formulate stringent guidelines for better corporate management. A detailed study of the corporate codes and various committee reports has helped outline the major challenges and formulate the CG principles.

The Cadbury committee was under the chairmanship of Sir Adrian Cadbury in 1992 by the London Stock Exchange and accounting profession of U.K. The committee submitted its report wherein it recommended guidelines for the Board of Directors. The Cadbury committee has given 22 recommendations with reference to the board of directors, executive and non-executive directors, and those on reporting and control.
The Hampel committee on Corporate Governance was formed under the chairmanship of Sir Ronald Hampel in 1998 in U.K to review the impact of Cadbury code. The committee has issued a list of governance principles related to the role of directors, remuneration, and the role of shareholders, accountability and audit. The committee has also acknowledged the fact that the importance of Corporate Governance lies in its contribution both in terms of attaining business prosperity and insuring accountability of the board. The Blue Ribbon Company was jointly sponsored by the New York Stock Exchange (NYSE) and National Association of Security Dealers (NASD) for improving the working of corporate audit committees.

The salient recommendations given by the committees on audit committee were:

- The members of the audit committee should be independent directors and financially literate,
- External auditors should periodically discuss the quality of company’s accounting principles in relation to Generally Accepted Accounting Principles (GAAP) with the audit committee,
- Statutory auditors must remain independent while carrying out their professional responsibilities, and
- On an annual basis, the committee should review and discuss the significant relationship all the accountants have with the corporations to determine their independence.

The Greenbury committee was formed in January 1995 under the chairmanship of R.W Williams; the objective was to identify best practices by the Central Bureau of Investigation (CBI). The committee has produced the Greenbury Code of Best Practice, which was divided into four sections: Remuneration committee, Disclosures, Remuneration policy and Service Contracts and Compensation.

The King Committee was set up in 1994 in South Africa at the behest of the Institute of Directors of South Africa; the South African Chamber of Business and the Chartered Institute of Secretaries and Administrators also supported. The committee was requested to enquire and recommend 1) code of practice on the financial aspects of CG in South Africa, 2) simple reporting without sacrificing quality of information, 3)
guidelines for ethical practices and 4) to provide appropriate safeguards for the entry of the disadvantaged communities in South Africa into business. The committee gave its detailed recommendations, which includes among other things that were said above; the corporate should have an effective internal audit function and established audit committee with written terms of reference from the board.

Importantly, OECD was one of the earliest non-governmental organizations to frame the principles and practices to help corporate houses achieve long-term shareholder value. The OECD was a trendsetter as the Code of Best practices is associated with the Cadbury Report.

The following elements sum-up the OECD principles.

a) The rights of shareholders
b) Equitable treatment of shareholders
c) Role of stakeholders in CG
d) Disclosure and Transparency
e) Responsibilities of the board

The Institute of Chartered Accountants in England and Wales set up the Turnbull Committee in the year 1999; the purpose was to assist companies in implementing the requirements of the Combined Code for internal control.

UNCTAD Guidance on Good Practices in CG Disclosure: United Nations Conference on Trade and Development, 2006 provided a set of recommendations for good Corporate Governance. These recommendations and principles have been mainly focused on the structure of the company, financial and non-financial disclosures, compliance with codes of CG, competitive remuneration policy, shareholders rights and responsibilities, financial reporting and internal controls among others. All these efforts at the international level, in turn, help to bring favorable changes in the operating systems of the Board of Directors, company's management and administration; they also improve the face of the relationship between supervisory and executive bodies.
2.3 CG Development in India: A Timeline

In India, the CG initiative was not a result of any major corporate scandal, like Enron, or World Com. Instead, it started as a self-regulatory move from the industry, without being legally mandatory. There have been several CG initiatives in India since the mid-1990s. The first was by the CII, India’s largest industry and business association, which formulated, in 1998, the very first voluntary code of CG.

In India, CG initiatives have been undertaken by the Ministry of corporate affairs (MCA) and the SEBI. In February 2000, taking the recommendations of the Kumarmangalam Birla committee report as its base, SEBI formulated the first formal regulatory framework for listed companies, specifically for CG. Further, SEBI is maintaining the standards of CG through other laws like the Securities Contracts (Regulation) Act, 1956, Securities and Exchange board of India Act, 1992, and Depositories Act, 1996.

The second was by the SEBI, now named as Clause 49 of the listing agreement. The third in line was the 2002 Naresh Chandra committee. In the same year 2002, SEBI’s Narayana Murthy Committee submitted its report, making it the fourth in line. Based on some of the recommendations of this committee, SEBI revised Clause 49 of the listing agreement in August 2003. The Naresh Chandra report made recommendations to strengthen two key aspects of CG: disclosures of financial as well as non-financial nature, and independent auditing and board control of management. SEBI, through its enactment of the Companies Act and its amendments, has attempted to make CG a transparent and efficient process.

<table>
<thead>
<tr>
<th>The CII code</th>
<th>Recommendations about Board of Directors</th>
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<tbody>
<tr>
<td></td>
<td>No need for the German-style two-tier board.</td>
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<tr>
<td></td>
<td>In the case of a listed company with turnover more than INR 100 crores, the Chairman, also the Managing Director (MD), and at-least half of the board should be Independent Directors, else at-least 30%.</td>
</tr>
<tr>
<td><strong>Kumar Mangalam Birla committee report and Clause 49</strong></td>
<td><strong>Recommendations</strong></td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>• An individual should not hold directorships in more than ten listed companies.</td>
<td>• At-least 50% non-executive members</td>
</tr>
<tr>
<td>• Non-executive directors should be competent and active and have clearly defined responsibilities like in the Audit committee.</td>
<td>• For a company with an executive Chairman, at-least half of the board should be</td>
</tr>
<tr>
<td>• Directors should not be paid a commission in the excess of 1% (3%) of the net profits for a company with (out) an MD\textsuperscript{\textregistered} over and above sitting fees. Stock options may be considered too.</td>
<td>• IDs, else at-least one-third.</td>
</tr>
<tr>
<td>• Attendance record of directors should be discussed at the time of reappointment and individuals with less than 50% attendance should not be reappointed.</td>
<td>• The non-executive Chairman should have an office and have their job-related expenses covered.</td>
</tr>
<tr>
<td>• In the code is enlisted the significant information that must be elucidated before the board.</td>
<td>• Maximum of ten directorships and five chairmanships per person.</td>
</tr>
</tbody>
</table>

**Audit committee**

A board must have a qualified and independent audit committee, of at least three members, all non-executive, majority and chair independently with at-least one having financial and accounting knowledge.

**Remuneration committee**

The remuneration committee should decide remuneration packages for executive directors.

**Disclosure and Transparency**

**Shareholder’s rights**

• Quarterly results, presented to analysts should be communicated to investors, possibly over the Internet.
• Half-yearly financial results and significant events’ report be mailed to shareholders
• A board committee headed by a non-executive director should be there to look into shareholder complaints/grievance
| **Naresh Chandra committee report** | In the August month of the year 2002, the Naresh Chandra Committee was appointed by the Ministry of Finance and Company Affairs to look into issues pertaining to CG. In December 2002, within four months, the committee submitted its report. The highlight of the report was an especial emphasis on financial as well as non-financial disclosures and board control of management. |
| **Narayana Murthy committee reports on CG** | Mr. N. R. Narayan Murthy was requested by SEBI to helm the fourth CG-related initiative in the year 2002. The focus here was on Clause 49. This report accentuated the import of aspects like Independent Directors, audit committee and its functioning, director compensation, financial disclosures and codes of conduct. |
| **CII Taskforce on CG** | A Task Force was set up under Mr. Naresh Chandra in February 2009 to recommend ways of further improving CG standards and practices both in letter and spirit |
| **CG voluntary guidelines 2009** | In December 2009, “CG Voluntary Guidelines 2009” were published under the aegis of the Ministry of Corporate Affairs (MCA) The main aim of these guidelines was to encourage companies to improve the functioning of their boards and board committees, the enhance the authenticity and independence of external auditors, and have an efficient whistle blowing mechanism. The guidelines are divided into the following six parts:  
- Board of Directors  
- Responsibilities of the board  
- Audit committee of the board  
- Auditors  
- Secretarial Audit  
- Institution of mechanism for whistle-blowing |
<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Clause 49</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Director Independence</strong></td>
<td>Requirement – 50% IDs if Chairman is an executive director or 33% if Chairman is a non-executive. IDs must possess the following characteristics – no material financial transaction with the company, no personal relationship with the board or with personnel even one level below the board and no relationship with the company for the last three years. Nominee Directors of FI - considered independent.</td>
</tr>
<tr>
<td><strong>Board Requirements and Limitations</strong></td>
<td>Meet four times a year (maximum 3 months between meetings) ▪ Limits on the number of committees a director can be on (10), but only five for which director can be Chair of the committee. ▪ Code of Conduct (Ethics) required.</td>
</tr>
<tr>
<td><strong>Audit committee composition</strong></td>
<td>At-least three directors (two-thirds must be independent). ▪ All financially literate ▪ At-least one director possessing relevant experience in accounting or financial management</td>
</tr>
<tr>
<td><strong>Audit committee role and Powers</strong></td>
<td>▪ Minimum four meetings/year (gap between meetings not to exceed 4 months) ▪ Board role – review statutory and internal auditors and the internal audit function, procure outside legal or other professional advice, and review the whistle-blower program if one exists among other things.</td>
</tr>
<tr>
<td><strong>Disclosures</strong></td>
<td>Related party transactions, ▪ Accounting treatments and departures, ▪ Risk management, ▪ Annual report includes discussion of adequacy of internal controls, significant trends, risks, and opportunities, ▪ Proceeds from the offerings, Compensation for directors (including non-executives and obtain shareholders’ approval), Details of compliance history for the 3 years. ▪ CG reports (and discloses adoption, if any, of mandatory and non-mandatory requirements).</td>
</tr>
<tr>
<td><strong>Certifications</strong></td>
<td>CEO and Chief Financial Officer (CFO): ▪ Financial statements</td>
</tr>
</tbody>
</table>
Effectiveness of internal controls

Intimation to audit committee if there are any significant changes in the above

Auditor or company Secretary: Comply with CG

<table>
<thead>
<tr>
<th>Subsidiary Companies</th>
<th>Recommendations:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Whistle-blower policy is optional</td>
</tr>
<tr>
<td></td>
<td>IDs lose status as “independent” after serving 9 years with the company</td>
</tr>
<tr>
<td></td>
<td>Training board members</td>
</tr>
<tr>
<td></td>
<td>Evaluate non-executive board performance</td>
</tr>
</tbody>
</table>

Report of the MCA-constituted committee constituted to formulate a policy document on CG

The lacuna in Indian CG is arguably not what is missing in the letter of the law, but what is missing in its internalization and implementation. The existing legislation in India is quite comparable with global standards— in fact, the broad features of Indian CG norms have been transplanted from other jurisdictions such as the USA and the UK.

- **Tone from the Top:** Good governance is a product of internal motivations of the top management that shape the company’s social structure, instead of being an external imposition. The former is fundamentally more important than the latter.

- **Balancing Act:** The outcome of CG must be a well-balanced framework wherein due attention has been paid to organization, structure and prioritization of interests. CG is necessary, partly because “the divorce in modern corporations between the rights of shareholders (in the Indian context largely minority – non-promoter shareholders) and other suppliers of capital on the one hand, and the operational control, which is in the hands of majority shareholders/professional managers, on the other.” The 1991 UK-based Cadbury Committee provided one of the most well-accepted Corporate Governance definitions As per this committee, “CG is the system by which companies are directed and controlled.” Therefore, managers must balance the interests of a wider set of stakeholders, not simply the shareholders. Fair and balanced stakeholders' perspective results in the long-term
shareholder maximization value. Good CG is the reconciliation of otherwise (possibly) diverging interests.

- **Board composition and Diversity:** Indian boards possess a rather high diversity quotient (DQ), with respect to work experience and socio-cultural and values/attitude/lifestyle, due largely to the inherent diversity of India.

- **Gender Diversity:** Having women directors on board to encourage gender diversity.

- **Selection Process:** As per the new norms there has to be a fit and proper form to be filled by the candidates who are opting for the directorship on the board. This fit and proper form needs to be evaluated by the committee before appointing directors.

- **On-boarding / Induction Process:** There should be an induction process for the board of directors to instil in their minds their duties and responsibilities in the organization.

- **Lead Independent Director:** After the ever increasing corporate scandals across the globe a need was felt to foster more transparency and better leadership in senior management. The new role, lead director, offers to separate the roles of the chairman and the CEO. The lead director is the independent chief of the board members and smooth execution of board members’ duties, thus, lies with him/her.

- **Information Acquisition:** Information acquisition and quality are other areas that need to be taken into account. The quality of decision-making of the board is directly linked with the information available with it. IDs must possess sufficient power and entitlements to ensure that they do justice to their duty. The existing law has given sufficient emphasis to the role and duties of IDs, but the ‘whats’ and the ‘hows’ require more elucidation.

- **Recording of Minutes:** It was recommended that before any of the board meetings the minutes of the last meeting should be circulated so that better and informed decisions can be taken. Also, this will make the process more transparent.
- **Continuing board Training and Education:** A constant need was felt time and again to introduce training and education programs for the board of directors. This will help in aligning them with the objectives and goals of the organization.

- **Board Evaluation:** There should be a proper mechanism in place for board evaluation especially before fixing the remuneration and renewal of the term. This need was felt in the case of independent directors where their role needs to be evaluated in the organization.

- **Succession Planning:** Illness/injuries leading to sudden full or partial retirement and natural aging leading to planned full or partial retirement of the owner/manager of a company are frequently-encountered phenomena. In addition, CEOs and senior management in any company do have a high turnover rate, given the tough and dynamic conditions of the corporate world today. Hence, it is essential that an effective ‘Succession Planning’ element is taken care of, to ensure that no crucial seat remains unfilled for a long time.

- **Risk Management:** The financial markets have experienced significant events in the first decade of the 21st century that have had a strong impact on the current CG principles. Some of these leading events include the so-called early 2000s’ “tech bubble”, scams of global proportions such as Enron and the recent financial crisis of 2008. This indicates that there is a strong relation between risk management and CG principles. Strategies of an organization are targeted at achieving certain goals, but each strategy has some degree of risks that must be minimized to ensure that the planned goals are reached. In essence, good governance aids in risk minimization. This indicates that effective risk management is a must for effective CG.

- **Crisis Management:** For effective CG, an efficient crisis management plan must be in place. Crisis can include sudden and calamitous events like hostile takeovers, product failures or industrial accidents, which, in turn, lead to reputation and/or financial loss for the company. Some examples include Cadbury, Infosys, Zandu Pharma, etc.

- **Whistle blowing:** Whistle blowing is an important contributor towards better CG. Whistle-blowing creates the fear of discovery, and this fear tends to enhance work
ethics and honesty. It has been defined as the “disclosure of illegal, immoral or illegitimate practices in an organization by a current or former employee of the organization for the benefit of the company, stakeholders, and society at large.” Despite obvious benefits, the whistle-blower policy in India is applicable only to government employees or in Central government-related works. There are no provisions for private sector whistle blowers in India, save for Clause 49 of the Listing Agreement. The Companies Bill 2011 touches upon this concept with regard to higher accountability standards to be maintained by companies, but more stringent legislation is clearly the need of the hour.

2.4 Literature Review on CG

Monks and Minow (1995) have shown concern for the shareholder’s interest, stating that there should be a system to make the manager care as much about the company’s performance as the shareholders. They were of the opinion that the shareholders should know that the assets they own are not being mismanaged or embezzled.

Good CG- Is it worth the while? McKinsey consultants Felton, Hudnut and Heeckeren (1996) quoted, “We asked investors to compare two well-performing companies (such as those with consistent profits and number one or two in terms of market share) and state whether they would pay more for stock of one of these companies if it were well-governed; 2/3 of the investors said they would.” As one respondent put it, ‘Companies with good board governance practices have a shareholder-value focus.’ According to them, there are three major reasons why investors pay a premium for good governance; well governed companies will perform better over a period of time, leading to higher stock prices, reducing their investment risk and they may have more worth. The same study by Felton et al. (1996) found that ‘many investors, particularly those with lower turnover ratios, are willing to pay premium for good governance.’

Fernando (1997) stressed that in India, CG is urgently needed because of “the changing profiles of corporate ownerships, preferential allotment of shares to promoters, increasing inflow of foreign capital and deliberate dismantling of the
control mechanism with economic liberalization that had hitherto provided protective
cover to even poorly-managed corporate bodies.”

Shleifer and Vishny (1997) observed that the purpose of CG is to ensure that
investors (suppliers of finance, shareholders or creditors) get a return on their money.
They also stated that a firm has many stakeholders other than the shareholders (e.g.
employees, creditors, customers, suppliers, public and the government) whose welfare
must be taken into account.

Dadiseth (1998) discussed that CG envisages a set of systems and processes, which
ensures that a company is managed to the best interests of all shareholders. In its
broader connotation, CG is “like a trusteeship.” It is “not simply a matter of creating
checks and balances”, but creating an outperforming organization that leads to
increasing customer satisfaction and shareholder values.

Cadbury (1998) emphasized that there is an increasing need among growing
companies to tap the international capital markets for funds. As they compete to attract
investment and raise capital worldwide, high standard of governance is demanded by
investors. Hence, CG is emerging as an important issue in the international business.

The Centre for International Private Enterprise (2002) stressed on the importance
of good CG for the economy. Good CG enhances companies’ access to capital
markets, their profitability and ultimately market-wide financial and economic growth,
by reducing risk, improving management and promoting transparency and
accountability.

Cadbury (2003) conveyed that the essence of CG is based on the principles of
transparency, accountability, fairness and responsibility, and their application is
universal in nature. According to him, a code of CG cannot be imported from outside,
but must be derived from individual experience. Corporates cannot be forced to follow
a particular code of conduct. Proper balance must be maintained so that CG and
commercial growth do not work at cross-purposes. Also of considerable importance is
the manner in which the CG principles are implemented, with the actual practitioners
taking responsibility of how the principles will be converted to practice.
Hart (2003) opined that CG issues arise in an organization whenever two conditions are present. Firstly, if there is an agency problem, i.e., conflict of interest of different stakeholders of the organization - these may include proprietors, managers, workers or consumers. Secondly, the transaction costs are such that the agency problem cannot be dealt with by the help of a contract. The researcher has explained some of the theories and application of CG faced by the organizations.

Parekh (2003) mentioned that the root of CG dates back to Adam Smith, but its popularity is of recent origin. The concept of CG can be understood as “the system through which shareholders are assured that their interest will be taken care of by the management”. For a much wider application, CG was defined as “the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they earn a return on their investment.”

OECD Principles of CG (2004) suggested that CG involves “a set of relationships between a company’s management, its board, its shareholders, other stakeholders and also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”

Verma and Gupta (2004) defined CG as the “rule of law, transparency, accountability and protection of public interest in the management of company’s affairs in the prevailing global, competitive and digital environment.” Despite regulatory efforts to establish a minimum corporate standard in the corporate sector, India has experienced a number of frauds, insider trading cases, and other scams during the last decade.

Fan (2004) asserted that CG is about “putting in place the structure, processes and mechanisms by which business and affairs of the corporate are directed and managed for enhancing long-term shareholder value by accountability of managers and enhancing firms performance.” Existing CG practices were brought under the scanner following the recent spat of scams perpetrated at the top management level; even empirical studies examining the effectiveness of good CG were prompted.
Haniffa and Hudaib (2006) analyzed that board size and top five substantial shareholdings must be significantly connected with market as well as accounting performance measures. In addition, they conclude that there is a significant relationship of role duality and managerial shareholdings with accounting performance. The findings are significant with respect to controls for gearing, company size, and industry membership and growth opportunities.

Gang (2006) argued that reforms in China will not be successful without sound Corporate Methodology and Governance structures. However, there is a long road for China to travel in its CG of listed companies.

McGee (2009) had referred to the World Bank project reports of the observation of standards and codes (ROSC) and given his analysis on the compliance to ROSC. Fernando (2009) also discussed in detail CG: principles, policies and practices. Afsharipour (2009) examined CG reforms in India and competing claims that they are close to global norms.

Singh and Gaur (2009) conducted a comparative analysis of CG practices and firms’ performance from China and India. The study revealed how business group affiliation, within firm governance and external governance environment, affect firm performance in top 500 Indian and Chinese firms. They also found that group-affiliated firms showed a performance that was worse than unaffiliated firms; also, this negative relation was sturdier in the case of Indian firms than in the case of Chinese firms. Ownership concentration was found to have a positive effect on firm performance while board independence had a negative effect on performance. They concluded that group affiliation – firm performance relationship in a given country context was moderated by ownership concentration.

Bhanumruthy (2010) traced the origin and development of CG practices in India starting from CII, Code on CG, Birla committee report and Narayana Murthy committee report and examined the recent amendments to Clause 49 of listing agreement in India. The positive side of adherence to CG practices has increased the importance of CG as an investment criterion among large investors, with improved
equity price performance, higher valuations, access to global markets and increased investor goodwill and confidence being the benefits.

**Chakrabarti (2010)** established that financial development is actually a function of investor protection in a country - de jure and de facto. With its roots in the British legal system, the Indian CG laws are sturdy and robust but do suffer from poor implementation. This together with socialistic policies of the pre-reform era has affected CG. In India, ownership concentration with respect to shares, and fund tunneling and pyramiding among group companies are common occurrences. CG of Indian banks is also undergoing a process of change with a move towards higher market-based governance.

**Srinivasan and Srinivasan (2011)** examined the status of CG research in Indian and International journals between the periods 2000-2010. They attempted to understand the nature of global research on CG in top-tiered international journals. This meta-analysis of national and international peer-reviewed publications indicates clearly that there has been a steady and growing interest in the field of CG in India.

**Bhardwaj (2011)** has shown a ‘holistic’ approach to the development of CG solutions in India, incorporating the unique economic, political and structural situation prevalent here. Based on a review of the patterns of ownership and control of its firms, they identify that the ‘core’ economic problem affecting CG in India today is “not the threat that managers act opportunistically against owners, as is prevalent in the Anglo-American world, but the threat that majority shareholders act opportunistically against minority shareholders, thus, calling for a new approach to address the Indian context.”
2.5 Literature Review on CG and Corporate Frauds

Johnson et al. (2000) presented evidence that the weakness of legal institutions for CG intensified the depreciations and stock market declines during the Asian crisis. Further, Johnson and others relied on the importance of the law, i.e., countries with more investor protection have better developed financial markets and more growth in their stock markets. Legal reform works and though the change may come slowly and cause setbacks, a sustained effort to improve investor protection definitely pays off.

Helman (2003) found that in the public sector it is the corruption that decides the direction of governance, i.e., good or bad. In his ‘Business Environment and Enterprise Performance Survey,’ he found that countries with intense corruption at different levels have poor governance practices, while countries with less corruption in the organizations, the level of governance practices were reasonable.

Sandhu and Sandhu (2003) examined the accountability of management to shareholders and role of CG in creating value for shareholders by taking the example of UTI and Enron fiascos. They have also taken up key issues in CG guidelines and codes such as board responsibilities, board compositions board committees and disclosure norms. In this regard, they have examined the CG codes and guidelines in the Indian context and suggested that the best results would be achieved when the companies begin to treat the code as their way life.

Khurana (2003) examined some of the issues pertaining to the theme of CG in India and sought to identify the issues that need to be considered in improving CG. He argued that the national strategy must encompass measures to enforce the system of accountability to the shareholders, strengthening of the democratic process and strengthening the media to ensure public awareness, undertaking the regular policy reviews and effective corporate leadership. According to him, accountability, transparency, efficiency and discipline are the important ingredients which will go a long way in building and promoting trust of the shareholders in the corporate world. Hence, in this regard, a well-planned synchronization is necessary between various factors underlying CG, together with complementary institutions providing enforcement.
Kaur (2003) examined CG practices in India and abroad and the impact of globalization on the significance of CG for long-term corporate existence. According to her, risks, protection, insider trading, and transparency are the key constituents of CG, which are important considering the enhanced role of shareholders, Board of Directors and auditors.

Singh (2003) has discussed the cases of the vanishing companies and the growing relevance of the concept of CG in regard to corporate responsibility of the promoters and directors of such companies. He also discussed certain peculiarities in the Indian CG such as the influence of the ascribed authority, the effect of education (as a blend of scientific approach and Indian values), good traditions, belief in the dignity of labor and commitment to the purpose.

Godbole (2004) observed that Sarbanes Oxley Act (SOX), 2002 has created ripples in the CG arena, following the recent corporate scandals hitting America. SOX received considerable criticism and were described as a knee jerk reaction to corporate scandals in the US rather than a proper and well thought out plan to propagate good CG. This may impede its effect to a certain extent, but the fact remains that with its cutting edge penalties, SOX acts as a blessing in disguise and fosters interest in CG. Efforts are already underway in Europe and rest of the world to develop laws similar to SOX, 2002.

Cooper et al. (2007) drew attention to CG, negligence of which has sparked since corporate scandals such as Enron, WorldCom and Parmalat came to light. Chakrabarti et al. (2008) stated that good CG removes distrust between stakeholders, which reduces legal costs.

Pati (2006) opined that banks being the most influential institutions in the financial sector must have a rock-solid governance system in place. However, the impact of CG policies on the banking sector in India post the recommendations of Advisory Group (2001) has been mixed. While disclosure practices have changed, most of the banks have shown healthy financial gains and low NPAs. Importantly, a statistically significant correlation between good corporate governance and the main financial variables was observed for the Indian banking sector. The Strong impact
of governance has also been observed for all the variables in public sector banks and in all scheduled commercial banks.

**McGee (2008)** compared CG issues in developing countries, especially in Asia. The weaknesses in the corporate structure of some Asian countries have been partly blamed for recessions that occurred there. The author provided an overview of some basic CG principles as identified by the OECD, World Bank and IMF, and then proceeded to examine how these principles were being applied in selected Asian countries.

**Kaur and Mishra (2009)** compared the perception of male and female academicians regarding reasons for the failure of CG in India. The results reveal that it is actually the academicians who bear the responsibility of imparting the correct concept of CG to young professionals. Proper training and education should be imparted to budding managers to lay strong foundations for business ethics and governance in the organization. On the other hand, **Rajagopalan and Zhang (2009)** discussed recurring failures in CG, as per their analysis CG failures are a global phenomena or disease and can be cured by adopting stringent corporate governance practices across the globe.

**Kota and Tomar (2010)** studied CG practices in Indian firms. The research paper examined the effect of CG practices on the performance of 106 mid-sized firms in India, between 2005 and 2007. The results confirmed a significant relationship between CEO duality and firm performance.

**Morse and Zingales (2010)** identified whistle-blowing as the most effective mechanism for detecting corporate fraud; they studied all reported fraud cases in large U.S. companies between 1996 and 2004. The in-depth analysis suggested that reputation incentives, in general, are weak, except for journalists in large cases. By contrast, monetary incentives help explain employee whistle-blowing.

**Yu and Yu (2012)** examined the correlation, if any, between corporate lobbying and fraud detection. They collected six years’ data (1998-2004) on firms’ expenses incurred for corporate lobbying and also the details of large frauds detected during the
same period. They found that firms with higher expenditure in corporate lobbying had a significantly lower rate of fraud detection.

Kaveri (2014) discussed bank frauds in India and its emerging challenges. This paper was based on a comprehensive analysis of bank frauds in India and examined emerging challenges before the banking system. For such a study, it is necessary to collect the relevant data relating to bank frauds, examine policy guidelines of RBI and examine progress made in preventing frauds.

2.6 Literature Review on CG and Financial Sector

The financial sector is a converging point for all businesses, and any flaw in the financial system may lead to dire consequences like global financial crises as we saw in 2008, wherein most of the prominent banks were washed out, impacting the overall health of the world’s economies at large. Therefore, it is imperative for the banking industry, which acts as the skeleton of the global economy, to be fully compliant with the International CG code of conduct. Banking in India is growing at a rapid pace with an inclusive strategy of covering the entire nation and providing values to all the stakeholders. The value creation only happens when the system is transparent and robust by following the CG practices and embedding them in the operational processes.

It is evident that any failure in the banks will not only cause heavy financial loss to the public but will also tarnish the very image of a nation. Globally, researchers have thoroughly investigated CG reporting in developed and developing countries and its relevance for the banking sector.

Dharmapala and Khanna (2001) observed that Indian CG in practice was considered weak and quite dysfunctional until about a decade ago. The SEBI had constituted a committee on CG and circulated the recommendations to all stock exchanges for implementation by listed entities as a part of the listing agreement vide SEBI’s circular SMDRP/Policy/CIR-10/2000 dated February 21, 2000, which includes both mandatory and non-mandatory recommendations for Indian commercial banks listed in stock exchanges.
**Caprio and Levine (2002)** studied ways to improve the CG of financial intermediaries, especially banking companies, and policymakers who must attempt to increase the ability and incentives of creditors and other market participants to monitor banks.

**Arun and Turner (2003) and Das and Ghosh (2004)** revealed that CG was not getting the attention it deserved, especially, in banking organizations. This subject has acquired immense significance, especially post the liberalization and deregulation of financial markets in developing economies. Given the intensity of financial instability caused by the failure of banks, it is imperative that good CG practices in this sector are brought to the fore (Mallin et al., (2005); Hackethal et al., (2005), Das and Ghosh (2004); Arun and Turner (2003). In fact, the banking sector has riveted the attention of academia and policymakers alike (Marcey and O’Hara, 2003; BASEL, 1999).

**Gupta and Verma (2004)** pointed out problems which are worsened due to, “the implicit acceptance that corporate entities belong to founding families.” In the case of pyramidal structures, minority shareholders can be expropriated as the ultimate owner can control the company while only bearing a small fraction of the financial consequences.

**Mehra (2004),** in his keynote address at the Association of Southeast Asian Nations (ASEAN) Round Table 2004, organized by Singapore’s Institute of South East Asian Studies stated that “IDs are the cornerstones of CG. But excessive remunerations paid to them have made a mockery of their independence. Analyses of 2004 compensation data showed IDs of top 200 companies are being paid £97000 for barely 7 days work in a year.” Moreover, according to him, there are several lessons for developing and emerging economies like India in the way CG has been practiced in the west. While these markets are highly sophisticated, their governance systems are far from satisfactory. They cannot serve as role models for Asian and African economies, but their scandals such as Enron, Equitable Life, Worldcom, Ahold, Scandia, Parmalat, Vivendi, Computer Associates, Anderson, and Shell serve as important lessons.
Banerjee (2005) emphasized on the standard theories of CG, highlighting the unique problems facing CG of financial intermediaries and blending theory with global observations. The paper brings forth the aspect of ‘agency theory’ that explains the CG problem in terms of ‘how equity and debt-holders influence managers to act in the best interests of the providers of capital.’ This study provided acute insights into the challenges of public sector bank management in India.

Bank for International Settlements (2006) noted that “Sound CG is an important aspect for bank’s safety, soundness and the stability of the overall financial framework. This paper has been framed by the Basel Committee to foster more effective risk management and greater transparency on the part of the banking organizations.”

Mayur and Saravanan (2007) made an attempt to assess the relationship between board size and performance of banks, among other CG factors, in the Indian context. While many factors have been identified as the CG components, only three of them were included in the study.

Viswanathan (2008) discussed various concepts like the need for CG in banks and recommendations by various committees such as the Birla Committee and Basel Committee. It is essential that transparency of operations is maintained while still ensuring survival in the increasingly competitive market. A repeatedly asked question in all these discussions is whether CG does matter at all, and if in the ultimate analysis there is a strong business case for incurring the costs of good governance (Balasubramanian, 2010, pp.18–27). Researchers like MacAvoy and Millstein (2003, pp. 43–65), Gompers et al. (2003, pp. 107–155), Bebchuk et al. (2005), Bolton (2007) and Balasubramaninanet et al. (2008) have argued around this issue.

As explanations for observed events such as insider trading, price manipulation, misuse of bank funds, refusal to pay dividends, companies vanishing with the investor’s money and NPAs, Gupta (2007) hold responsible the lack of (professional) ethics, the passivity of institutional investors and the relative inadequacy of SEBI and other compliance authorities in controlling fraud.
Association of Certified Fraud Examiners-ACFE (2012) discusses how the banking sector was a victim of fraud in the past few years. Banking transactions, in the fast few decades, have become quite wide in scope and large in magnitude. Hybrid financial products, cross-border transactions, real-time fund movement, and e-banking have completely revolutionized the traditional banking process. At the same time, such changes have actually increased the risk of banking frauds.

The Advisory Group on Banking Supervision has tried to evaluate the current status of CG in the Indian banking sector vis-a-vis the international standards and codes outlined in the Basel committee on banking supervision (BCBS) of the Bank for International Settlements’ (BIS) and paper on Enhancing CG in Banking Organizations (September 1999). The evaluation of the group and its suggestions on items on which compliance is not comparable with global standards are presented in the form of a simple table with BIS standards / principles, current status in India and remarks.

Tony (2013) analyzed the impact of CG on determining the factors of performance in the banking sector of Pakistan. Analysis revealed the manner in which performance variables were affected by CG. The performance of the banking sector was measured through liquidity, profitability, growth, asset quality, operational efficiency, privatization, investor's protection, disclosure, and cost of equity, capital adequacy indicator, and expense management. The empirical results showed that there was a strong association between CG and determinants of banking sector performance. Thus, results of this study showed that banks with better CG showed better performance as compared to banks with poorer CG.
2.7 Literature Review on CG Disclosure Practices

Sareen and Chander (2003) have examined the corporate voluntary disclosure practices of the private sector in India, studying both the item-wise and corporate-wise disclosure of the selected 50 companies. It was revealed that the report on corporate governance in their annual reports contained comprehensive information about CG disclosures for the users, which have both non-financial statistical and other information as per the manner that suits the requirements of the corporate sector. However, the style of presentation and the method of accounting treatment and reporting vary. Hence, there is a need to improve corporate disclosure, emphasizing corporate governance by following the principles of accounting standards and meeting the requirements of the Companies Act and other relevant Acts.

Agarwal (2005) explained the issues to be considered while reviewing the recent changes in Clause 49 in the listing agreement of SEBI. According to him, the issues are related to policing and punishment, apprehension about excessive interference and the practice of companies “ticking checklists instead of focusing on the spirit of good governance.” Hence, the compliance of the corporate governance practices has to come through conviction and self-discipline of the top management. In order to ensure that the companies adopt corporate governance in letter as well as in spirit, a small corpus of legally mandated rules is needed along with a larger body of self-regulation and voluntary compliance.

Senapathy (2005) observed that one of the most powerful notions in corporate governance is the presence of independent or non-executive directors on the board of a company. These are the ‘white knights’ of shareholders, expected to provide strategic direction and support to the executive management through their expertise, experience and most critically, their independence. Bringing in ‘stakeholder interest first’ in every corporate decision and action is the key expectation from these stalwarts. However, some of the recent examples in corporate history have questioned this very fundamental premise-independence of an Independent director. Hence, it is early days to reach any judgment, as having IDs on the board is more recent in India than in the west. He concluded that India Inc. is on the right track so far, and the journey should
be continued through regulation and practice, as it can take the companies to greater heights of value creation by following the best CG practices.

Niu (2006) examined the association between CG mechanisms (including board composition, management shareholding, shareholders rights’ and the extent of disclosure ) and earnings quality, measured in two ways, namely, ‘earnings management’ and ‘earnings in formativeness.’

Murthy (2003) asserted that ethics, however intangible, play a prominent part in corporate performance, and if practiced by heart can prevent the erosion of standards and serve as a yardstick for measurement of overall progress. According to him, building trust and confidence requires an environment where there is a premium on transparency, openness, lack of fear, fairness and justice, which should be encouraged by the CEO of the company. Importantly, excellence can be achieved it is not just a product or a process, but an attitude that says ‘nothing else will do.’

Gupta (2003) examined the practices of CG attributes in the banking sector and how they adhere to CG practices. These results indicated that CG is still at its nascent stage, although its initiation in the Indian Banking Sector occurred more than a decade ago.

Sinha (2003) equated the terms ‘satisfactory accounting’ and ‘disclosure’ with CG. She emphasized that proper working and appropriate board structure are the keys to good CG apart from their fundamental functions in regard to ensuring transparency, accountability, fairness, and responsibility. She measured the efficiency of the board in terms of monitoring a company’s performance against its objectives. Finally, she strongly stressed the idea of CG rating to improve the standard of CG in India.

Rajagopalan (2003) has felt that on core corporate issues like governance imperatives, the perspective of corporate managers in India are not sufficiently articulated. The reason could be that there is a long-standing organized body of corporate directors and executives in India, as in developed countries. Such bodies are only now evolving in our country. The author chiefly focused on two areas: firstly, the role of the IDs who hold the key to ensuring good governance in a corporate organization, are in a position to check, and stop corporate misdemeanors in the initial
stages of happening. Secondly, the other area of concern is the short-term approach of corporate managements leading to manipulations, attaining short-term success that ultimately impairs the long-term health of the organization.

**Barghva and Singh (2008)** analyzed the financial as well as non-financial disclosures in the annual reports of 40 public sector enterprises using the 35-item index of disclosure card. They concluded that there were significant differences in the quality of disclosure made by sample companies.

**Hossain (2009)** studied the extent of disclosure in annual reports of banking companies; the author highlighted the association between company-specific attributes and total disclosure, i.e., mandatory and voluntary, of the sample companies. Both mandatory and non-mandatory parameters had been taken. The study revealed that the average score was 88 for disclosing mandatory items while the average score for voluntary disclosure was 25. **Fernando (2009)** also discussed CG: principles, policies and practices. **McGee (2009)** had referred to the World Bank project Reports of the observation of standards and codes (ROSC) and given his analysis on the compliance to ROSC.

**Daga and Koufopoulos, (2010)** examined CG practices of 29 Indian listed companies. Also, they developed a disclosure index to assess the level of disclosure by the companies. This study revealed that the disclosure level among Indian companies was actually rather high (disclosing almost 73% of the items in the index).

**Sanan (2011)** conducted a comparative study in public and private sector banks, providing an understanding of CG disclosure levels of Indian companies in the private and public sector. The author developed a Corporate Governance Disclosure Score (CGDS), using annual reports of 48 private sector and 29 public sector companies and on its basis, compared and contrasted CG practices of public and private sector companies in India. The sample was drawn from across eight industries. The study used the univariate parametric t-test and non-parametric Mann Whitney test for comparing means, and the results indicate that there is a significant difference between the CGDSs of public and private sector companies in India.
Kaur (2012) undertook a comparative study to find the difference in the corporate governance disclosures of private and public sector banks in India. A Disclosure Index of 8 broad parameters was prepared according to the clause 49 of the SEBI using content analysis. The population for the study included private and public banks in India. The study revealed that majority of public and private sector banks were disclosing information regarding board meetings, audit committee, remuneration committee, etc., no information regarding Health, Safety and Environment Committee, Corporate Governance and Stakeholders Interface Committee and Functional Committee.

McGee et al. (2012) studied CG and the timeliness of financial reporting in the Russian banking sector and compared it to the SEC benchmark. This study found that the Russian banking industry does not report financial results on a timely basis, as a general rule.

Hassan (2012) analyzed the annual reports of 95 UAE-listed corporations, hailing from all the major sectors (banking, insurance, industrial and service) in the country. The author also formulated a CG reporting index, which encourages voluntary publication of CG information and stresses its “underlying ethos of public accountability and transparency.”

Madan (2012) reviewed the adoption of the non-mandatory recommendations, if any, by companies. The study concludes that there is a fair adoption of the code of CG among the mid-cap companies in India.

Sharma and Davey (2013), in a paper presentation on ‘Developments in non-mandatory disclosures in annual reports of companies: at the International Conference on Critical Accounting,’ have discussed developments in non-mandatory disclosures in annual reports of companies investigating the extent of non-mandatory disclosure of information in the annual reports of 17 companies listed on the SouthPacific Stock Exchange in Fiji, which is a developing country. These authors discussed if NMD by these companies has changed over time and whether the same has benefited the stakeholders.

Lipunga (2014) examined CG practices of commercial banks in a developing country by measuring the level of CG-related disclosures in the annual reports in light of the
CG guidelines for Banks. Using a CG disclosure index, the study results yielded an overall disclosure score of 0.69; this means that on an average 69% of the items of disclosure were actually disclosed in the annual reports of the sampled banks. The study provided a keen insight into the current regulatory practices in the banking industry of Malawi and pinpointed gaps with respect to CG practices in developing nations.

2.8 Summary of Recommendations from Previous Researchers

The researcher has listed following outcomes from previous researches:

**TABLE 2.4: SUMMARY OF RECOMMENDATIONS FROM THE PREVIOUS RESEARCHERS**

<table>
<thead>
<tr>
<th>Whistle blower policy</th>
<th>Few researchers recommended that there should be a stringent whistle blowing mechanism under which employees can report misappropriations to the firm’s whistleblower committee without informing their superiors or revealing their identities. This should be a mandatory disclosure practice.</th>
</tr>
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<tbody>
<tr>
<td>The ICC rules of conduct and recommendation</td>
<td>The 2005 ICC Rules of Conduct on Combating Extortion and Bribery elucidate that anti-corruption policies and codes of businesses “offer confidential channels to raise concerns, seek advice or report violations without fear of retaliation.”</td>
</tr>
<tr>
<td>Disclosure and transparency</td>
<td>The Chairman and the CEO in an organization must have separate roles to ensure transparency.</td>
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<tr>
<td>Role of Independent Directors</td>
<td>It is also vital to investigate the role of IDs and how they can be an effective tool against such frauds Institute of Company Secretaries of India has been training IDs like LIC on how they should act as effective checks against malpractices in the company.</td>
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<tr>
<td>Shareholder activism</td>
<td>India has no tradition of shareholder activism, despite organizations like LIC ICICI Venture and others having a substantial stake in companies.</td>
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<td>Political determination</td>
<td>Political parties should also see to the business interests of the companies, who are funding them for elections.</td>
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<tr>
<td>Performance management</td>
<td>There has to be a shift from compliance or rule-based governance to a performance management framework with enterprise governance in the middle.</td>
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<td>Peer reviews</td>
<td>Peer reviews of audits among the companies that are a part of the NIFTY and SENSEX was suggested by SEBI.</td>
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<tr>
<td>Independence of audit committee</td>
<td>Transparent functioning of board committees and audit committee and public disclosure of the committee’s findings are crucial. It could also mean separation of the role of auditors by either imposing an embargo on availing specified non-audit services and/or seeking audit committee approval for certain services. One more option is that companies can submit a list of preferred auditors, from which the regulators can choose. Auditors can also be rotated annually.</td>
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<tr>
<td>Align to IFRS</td>
<td>Scientific graduation to international standards of financial reporting and compliances. With timeline for alignment of Indian accounting standards with IFRS pegged at 2010-11, it is an opportune time for the accounting profession, regulator and law makers to define and set the transition process for ensuring the highest degree of transparency.</td>
</tr>
<tr>
<td>Strengthen Serious fraud investigation office</td>
<td>The recent disclosure of startling frauds has driven a point (for the legislators) to give sharper tooth to the Serious Frauds Investigation office for expediting investigation sans support from state police and set daunting deterrents for similar frauds.</td>
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<tr>
<td>India’s PCAOB</td>
<td>Appointment of a quasi-public agency, in line with the US’s PCAOB, to oversee and inspect the auditors’ functioning and reporting procedure, a periodic independent review of the accounting firms’ opinion of public companies’ financial health.</td>
</tr>
<tr>
<td>Empower SEBI</td>
<td>To ensure transparency, it is important that participation of SEBI is reserved or SEBI possesses veto power in formulating and monitoring accounting standards for listed companies. This will require coordination with the Ministry of Company Affairs and Institute of Chartered Accountants of India, the professional body overseeing the accounting profession and setting accounting standards.</td>
</tr>
<tr>
<td>Amending Clause 49</td>
<td>To tighten conditions for appointment of IDs including divesting promoters from such appointment decisions, stricter conditions on conflicts of interest and more severe punishment for white collar crimes can be some measures on the capital market regulators’ agenda.</td>
</tr>
<tr>
<td>Right to information-RTI</td>
<td>RTI should be more stringent for the creation of shareholder value. In the case of pledging of promoter shareholding to make the price sensitive information should be available to all the shareholders.</td>
</tr>
</tbody>
</table>
2.9 Research Gaps

This chapter discusses the various studies conducted, and reviews of literature available on the subject of research. The review of literature indicates that even though there is a plethora of literature on CG, most of the studies have been done on its conceptual framework, the practices of CG, and its relationship with organizations performance. Also, research has been conducted to draw comparisons between countries, and quite a few researchers have analyzed the good governance practices followed in India, especially in the banking sector. The researcher has also studied reports on corporate frauds reported and published globally and nationally.

After this review of literature it was found that though several studies have been conducted on the subject, most of them targeted CG practices in India or disclosure of CG practices in annual reports in relation to the public and private sector banks. There were very few studies on the use of CG as an effective tool in combating corporate frauds in the public and private sector banks in India. Therefore, this gap was identified by the researcher, and, the present study was undertaken to address the lacuna encountered. The present study focuses on CG disclosure practices adopted by public and private sector banks from their annual reports and analyzes their overall CG disclosure practices. The researcher also attempted to record stakeholders’ opinion about how CG can help in combating corporate frauds.
The study was conducted for a three year period. Frauds reported within these years were considered for the present study. Annual reports of 2011-12, 2012-13, and 2013-14 of the selected banks were thoroughly studied.

2.10 Conclusion

A review of literature has been made to establish the validity of the research topic, “Corporate Governance as an effective tool in combating corporate frauds- A study on the Indian financial sector,” CG parameters which can prove to be an effective tool in combating frauds; eight parameters were taken for the present study, which includes code of conduct for board of directors, Risk Management, Internal and External Control, whistle-blowing policy, forensic accounting, Data Management, independent auditor’s role and role of top management. Apart from quantitative aspects, this study took the qualitative aspect, i.e., stakeholders’ opinion towards CG practices and their relationship with corporate frauds.