CHAPTER 1
CORPORATE GOVERNANCE
IN INDIA
1.1 INTRODUCTION TO CORPORATE GOVERNANCE

Corporate governance is an active area of research and public debate. The recent generalization of shareholder value and institutional investment, the establishment of codes of best practice for boards of directors, and the controversy about whether market oriented or bank-relations oriented systems are better for economic performance provide cogent examples. The outcome of the debate is important for industrialized nations, developing countries, and transition economies. It has gained important due to its controversial nature and is currently undergoing reform all over the world. Global economic integration affects the different systems of corporate ownership and governance. Sound governance is of paramount importance to avoid corporate disasters such as Enron, Adelphia, Tyco Laboratories and WorldCom.

Corporate governance is the process by which companies are directed, administered and controlled. Systems and processes deal with delegation of authority, performance measures, assurance mechanisms, reporting requirements and accountabilities. Its structure spells out the rules and procedures for making decisions on corporate affairs. It provides the structure through which the company objectives are set, as well as the means of attaining and monitoring the performance of those objectives. It is the relationship among various participants in determining the direction and performance of corporations. These participants are the shareholders, management, and board of directors. It is externally controlled by the governing or regulatory body and stock exchanges. Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large. Board of directors play a key role in corporate governance. It is their
responsibility to endorse the organisation's strategy, develop
directional policy, appoint, supervise and remunerate senior executives
and to ensure accountability of the organisation to its owners and
authorities. All parties to corporate governance have an interest,
whether direct or indirect, in the effective performance of the
organisation. Directors, workers and management receive salaries,
benefits and reputation; whilst shareholders receive capital return.
Customers receive goods and services; suppliers receive compensation
for their goods or services. In return these individuals provide value in
the form of natural, human, social and other forms of capital.

Key elements of good corporate governance principles include
honesty, trust and integrity, openness, performance orientation,
responsibility and accountability, mutual respect, and commitment to
the organisation. Commonly accepted principles of corporate
governance include: rights and equitable treatment of shareholders,
interests of other stakeholders, role and responsibilities of the board,
integrity and ethical behaviour, disclosure and transparency. The
OECD principles of corporate governance are: ensuring the basis for an
effective corporate governance framework, the rights of shareholders
and key ownership functions, the equitable treatment of shareholders,
the role of stakeholders in corporate governance, disclosure and
transparency and the responsibilities of the board.

There are many different models of corporate governance around the
world. These differ according to the variety of capitalism in which they
are embedded. The Anglo-American, market based, shareholder
wealth maximization model (SWM) is a liberal model that is common
in Anglo-American countries tend to give priority to the interests of
shareholders. The German/Japanese, network based, corporate wealth
maximization model (CWM) is a coordinated model that one finds in
Continental-Europe and Japan also recognizes the interests of workers, managers, suppliers, customers, and the community. Both models have distinct competitive advantages, but in different ways. The liberal model of corporate governance encourages radical innovation and cost competition, whereas the coordinated model of corporate governance facilitates incremental innovation and quality competition.

A corporation is governed by a board of directors which has the power to choose an executive officer known as the chief executive officer. The CEO has broad power to manage the corporation on a daily basis but needs to get board approval for certain major actions such as hiring his/her immediate subordinates, raising money, acquiring another company, major capital expansions or other expensive projects. Other duties of the board may include policy setting, decision making, monitoring management's performance, or corporate control. The board of directors is nominally selected by and responsible to the shareholders, but the bylaws of many companies make it difficult for all but the largest shareholders to have any influence over the board; normally, individual shareholders are not offered a choice of board nominees among which to choose, but are merely asked to rubberstamp the nominees of the sitting board.

Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. Corporate governance issues are receiving greater attention in both developed and developing countries as a result of the increasing recognition that a firm's corporate governance affects both its economic performance and its ability to access long-term, low-cost investment capital.
1.2 CONCEPT OF CORPORATE GOVERNANCE

The simplest definition of the term "corporate governance" is provided by the Cadbury report (U.K.): "Corporate governance is the system by which businesses are directed and controlled."

OECD's principles from 2004 give a broad description of what corporate governance means. The definition in the preamble of the OECD (organisation for economic co-operation and development) principles is also all encompassing: "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performances are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring."

The CII (Confederation of Indian Industries) report defined corporate governance as "Corporate governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take managerial decisions vis-à-vis its claimants - in particular, its shareholders, creditors. There is a global consensus about the objective of good corporate governance: maximizing shareholders' value."

SEBI (Securities and Exchange Board of India) defined it, as "The aim of good corporate governance is to enhance the long term value of the company for its shareholders and all other partners. Corporate governance integrates all the participants involved in a process, which is economic, and at the same time social."
1.3 IMPORTANCE AND RELEVANCE OF THE STUDY

India is one of the largest emerging markets in terms of the market capitalization with 20 million shareholders. In order to protect the large investor base, the Securities and Exchange Board of India (SEBI) has enforced a regulation effective from April 2001, requiring mandatory disclosure of information and a change in the corporate governance mechanisms of the listed companies. Increased information and better corporate governance mechanism reduces the risk of companies.

Concept of corporate governance had gained momentum since mid 1990s. With the globalisation and liberalization of the Indian economy since 1991 the govt. had formulated different measures to protect the diverse interest of shareholders and stakeholders in the companies. The report on corporate governance by the Cadbury Committee in the U.K. in 1992 has provoked intense consideration of the concept in our country.

Corporate governance helps in creating a corporate culture of consciousness, transparency and openness. It refers to combination of laws, rules, regulations, procedures and voluntary practices to enable the companies to maximise the shareholders long-term value. It leads to increasing customer satisfaction, shareholder value and wealth. With increasing government awareness the focus is shifted from economic to the social sphere and an environment of greater transparency and accountability is created for the welfare and existence of a company.

Indian economy is undergoing tremendous change. Good corporate governance increases the confidence of investors and results in development of capital market. It strengthens investors' trust and ensures a long-term partnership that helps in fulfilling the company's
quest for higher growth and profit. This would ensure that the Indian investors are in no way less informed and protected as compared to their counterparts in the best developed capital markets. The ultimate purpose of corporate governance is to create a self driven, self assessed and self regulated organization.

Investors respond positively to companies with strong corporate governance and reward the well managed companies with higher valuations. It provides the financial reporting structure with transparent corporate disclosure and high quality accounting practices. It curbs the practices of insider trading by calling upon the companies to provide an adequate and timely disclosure, confidentiality norms etc. It also frames certain code of conduct and specific rules for the directors and employees of the company, their reporting requirement and rules to ensure that the material price sensitive information is made public and the insiders are abstained from transacting in the securities of the company on the basis of such information.

Some Indian companies have a high standard of good corporate governance. But most companies lack in the standard of financial reporting and accountability in the interest of the investors. It is imperative for the companies to maximize the shareholders value and wealth. Bad governance and defective management of companies cause investors huge losses. Several companies do not pay adequate attention to the interest of the investors and their grievances and corporate governance is considered as an important instrument for investors' protection. Hence an attempt has been made to investigate the mandatory and non-mandatory disclosures in corporate governance, under clause 49 of the listing agreement, in specific reference to the companies listed in BSE 500 for the financial year 2001-02 to 2005-06.
Limitations of earlier studies

1. Most of the earlier studies have a short study period of one year.
2. Very small sample sizes of thirty companies of BSE sensex. Some studies have only five companies as a sample.
3. Less than fifty items of disclosures are used, only in the mandatory category.
4. Specific areas have been studied like corporate voluntary disclosures or directors’ report.
5. One sector per study has been undertaken such as finance companies, banking companies or automobile companies.
6. Either performance or disclosures have been studied.
7. Sectorial studies have not been undertaken.

ICSI questionnaire evaluation methodology

1. ICSI (The Institute of Company Secretaries of India) uses questionnaire method as a main source for corporate governance data collection.
2. The answers obtained from the participating companies are evaluated using four methods: graphic rating scale, binary scale, multiple item categories and open ended questions category.
3. The questionnaire has seven sections consisting of a total of ninety questions.
4. Disclosures scores are evaluated over a period of one year only.
5. Fourteen out of thirty seven questions in section two and seven out of fifteen questions in section three of the ICSI questionnaire are similar with the above study. Rest of the five sections are dissimilar.

Drawbacks of ICSI evaluation methodology

1. A yearly evaluation is undertaken.
2. The sample size is not defined.
3. Scores cannot be further analysed.
CGI evaluation methodology used in this study

1. The Study on 'Corporate governance in selected industries' uses annual reports as a main source of data.
2. BSE-500 companies from the index constituents of December 8, 2005 are selected for the study.
3. Non-probability, deliberate sampling procedure is followed to arrive at the defined sample size.
4. Content analysis technique is adapted to analyse corporate governance reports.
5. One hundred and ten items of disclosure, which form a part of the corporate governance disclosure index (CGI), are evaluated using a five point scale method only.
6. The index is further divided into various dimensions. Mandatory disclosures have twelve sub-groups with eighty items of disclosure. Non-mandatory disclosures have seven sub-groups with ten items of disclosure. Items to be included in the annual report as per clause 49 have five sub-groups with twenty items of disclosure.
7. Scores are allotted under the generalised AIMCO system of scoring
8. For detailed investigation a score card has been designed for the purpose of this study indicating the marks to be allocated to every item of disclosure.
9. Disclosures scores are analysed over a period of five years.
10. The score card provides uniformity in the scoring system enabling further investigation and analysis of the disclosures scores.
11. Statistical procedures are followed for analyses using SPSS 11.01 software.
12. This study adapts a more scientific approach.
1.4 LITERATURE REVIEW

1.4.1 Foreign Literature Review

Disclosure

Zahra (2001) investigates data collected from 127 CEOs of fortune 500 companies through mail survey for a study period from 1988 to 1991. The variables used are outsider ratio, outsider equity ownership, executive ownership and institutional ownership. The data is analysed using techniques of means, standard deviations and correlations. Hierarchical regression analysis is used to test the study's hypotheses. The study concludes that executive stock ownership and long term institutional ownership is positively associated with corporate entrepreneurship.

Richardson (2003) examines the financial statement data of 1,049 firms of S&P 500, S&P MidCap400, or S&P SmallCap600 indices from Compustat annual database, Institutional shareholder services (ISS) and WorldScope. The period of study is 1997-2000. The variables uses are over-investment of surplus cash and optimal level of investment expenditure. Rank regression procedure is used for analysis. The author concludes that firms with independent boards and large institutional shareholders are less likely to over-invest.

Graham et.al. (2004) surveyed 401 financial executives using data from NYSE and NASDAQ. The study was conducted in New York city in 2003. Comparison is based on variables such as sales, debt-to-assets, dividend yield, earnings per share, credit rating, book-to-market and price - earnings ratio. Average, median and Pearson correlation coefficients are used for analysis. It is found that managers make voluntary disclosures to reduce information risk associated with their stock but try to avoid setting a disclosure precedent that will be difficult to maintain.
Andersson (2005) examines annual reports from corporations listed on the Stockholm stock exchange to develop a corporate governance disclosure index and to measure 15 characteristics, derived from the agency theory and two control variables. The data is analyzed in SPSS, using both linear and multiple regressions. The analysis shows that role duality actually measure if a corporation has a foreign parent company. Therefore, it is possible to conclude that corporations are influenced by the origin of the parent company and the size of the corporation to disclose corporate governance information.

Corporate Performance

Bain et.al. (1996) address the fundamental importance of corporate governance. The study is conducted with the help of questionnaires sent to 50 financial institutions in the U.K. in 1995. No sophisticated statistical tool has been used. It is ascertained that good corporate governance is an essential element for any organization that wishes to maximize its effectiveness. It leads to good performance.

Devers (2003) draws a sample is 137 executives from Michigan state university. The period of study is 2002 -2003. Data was collected through questionnaire. The study examines the relationships among compensation schemes and executive behaviour or firm performance. Multi regression analysis is used to test the hypothesis. Findings suggest that executives perceptions of and responses to their contingent pay can be dynamic. Results also reveal that the sense of control executives' perceive they have over a form of incentive compensation moderates the influence of framing on their wealth orientation.

Fister (2003) uses a sample size of approximately 500 companies in 1998 and an equal amount in 2000 from Forbes list for the study and
applies this estimation strategy to the relationship between outside
director and firm performance using female director employment as
the instrumental variable. Correlation coefficients and ordinary least
squares regressions analyses are used to show that outside director are
negatively associated with firm performance.

**Scarborough (2003)** uses corporations listed on the New York stock
exchange, NASDAQ, and the American stock exchange and a sample
of companies whose corporate secretaries are members of the
American society of corporate secretaries. Survey data from 135
corporate secretaries and data from Compustat are used. Multiple
regression analyses are used to test the hypothesized relationships
between board attributes and firm performance. The antecedents of
board activism: directors' knowledge domains, independence, and
effort norms, and the moderating effects of duality are used as
variables. Findings suggest that there is a consistent and practically
significant relationship between board attributes and firm
performance.

**Oriesek (2004)** uses a self-administered questionnaire, sent out to the
CEOs of 32 US companies. The period of study is 2001-2002 and the
selection of companies was based on RQ ranking. Findings suggest that
the components of the organizational structure, leadership structures at
the top level and resource allocation decisions affect corporate
reputation.

**Board of Directors**

**Chen (1998)** examines the corporate strategy of the pharmaceutical
sectors of four international pharmaceutical companies' viz. three
British pharmaceuticals companies - Glaxo Wellcome, SmithKline
Beecham and Zeneca and one Swiss pharmaceutical company
Novartis. Quantitative method is applied first to deal with the comparative figures, and then qualitative method is used to find out the problem. The findings show that most pharmaceutical acquisitions result in high resource transferring and low autonomy. Due to the high profit margin and the essential importance of R&D and marketing, the operation management of manufacturing of pharmaceutical industry is relatively poor.

**Tunstall (2000)** examines 299 outsourcing events from the 1990 to 1999. Case study and interview method are used for investigation. Regression procedure is uses for analysis. The evidence suggests that IT outsourcing by firms has increased substantially during the past decade. Firms engage in outsourcing as a way to decrease overhead costs (sales, general and administrative; often referred to in corporate parlance as cost centres). Smaller firms outsource more than larger firms. The two industry groups, banking/financial services and transportation firms have higher outsourcing intensity than firms in other industries.

**Webb (2003)** uses a sample of 394 socially responsible firms and 394 non-socially responsible firms in the Domini social index (DSI) as of Nov 2001. Univariate and multivariate analyses are used to test hypothesis that socially responsible boards are stronger than non-socially responsible boards. Logistic regression is used to examine the relations between firm type and board structure. It is observed that the socially responsible firms have characteristics associated with effective board structures. They have a larger proportion of outsiders and women on the board and are less likely to have a CEO who is also the chairman of the board.
**Fich (2005)** analysis 1,493 first-time director appointments at 432 U.S. companies to Fortune 1000 boards during 1997-99, to investigate whether certain outside directors are better than others. The data is collected from annual reports, centre for research on security prices (CRSP) and Compustat. Mean, median, standard deviation, correlations, t-test, Wilcoxon rank-sum tests, multiple regression analysis, univariate analysis and multivariate analysis are used. The control variables are board characteristics and sales. The study concludes that reactions to director appointment are higher when appointees are CEOs of other companies than when they are not. CEOs are more likely to obtain outside directorships when the companies they head perform well. Well-performing CEOs are also more likely to gain directorships in organizations with growth opportunities. CEOs are sought as outside directors to enhance firm value.

1.4.2 **Indian Literature Review**

**Disclosures**

**Banaji et.al. (2001)** examines the issue of corporate governance in the context of large private sector companies in India against a regulatory background that is changing rapidly for a period from April 1998 to latter part of 2000. Based on 170 interviews with CEOs, non-executives, fund managers and audit firms and using board and institutional shareholders as variables, the study highlights the ineffectiveness of boards in Indian companies and the lack of transparency surrounding transactions.

**Bhattacharyya et.al. (2003)** examines the economic impact of regulation on the Indian stock market variables and exhibits that increased information and better corporate governance mechanism reduces the risk of companies. Beta, standard deviation and returns in the pre-regulation time period (1st June 1998 to 31st May 1999) are compared
with the same in the post-regulation time period (1st June 2001 to 31st May 2002). The sample size is 100 companies. The study claims that the regulation will have an impact on the risk, returns, volume of trading and the bid-ask spread.

Sareen (2003) analyses corporate voluntary disclosure practices of the private sector in India. Disclosures of 50 companies listed on the Bombay stock exchange are studied from their annual reports for the year 1997-98 belonging to different age groups, listing status, industries, sizes and profitability levels. Voluntary corporate disclosure is measured by constructing: 'Index of disclosure' containing 37 items of information classified into 6 main heads. Un-weighted scores '0' or '1' is assigned to each item of disclosure. The study concludes that the style of presentation and the method of accounting treatment and reporting vary between companies.

Kumar (2004) investigates the association between the corporate governance and the dividends payout policy over the period 1994-2000. The data obtained from Prowess (CMIE) database consists of all manufacturing firms listed on the Bombay stock exchange (BSE). 2575 firm observations are collected. The key variables are dividend payout ratio (Div) and managerial shareholding (director). Regression method is used for analysis. The study establishes a positive association of dividends with earnings and dividends trend. Debt equity ratio is found to be negatively associated, whereas past investment opportunities exert a positive impact on dividends. Ownership by the corporate and directors is positively related with dividends payout and corporate ownership is negatively related. Institutional ownership has inverse effect on dividends in comparison to corporate ownership.
Arora et al. (2005) analysis the corporate governance system in five housing finance companies (HFC's) namely: Housing development and finance corporation (HDFC), ICICI home finance limited, LIC home finance limited, GIC home finance limited, and BHW Birla home finance limited. The authors compare (i) The Company's philosophy (ii) Composition of the board (iii) Various committees and (iv) Reporting of these companies. The analysis is based on the corporate governance reports of all five companies for the year 2004-05. The study which is conducted in India concludes that there is a dire need to create a more standardized performa for writing corporate governance report of a company and to create an efficient communication channel to reach the stakeholders.

Dangwal et al. (2005) analyses the annual reports of Indian banks in the public and private sector for the years 1999-02 through 42 items of disclosures. Mean, standard deviation, t-value and f-value are used in the analysis. Findings reveal that disclosure is better in case of public sector banking companies as compared to the private sector banking companies. Banks in India are following the narrow approach to corporate governance and disclosing statutorily required information which are relevant to shareholders only. Information relevant to depositors, creditors, customers, employees, other stakeholders and the society at large are not disclosed.

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

Ubha et.al. (2005) conducts a study in India for the financial year 2003-04 to find out the deviations and variations in the presentation of information in the directors' report of 30 companies. The sample includes 10 public sector companies, 10 private sector companies and 10 Indian multinationals. The directors' report is studied from 70 items of disclosures under 10 sub-headings. Mean, standard deviation, coefficient of variation and f-test are used in the analysis. The study reveals that the disclosure level in the directors' report is not satisfactory and there is a significant variation in the disclosure level among the different companies.

Gupta et.al. (2006) based on content analysis, this paper examines corporate governance reporting by thirty Indian companies, which form the BSE sensex as on 26th May 2003. The annual reports for the year 2001 - 2002 are used for analysis. The corporate governance section is extracted either from the annual reports downloaded from the company's website or from Prowess database of CMIE. Using the regulation of securities and exchange of board of India, the findings indicate that though the firms are providing information related to all the nine dimensions of corporate governance reporting, yet a deeper analysis indicates that the disclosures are still inconclusive. Using ordinary least squares regression method, the significant determinants of disclosures are size of the company, number of independent directors and overseas listing status.
Corporate performance

Panchali (1999) investigates the relationship between ownership structure and financial performance on the basis of accounting variables. The data of 990 publicly traded Indian firms is obtained from CIMM database for a period of six years from 1990-95. Ownership structure is analysed through shareholding pattern and performance is analysed from two aspects i.e. growth in terms of gross fixed assets, sales and profit after tax and second profitability (profit before depreciation, interest and taxes PBDIT). Techniques of coefficient of correlation, regression coefficient and ordinary least square (OLS) regression analysis are used for interpretation. The study suggests that there is a relationship between ownership structure and financial performance but with mixed evidences. The ownership of corporate bodies shows consistently positive relationship with profitability, while FI’s equity holdings show positive relationship with asset creation.

Mehta (2001) uses a final sample of 50 best performing Indian companies to study their governance practices. The period of study is 2000-2001. Structured questionnaire, information contained in annual reports and some telephonic interviews has been used for observation. Findings suggest that very few of India’s best performing companies’ measure up on the corporate governance front.

Saxena (2001) studies organisational performance and culture. The study is conducted on 15 private/ public sectors, small to large sized manufacturing organization in Mumbai. A sample of 274 respondents is randomly selected from the chosen organizations. For culture component, data is collected through questionnaire, interviews and published/ unpublished material on the culture of the organization. Data related to organization performance is drawn from the annual
report and others sources like stock exchange directory and CMIE data bank and reports. 16 variables of culture are analysed. Mean, standard deviation, one way analysis of variance (ANOVA) and post-hoc test ‘Scheffe’ are applied. Based on the findings, this study concludes that financial excellence of organisations is related to the culture of the organizations. Positive culture is related to high financial performance and low positive culture is found to be related to low financial performances.

Lukose et.al. (2003) analyse the operating performance of the BSE listed manufacturing firms following rights equity issue and their linkage with firm specific characteristics as hypothesized in the finance theory. 392 rights equity issues for the financial years 1990-91 to 1999-00 are selected. Operating cash flow and profit before interest and tax are used to measure performance. Non-parametric Wilcoxon signed-ranks test and OLS regression analysis are used for investigation. The standard errors are adjusted for heteroskedasticity using White’s procedure. There is a statistically significant decline in the operating performance after the rights equity issue. This decline in performance is more severe for big firms, low market-to-book value firms and firms with lower directors’ holdings. The authors find that the decline in performance is due to the inefficiency in utilization of assets and not due to decrease in profit margins.

Mukherjee et.al (2003) using only balance sheet information from four sectors of the Indian industry from prowess database for the period 1996 - 2001 analyses the efficacy of corporate governance. The sample consists of 104 electrical machinery companies, 53 pharmaceuticals companies, 34 software companies and 68 textiles companies. For analysis ordinary least squares regression and correlation coefficients technique are used. The variables selected are profit, import, R&D
expenditure, and equity capital, borrowings, net fixed assets, capital employed and ownership structure. Various components of sales, wages, costs, exports, investments, distribution of equity, cash flow etc. are studied to judge the relationships among the key variables. They conclude that corporate governance is in a very nascent stage in the Indian industry. The decision and policy making is taken as a routine matter. The capital market is unable to enforce better governance on the part of the directors or performance on the part of the managers.

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

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

**Board of Directors**

*Gupta (1997)* conducted a survey of corporate boards in India using questionnaire method. 444 listed companies of various sizes and industries responded. The data relate to 1982-83. No sophisticated statistical tools are used for the analysis. Findings indicate that there is strong preference for boards of directors composed predominantly of whole time professional executives, with professionalization of top management as a reaction to family dominated boards and dynastic succession. On the other hand, the presence of nominee director has caused improvement in certain board practices.

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