Chapter-2
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Review of Literature

Though comparative studies on code provisions between two or more countries have been undertaken in the past and few of them finds mention in the present literature review not many studies are available based on practices on such scale as the current one. No comparative empirical studies between India and UK have been undertaken in the past. The literatures reviewed presented herewith consisted of related working papers sourced from internet, books on corporate governance that were procured, research journals articles from Icfai Journals on Corporate Governance, International journals from WCFG and the like, which were available for downloads, newspaper clippings, business magazine articles, working papers from corporate governance organizations worldwide, codes and guidelines, national and international universities research paper collections which were available for e-downloading, seminars and workshops materials received etc. All of these have been categorized into different segments as below.

2.1: Comparative studies in corporate governance

The literature review under this head includes comparative studies on corporate governance between two or more countries with an aim to import good governance features between themselves. A comparative study of the regulatory framework of corporate governance in family controlled companies between Hong Kong and Thailand have been done by Pitiyasak (2003) with an aim to examine whether there are measures in relation to corporate governance in family controlled companies that the two countries can learn from each other. Even though the legal system in Hong Kong is Common Law and that of Civil Law in Thailand, the study identifies common ground for improvement. The study concludes that even though the whole system could not be duplicated from Hong Kong to solve the problem in Thailand and vice-versa, details in some aspects of corporate governance, i.e., the scope of corporate governance, the independent non-
executive directors, the audit committees, the shareholder remedies, and the remuneration committees might be imported from the former to solve certain problems in the latter and vice versa. Singapore Code, which was developed from UK combined Code 1998, is compared by Teen (2004) with the UK Code (2003) and highlights major differences. The study throws light on certain area where Singapore Code of governance could be improved. Aguilera (2008) on the other hand examines the five largest and emerging Latin American countries of South America: Argentina, Brazil, Chile, Colombia and Venezuela and compares different corporate governance aspects among these countries. The study finds high ownership concentration (state/family), small and illiquid stock markets and limited option for corporate financing and suggests the need for increasing corporate transparency, strengthening the legal system, prevention of shareholder expropriation by developing effective minority shareholder protection, and greater activism from institutional investors for higher economic development in these countries. U.S. corporate governance practice is compared with foreign firms by Aggarwal, Erel, Stulz & Williamson (2007) with the help of constructing a firm-level governance index which is directly proportional to the minority shareholder protection, i.e., higher the minority protection, higher will be the governance index. A firm-level or internal governance mechanism are those that operates within the firm in contrast to country-level governance mechanism which depends on country’s laws, its culture and norms, and the institution which enforce the laws. The study finds that, as against US firms, only 12.68% of foreign firms have a higher index which indicates that foreign firms invest less in internal governance mechanisms that increases the power of minority shareholders, than comparable US firms do. The study further finds that minority shareholders benefit from governance improvement and do so at the expense of controlling shareholders. Tan (2006) seeks to compare the level of disclosure of Singapore’s top 50 Straits Times Indexed Companies (STIs) and Government Linked Companies (GLCs) based on scorecard designed according to the Singapore Corporate Governance Code by data from the annual reports of companies. The Scorecard consisted of 87 items and is divided into four main sections: board, remuneration, accountability and audit, and communication with shareholders with one mark given for compliance with each item in the scorecard and
different weightage allocated to the four sections. The study finds the general level of disclosure to be quite high with 74% of the STIs and 77% of the GLCs scoring above 50%. Levels of disclosure practices of GLC and STIs companies were found to be similar. Disclosures were found to be weak in the areas of 'Board' and 'Remuneration' whereas better score was observed in the area of 'Accountability & Audit' and 'Communication with shareholders'. A firm level comparative study is conducted by Shukla (2009) which investigates the adoption of governance practices of the top four firms of the Indian Fast Moving Consumer Goods (FMCG) sector: Hindustan Unilever Ltd, ITC Ltd, Nestle (India) Ltd, and Tata Tea Ltd, using the case study method, through assessing their Annual Reports and empirical analysis. The qualitative analysis is followed by a quantitative rating of the corporate governance practices of these firms. Parameters include the mandatory (Statutory) and non-mandatory requirements of clause 49 of the listing agreement, as prescribed by the Securities and Exchange Board (SEBI), and relative amendments in the Companies Act, 1956. The analysis indicates that the firms comply with the mandatory requirements. However they need to improve their practices in adopting the non-mandatory requirements. Among the firms studied, ITC, the recipient of the ICSI national awards for excellence in corporate governance, scored the highest, followed by Tata Tea, HUL and last at Nestle. Gregory (2002), on behalf of the European Commission, identifies and compares corporate governance codes of the fifteen EU member states with a view to further the understanding of commonalities and differences in corporate governance practices. The study reveals that vast majority of these codes (25) were issued after 1997. The United Kingdom accounts for the largest number of codes identified in this study (11 nos.) - almost one third of the total- and also accounts for six of the ten pre-1998 codes identified. The codes identified for comparative study have been issued from a broad array of groups-governmental or quasi-governmental entities; committees (or commission) organized by governments or by stock exchanges; business, industry and academic associations; directors associations; and investor-related groups. Krivogorsky & Dick (2008) compares different regulation and practices on corporate governance with a view to find uniformity on some common grounds for adoption by member states. The study has been sparked on the backdrop of
European Union formation and increased requirement of member countries having uniform practices as far as practicable. The study finds that given the distinct business culture and law in member countries and distinct origins, the codes have remarkable similarity especially in terms of their attitudes and expression, about the key roles and responsibilities of the board of directors, incentive mechanisms and the recommendations they make concerning its composition and practices. However it is the legal differences which are deeply ingrained in their attitudes and most difficult to change. Shi (2004) compares the boards of Chinese boards with that of the US boards taking it as benchmark, to bring out deficiencies and render probable recommendations to improve the governance of Chinese boards. The article concludes that board independence, well defined board structures, duties and accountabilities are essential for enhancing the performance of Chinese boards. UK and Switzerland corporate governance regimes are compared by Speck & Tanega (2008) with stress on the role of non-executive directors. The study finds that Swiss and the UK corporate governance codes are quite similar, at least according to fundamental principles of adhering to self-regulation and a comply-or-explain approach, and each country having separate codes. Major differences have been pointed out in the areas of specific regulatory power, difference in market size for professional directors and historical developments. The study recommends few British provisions e.g., NEDs meetings at least once a year, provision for Lead Independent Director, board independence, for active consideration and their incorporation into Swiss system. Sobham & Werner (2002) compares and analyze the state of corporate governance in South Asian countries such as Bangladesh, India, Pakistan and Sri Lanka, using the OECD Principles of Corporate Governance as the common reference, with a view to learn practical experience from other countries and commence a national programme to promote good corporate governance in Bangladesh. The study was aimed at the assumptions that Bangladesh lagged behind its South Asian neighbors with regard to corporate governance standards, and hoped that a comparative study and analysis would provide regional examples of initiatives that could be applied in Bangladesh to improve the situation. The study has identified areas where reform is needed in Bangladesh. Key characteristics of the corporate governance models, prevalent in US and
European countries are compared by Mendez (2004). Comparison has been made on ownership and control pattern, economic models, legal systems, board structure, shareholders representations, management representation, independence, compensation, accountability structure and practices in US and EU which includes UK. Two theoretical studies by Weil, Gotshal and Manges, one on developing and emerging markets, and other on developed markets in the year 2000 and 2001 respectively are aimed at international comparisons of corporate governance guidelines and codes of best practices with a view to identify common grounds and trends in convergence in countries with diverse backgrounds.

2.2: Separation of Roles for Governance and Management

Duality occurs when the same person assumes both the roles of chief executive officer and chairman. The potential advantage of having the same person filling both the posts is that they should exhibit a greater understanding and knowledge of the company's operating environment. However separate post for the chairman and CEO is considered better keeping in view mitigating the unfettered control of a combined post. Boards dominated by inside directors are more difficult to control and this is the situation when duality is applied (Fama & Jensen, 1983). The Cadbury Committee regarded the practice of duality as undesirable, because it gives one person too much power within the decision-making process. There is, however, little evidence to support the stance because most studies find no adverse relationship between duality and performance. Baliga et al. (1996), Dalton et al. (1998) and Weir and Laing (1999) all found that it had neither any effect on performance nor it harms. An U.K. study by Dahya et al. (1996) found that the stock market reacted favorably to the separation of the two posts and negatively if they were actually combined. In addition, companies that adopted duality, performed worse in accounting performance terms, the year after the change. Desender (2007) examines the importance of separation of roles on the issue of implementation of Enterprise Resource Management (ERM) and reports that CEOs do not favor ERM implementation and are able to withstand pressure when they are occupying the seat of chairman. The study finds that apart from independence of boards, the separation of roles of chairman and CEO is
essential on the matter of critical Enterprise Resource Management which helps reducing agency costs and prevents fraudulent reporting. Only board independence will not serve the purpose. In the current study researcher observes that the UK boards are more or established on separation of roles of chairman and CEO. Based on interviews with past chairman of FTSE-350 companies of UK Kirchmaier, T. & Owen, G. (2008) reports that with the separation of the post of chairman and CEO, the role of chairman has become more challenging because not only he has to bring in required talent mix but also ensures that the board works as a team, balancing the two awkward relationships, with the chief executive and other with non-executive directors.

2.3: Independence of Boards and Corporate Governance

A number of empirical studies have been conducted on whether there is a link between independent directors and corporate performance. Mixed results have been observed. Gupta (1980) article enumerates eight attributes as constituting the excellence of a board. The first and foremost important attributes according to him is independence of the board members from control of managerial interests of a person, family or a group. The paper note that the nominee director system adopted in India since 1971 was a measure mainly to attack the problem. The author sums up that board independence is central to board excellence and other attributes, even if present, acquire a meaning only if independence is first ensured. Dahya & McConnell (2005) investigate the relationship between outside directors and corporate performance in the case of UK. The study was carried out during the “outside director euphoria” years when following Cadbury Committee recommendations in 1992 almost 24 countries introduced the concept of outside directors presence in board of directors. The study finds a statistically and economically significant improvement in operating performance from 1.95% before the year of introduction to 7.76% to 9.71% after two years of introduction. Gordon (2006) discusses the issue of rise of independent directors from 20% to 75% during the period 1950-2005 and the need for their evaluation in terms of overall maximiser of social welfare in terms of greater and better monitoring of public goods. The author cites two reasons for their phenomenal rise in USA: the shift to shareholder value as the primary corporate objective and the greater
informativeness of stock prices. Independent directors, in this environment are considered more important, because of their lesser commitment to management and its vision and capability of looking outside performance signals such as the stock prices. Prasanna (2006) analysis conducted through questionnaire to company secretary, highlights various issues concerning Independent Directors and tests the hypothesis whether independent directors bring brand creditability to the companies and makes the board better governed and finds that the independent directors in fact bring brand creditability and better governance and contribute to effective board functioning by leading the governance committee effectively. Further his survey confirms two major recommendations of the Irani Committee that only one-third of the board should be independent, and nominees should not be taken as independent directors. The paper highlights the need for a formal process of the appointment and periodic evaluation. Pandey (2009) cover page articles in Indian Management, on the eve of Satyam scandals, highlights the issue of board independence, need of nomination committee, and excessive power and influence of CEO in the present business model of concentrated shareholding models and points out the need of reform in India’s corporate governance code. The article cites Balasubramanian as stating that while USA and UK has dispersed shareholding, with biggest shareholding only one or two percent, the Indian and rest of the world case are different. Here dominant corporate ownership is of the state, a multinational or a promoter family. Balasubramanian further speaks, “Here, the CEO is often from the promoter family. In such a situation, while the board is supposed to recruit a CEO, it is in fact the CEO who hires the board members. That’s the fundamental reasons, why too many CEOs are not sacked. These decisions are taken at the family or parent company or political level and not by the board.” Satheeshkumar (2006) article raises the question of all important and much talked about independence of board of directors and asks whether these independent directors are pillars of corporate governance or pawns of promoters? The author argues that companies while selecting independent directors always seeks for ‘best and famous’ in their effort for image building. Instead they should look for ‘right and functional’ directors. The author also expresses his concerns when companies in their quest for hiring CEOs spend much time and effort, whereas the same rigor is rarely seen
in recruiting independent directors. The author stresses on the issues of director
development activities and the need for necessary infrastructure of Independent
Directors. ‘The Independent Directors enabling model’ as pointed out in chapter seven
seems to be justified in this context. Fernandes (2005) research on the effectiveness of
non-executive directors, in safeguarding the shareholders interests and aligning their
interest with the management, finds interesting results. The study is with a panel of firms
listed on Portuguese Stock Exchange and the result obtained is against the usual belief.
The study report that firm with zero non-executive board members actually have less
agency problems and have a better alignment of shareholder and managers interests. The
result cast doubt on the role and functions of Independent board members of the board.
Soosten (2002) research emphasizes the spirit of independence rather the number or
structures and highlighting the importance of Independence of boards he notes that “it is
not board structure that is the cause of the shortcomings. The cause is the general lack of
independence of individual directors and by extension boards of directors taken as a
whole.” The author further mentions that, “however creating a truly independent board of
directors will not lead to a higher level of corporate governance unless the directors
devote sufficient time to delve into the affairs of the corporation”. The author further
notes that “by successfully addressing the core issue of independence it is believed that
overall board performance will be improved in corporate America.” Hopt & Leyens
(2004) in their descriptive article on recent developments on the board models in Europe
highlights the structural trends toward more independence. While comparing the
development on the point of independence between UK and French boards, the study
note that both revised Combined Code of UK and the revised Principles of Corporate
Governance have strengthened the presence of independent directors on one tier boards in
Europe for increased monitoring and supervision over management functions.. The
strengthening of the strategic role of the supervisory board (Aufsichtsrat) by the new
German Corporate governance Code 2002 means there is attempt to incorporate the
above key advantage of the one tier model into German system. Boozang (2007)
discusses the issue of board independence in non-profit sector where an element of
independence is trying to be introduced through legislation in the US, on the assumption
that while for-profit organization independence is essential for improving oversight of management on behalf of the shareholders owners, the non-profit boards have multiple constituencies and operate with few guiding principles, as how to how to prioritize competing claims for their resources, and its independence is also required. The author argues that efficiencies of independence in board performance and their composition is yet to be experimented upon and, therefore, the drive for independent directors in the nonprofit sector seems directionless. In Indian context Prasanna (2006) brings to light the fact, that with the implementation of the Clause 49 of the listing agreement on corporate governance, corporate boards have become more independent, but the empirical analysis did not confirm that there is a relation between independent board and value maximization. The research paper investigates with a sample of group “A” companies of BSE whether the board independence has any influence in maximizing the firm value. On governance in family controlled corporation RamMohan (2002) writes,” The idea in putting independent directors in a majority, of course, is that a non-performing CEO can be checked and even removed before matters get out of hand. In India situation is very different. In the family-managed business that is the norm, management has substantial shareholding and select directors. It is not enough, therefore, to define independent director as those who do not have a material pecuniary relationship with the company in question. As long as directors owe their presence on the board to management, their independence would be questionable. This is the reason why the CEO is hardly ever removed for non-performance. All the tenets of governance amount to nothing where the ability and the willingness to penalize non-performance are missing.” Another research in USA context by Brown Jr. (2008) reports inefficiency of independent directors system in USA and as a consequence activist shareholders exerting pressures to SEC to allow shareholders to nominate and elect their own candidate. The paper enumerates several possible reasons for inefficient working of Independent Directors, some of which have been mentioned as: improper definition of independence, high director’s fees which might compromise with independence of judgment, definition of independence not taking into account the close personal relation developed after joining the board, the directors lack of independent source of information and depending more on the CEO for
information about the company operations. The author further notes that even if definitions of 'independence' are not considered, the systems for electing directors are vetted by management and not shareholders. This alone can raise doubt about they being custodian of interest of management rather than the shareholders. Dey & Chauhan (2009) investigates the relationship between board composition, independence and performance in four categories of Indian firms namely, PSUs, stand-alone firms, private business groups affiliated firms and subsidiary of foreign firms. Ratio of MV to BV of assets has been taken as proxy to measure firm-performance. As against normal expectation, board independence is insignificant so far as performance in all categories of Indian companies are concerned. Nasir and Abdullah (2004) examines the annual reports of healthy and distressed financial firms for the years 2000 and 2001 and analyses the relationship between voluntary disclosure and its different corporate governance variables. Board independence was found to have significant influence on the level of voluntary disclosure.

2.4: Board of Directors and Corporate Governance

Board of Directors as an institution has very important role in company governance and to a lesser extent on the company management. Studies in BOD are available which focuses mostly on structural framework of a board. Various board related parameters like qualities, size, initiatives, responsibilities, age of members, core competence etc., are examined by Dhawan (2006) based on primary data collected from 89 large listed firms in India with the help of personally administered questionnaire. The study finds that the board size increases with the turnover but only up to a certain level, beyond which the increasing turnover doesn’t influence it. The effective integration of the skills and knowledge base of the board is more important than the size. The study notes the importance of agenda of the meeting, information and details of the meetings in advance. Core competence of the directors, strategic thinking, leadership quality, honesty and integrity are considered most desirable in the board of directors. Liljeblad and Svensson (2001) explores and analyze the role of BOD in active ownership and examines how companies active on the Swedish risk capital market, looks upon the concept of active
ownership, and how this active ownership is exercised in practice. The study comes to the conclusion that the most powerful and used control mechanism is the Board of Directors. It is through this body that the investing companies practiced most of their active ownership. Further the investing companies, active on the risk capital market, consider most important aim of active ownership to be profit maximization. Fuller & Jensen (2003) maintains that boards have failed to fulfill their role as the top-level corporate control mechanism as judged in the context of wave of corporate scandals. The authors suggest fundamental change in the approach taken by board. The board must hold the top-level control rights in the organization, including the rights to initiate and implement certain decisions such as, the right to hire, evaluate, compensate, and fire the top management team, board members and the company's auditors rather leaving these to CEO. The Board should focus on changing the structural, social, psychological, and power environment of the board, from CEO to the board itself and he too stresses on separation of the post of chairman and CEO. The authors report that CEO does most of the recruiting for the board. Further suggestion is to change the philosophical mindset of the board from one of careful review and compliance to one of insatiable curiosity and clarity. Finally the paper suggest that boards must take seriously their responsibility to ensure the integrity of the organization in all matters and advises board members to be willing to incur costs if necessary to do so. Nanda (1983), in his Ph.D. dissertation study analyses the structural and functional aspects of the board of directors in the Indian Corporate sector. The author finds that companies with a higher percentage of whole time directors in their boards tend to be better performer, measured in terms of return on investment and share price index. The board size tends to be determined by company size rather than age of the company. Directors of public sector enterprises are better qualified than their counterparts in the private sector. Multinational companies in the private sector tend to have most frequent board meetings and public and joint sector enterprises tend to have longer meetings. Dey & Chauhan (2009) investigates the relationship between board composition and performance in four categories of Indian firms namely, PSUs, stand-alone firms, private business groups affiliated firms and subsidiary of foreign firms. Ratio of MV to BV of assets has been taken as proxy to measure firm-performance. The study
finds that larger boards are less effective in Indian firms, except in case of PSUs and board size does not have any affect on the firm performance in Indian PSUs.

2.5: Board bio-diversity and Corporate Governance

The literatures dealing with female directors are not many and lot more research is needed in this area. Special traits in a female director are examined by Prasad (2006) and observe, “Recent research shows that women tend to have more values which contribute to good governance. A higher proportion of females as compared to males believe that a corrupt act cannot be justified. Women in business are not so prone to pay bribes, since they are averse to risks and are ethical by nature. They are good listeners and motivators.” In USA context Branson D.M. (2006) studies the population of women directors in US boards. It states that with the rise of women graduate from Law and MBA, there should have been a steady rise of population of female CEO in boardroom, but Fortune 500 data speaks that their number remained static or growing very slowly while the number of ‘trophy directors’, (those with 4 or more directorship) has increased rapidly. The paper ends with suggestions for women and the company wishing to facilitate entry of more women from the pool of directors.

2.6: Different Countries CG structures and practices

This section of literature review surveys the state of existence of corporate governance in different countries worldwide. In Indian context Chakraborty, Megginson & Yadav (2007) examines the corporate governance status, which the results finds, is of highest levels on papers while differing on reality and mentions about the prevalence of widespread corruption, over-burdened courts, concentrated ownership, prevalence of family business groups, control by pyramiding structure and tunneling of funds, highest non-performing assets with banks etc. The paper however apprises that most of these problems are not new for India but is prevalent in other Asian countries too. The recent initiatives and the companies like Infosys are future hope so far as corporate governance in India is concerned. Chakrabarti (2005) findings are in agreement and reports that while India has one of the best corporate governance laws it is plagued by poor implementation.
Concentrated ownership of shares, pyramiding and tunneling of funds among group companies mark the Indian Corporate landscape. Good practice of corporate governance is only restricted to few top companies and more needs to be done to ensure adequate corporate governance in the average Indian Company. The primary issues, the author points out, are in the matter of enforcement which is often obstructed by the forces of corruption and self interest. The author takes a look at the several measures taken since CII Code, SEBI implementing the recommendations of Birla Committee through the enactment of Clause 49 of the listing agreements, Narayan Murthy recommendations and ending on an optimistic note on the matter of several developments initiated by and being pushed by industry organizations and chamber of commerce. Another research in Indian context by Goswami (2000) brings to light that corporate governance in India largely came into prominence in the year 1993 due to three episode after liberalization: a major securities scam that was uncovered in April 1992, a sudden growth of cases where multinational companies started consolidating their ownership by issuing preferential equity allotments to their controlling group at steep discounts to their market price, and disappearing companies of 1993-94. The author forecasts that in the coming year there will be flurry of activities in India in CG because of the force of competition, great churning taking place in corporate India, phenomenal growth in market capitalization, impact of well focused and well researched foreign portfolio investors, entry of foreign pension funds, stronger financial press, full capital account convertibility, rise of companies like Infosys, ICICI with cross listing. Entry of pension fund like CalPERS, Hermes or TIAA-CREF, which holds on their portfolio for much longer time than Mutual Funds. All these developments are bound to increase CG standards in India. McGee (2008) examines the application of some of the principles of corporate governance as identified by the OECD, World Bank and IMF, in Asian countries of India, Malaysia, Korea, Pakistan, Thailand, Philippines, Indonesia and Vietnam. The principles covered includes: basic shareholder rights, participation rights, shareholders’ AGM rights, disproportionate control disclosure, market for corporate control, equal treatment of shareholders, prohibition of Insider trading, disclosure of interests, respect for shareholder rights, redressal for violation of rights, performance enhancement, access to
information, disclosure standards, accounting & audit standards, independent audits, fair and timely dissemination, acts with due diligence and care, treating all shareholders fairly, ensuring compliance with law, the board fulfillment of certain key functions, the board exercising objective judgment, and access to information. Among the Asian countries India scored highest, with Vietnam the lowest. The author mentions that although India is notorious for its bureaucracy and corruption, its corporations are making progress in the area of corporate governance. Vietnam low score is reasoned because of its relatively newer entry into market. According to Cheffins (2000) Britain was once recognized as an exporter of legal concepts and innovations. Its reputation has been tarnished in recent years. However the work done by Cadbury Committee and successors Greenbury and Hampel committee represents a partial reversal of the recent trends and Britain is now respected for its corporate governance codes and enforcement through stock exchange market listings has been quite effective and has been influential outside Britain. Rayton & Cheng (2004) investigate the development of the UK corporate Governance for four year period beginning 1998, the starting year for the Combined Code. The results demonstrates that there has been a significant influence in shaping the corporate governance structures of UK listed corporations in terms of clear increase in the number and proportion of non-executive directors on the main board, an increase in the nomination committee and a decrease in the combination of roles of chairman and CEO. McGee & Preobragenskaya (2004) deals with the issue of corporate governance in Central and Eastern European transition countries like Croatia, Hungary and Russia. These countries do not have the institution infrastructure to deal with corporate governance issue, the evaluation of which is still taking place. These countries are plagued with little or no rights of minority shareholders and the value of their investments gets evaporated as top management plundered their corporation and transferred assets to shell corporations they controlled. The author posits that pressure from EU and the need for FDI will lead them to improved corporate governance. Ramsay & Richard (1997) study seeks to determine the extent to which Australian listed companies are disclosing their corporate governance practices as per ASX listing rule 4.10.3, by examining the annual reports of 268 listed companies, for one year of
information. The authors conclude that extent and quality of disclosure is typically better for larger companies than the smaller companies. Jingu (2007) study takes a look of Chinese corporate governance and apprises that the China Capital market has not been developed due to its historical past and hence limited liability company (LLC) of China is underdeveloped. The study points out the initiatives taken to improve corporate governance such as promotion of group listing, reform of non-tradable shares, implementation of new Company Law and the new Security Law, promotion of new listing of quality companies and points out that all these initiatives, which are in the initial stage, have started yielding results. An another research study on Chinese context is carried out by Clarke (2003) which discusses the conflicting features of corporate governance in china and the dilemma arising out of conflicting goals it wants its business organization (SOEs) to pursue, where it wants to maintain full or controlling interest, in order to utilize that control for the purpose of meeting employment goals, politically-motivated job placement, serve sensitive industries and not solely for the purpose of wealth maximization along with the bringing in efficiencies factor of private enterprise. Chinese policymakers however points out that in order to accommodate the special circumstances of state-sector, its entire company law meant for enthusing spirits in private sector, needs reorientation to the extent that its state sector are forced to follow the rules of private-sector enterprises and private sector enterprises having to follow these rules which makes sense only for state-invested units. Shahid (2001) assesses the corporate governance practices in Egypt, identifies the problem and propose recommendations to enhance corporate governance in Egypt. No codes of best practices exists in Egypt and visualizing the need for foreign direct investment, the research advises the government to set a “code of best practice for corporate governance in Egypt” rather than wait for regulatory or law modifications, which will take longer time to implement. The paper advises the proposed code to be simple, practical, easily implementing and enforceable. It should fit within the country's existing laws and institutions and not to be imported from other countries. Schmidt (2003) highlights German corporate governance as different from that of the Anglo-Saxon countries because the former foresees the possibilities and even the necessities, to integrate lenders
and employees in the governance of large corporations. The German corporate governance system is generally regarded as an example of an insider-controlled and stake-holder system. The study reviews, in the context of past decade wave of development, whether the German corporate governance system have changed, why, when, and to what extent, and whether the change is structural change capable of depriving its former constituencies of insider-controlled system into an outsider-controlled and shareholder-oriented system. Badulescu & Badulescu (2008) examine the issue of corporate governance in the Romanian context. Romania has a non-compulsory code of corporate governance code based on ‘comply and explain’ principles which is supposed to enhance the compliance. The paper highlights the weak institutional framework, implementation and enforcement of the existing laws and the need for the private sector to take the lead and initiatives in promoting public debate on corporate governance issues and protection of minority shareholders rights. Kim and Kim (2008) describe the current state of Korean corporate governance which faced the major financial crisis during the year 1997. The family controlled Chaebol firms, with concentrated shareholding and having control rights far more than cash flow rights, and consequent abuse, are the major concern in corporate governance there. Except Chaebol firms, Korea has significantly improved in such area of corporate governance as more effective oversight of the board, emergence of key external monitors and enforcer, improved corporate transparency etc. Black, Carvalho and George (2008) investigate corporate governance practices in Brazilian Private Firms (firms without majority ownership by the government or by a foreign company). The study is based on extensive survey in the year 2005 of governance of 116 Brazilian public firms, including Brazilian private firms. The authors find weakness in the area of board independence, lack of independent directors, audit committees which are uncommon, financial disclosure with little or no cash flow statements or consolidated financial statements. Bianchi & Bianco (2006) study provides an in-depth descriptive analysis of the evolution of both listed and unlisted Italian companies' corporate governance over the period 1900-2005, with an aim of evaluating the effect of recent reform. The study cites legal and economic reform in Italy relating to financial markets: passing of a new banking law, increase of roles of
institutional investor in financial markets, privatization of stock markets, enactment of a security law, introduction of a corporate governance code and twice revision of it, enactment of a new company law and strengthening of shareholder protection. Despite these reform measures the study finds limited change in the ownership and control structure of unlisted and listed companies. The study further points out limited separation of ownership and control in Italy because of the reason of unwillingness on the part of Italian owners to release control. Kozarzewski, Lukashova, Lukashova and Mironova (2006) discuss the issue of corporate governance in Kyrgyzstan which is a newcomer in the area and has adopted continental model of corporate governance. In the continental model, functions of control and supervision are strengthened by their separation i.e., managing body and supervisory body (Board of directors). The country had no previous experience of private property and market and it is still evolving. The factors for formation of CG system like corporate and antimonopoly law, financial markets and shareholder activities have been discussed. The study suggest for upgrading of legislation, creation of favorable legal and institutional climate which will lead to improvement and attract foreign investment. The authors find the formation and stabilization of CG system far from complete. Ho (2003) discusses the issue of corporate governance in Hong Kong, which is vital, as it is an international financial centre and because of its unique regulatory framework such as relatively few loose regulation and weak legal protection for investors and concentrated structure, as most listed firms are controlled by a single individual or a family. The study reviews the background, practice, core problems, effectiveness and prospects of corporate governance, legal and regulatory framework, recent regulatory reforms, owner-directors and conflicts with minority shareholders and shareholder activism and convergence of CG practices. Shearman and Sterling Ltd (2005) surveys the corporate governance practices of the 100 largest US companies, as ranked in Fortune Magazine Fortune 500 list by revenues that have equity shares listed shares on the New York Stock Exchange (NYSE) or NASDAQ for the three consecutive years 2003, 2004 and 2005. The survey was done on the following parameters: Director Independence, Director Qualifications, Board Leadership, Board and Committees Meetings, Corporate Governance related shareholder proposals, Audit
Committee compensation, Audit Committee duties, Code of conduct and attendance policy, Poison pills, classified boards, screening of communication with director equity compensation, director cash compensation etc. On Independent Directors strength, the survey finds that Independent directors continue to comprise 75% or more of the boards of 81 top 100 companies. Gilham (2004) presents an updated picture of corporate governance in Ghana which is at very low level. Given the continued commitment to democratic government and the country being promoted as the “Gateway to West Africa”, the country aims to attract more foreign investment to fuel growth in the private sector which will create jobs and employment and reduce poverty and therefore the improvement in corporate governance system and practices is considered very necessary. Simultaneously the improvement is also considered to be required in the state owned enterprises which are a significant part of the country economy. The author therefore stresses the need for improving the corporate governance both in public sector and corporate sector. Sourial (2004) examines and presents an overview of corporate governance model of the corporate sector and the securities market of eleven countries in the Middle East and North African (MENA) markets out of eighteen. The financial sector in MENA region countries is dominated by bank and the securities markets are still underdeveloped because of their limited role in economic growth and are still emerging. The legislative environment governing the regional securities markets are influenced by French civil code with attempts to converge to the Anglo-Saxon Common Code following the US and UK models in few countries. The paper recommends taking into consideration the culture and traditions while undertaking reforms measures to improve corporate governance system in a country. Imposing may lead to resistance to reforms with possibility of negative effects. Since banks are more developed compared to the securities market they are advised to play more active role in corporate governance. Fox & Heller (2000) investigates the issue of corporate governance in Russia post privatization which was undertaken in haste, ill-conceived and poorly planned, which ended up its disinvested privatized enterprises allocating its shares primarily to insiders and the resultant problem of poor performance after privatization. The authors investigates and analyze the problems in details and argue that what happened in Russia
could deliver a lesson or two to other transition countries and for corporate governance theorist in general. Silveira & Saito (2009) examines comprehensively the state of existence of corporate governances and compliance among Brazilian companies. The Brazil has two main corporate governance codes—those issued by IBGC in 1999 and updated twice with latest in 2004 and CVM released in 2002 with no subsequent updates. Both codes are totally voluntary and listed companies are not obliged to adopt any of the recommendations, nor even to report their level of compliance with both documents. The study therefore finds no public disclosure of information on their level of compliance and very few companies publicly disclose their level of compliance with any code. The authors however find that the two Brazilian codes of best practices have been helpful in educating corporate on the issue of need for good corporate governance practice. The study mentions the recent formation of three classes of standards of compliance of CG codes: level 1, level 2 and Novo Mercado. Novo Mercado has the most stringent level of compliance. The author mentions that given the totally voluntary nature of compliance (not even the requirement of 'comply or explain') and lack of disclosure the evaluation of the corporate governance quality of local Brazilian firms is a challenge. Khan & Ullah (2006) analyses the awareness situation among management students in Pakistan and to assess the scope for future training and its content for developing the corporate governance culture in the business organization of Pakistan. The study finds that business graduates are aware of general issues of corporate governance under the heading management principles and stakeholders' issues and not directly being educated about corporate governance issues. The study advises the management schools to incorporate corporate governance in their course outlines or offer separate courses on this crucial subjects of the economy. Anand, Milne & Purde (2006) investigates empirically the extent to which firms adopt recommended but not required corporate governance guidelines by examining the governance practices of approximately 200 Canadian firms on the TSX/S&P index for five years. The study establishes that firms voluntarily implement suggested domestic best practices as well as U.S. mandatory governance practices and that this voluntary behavior is increasing over time. These are indicative of firm's need or desire to access capital market in the future. The study however finds the
presence of a majority shareholder or executive block holder is negatively associated with voluntary adoption.

2.7: Convergence and Corporate Governance

Convergence can be summed as the voluntary and slow process through which one code reshapes and ultimately comes to resemble over the other over a period of time. The research result towards convergence in corporate governance is mixed. On the matter of convergence Rickford (2006) posits, "Corporate Governance systems have converged to a certain degree across Europe, the US and UK. However, there is not a unified move towards a single set of global corporate governance standards, but rather convergence on selected issues and within regional blocs." Whereas forces in favor of convergence is the globalization, the need to raise capital internationally, the efforts of international bodies like World Bank, OECD, European Union, the forces against it are many. Most of the forces against convergence are as a result of historical evolution of the market, company laws, ownership patterns, equity market development, listing rules, board structures and governance practices, history and culture of specific countries etc. Pinto (2005) studies and reports the effect of globalization on the convergence in corporate governance and notes that it was the globalization that initially fostered the study of comparative studies in corporate governance. The comparative studies in turn raise the issue of whether one particular model is better in this globalized environment and whether some form of convergence will result. Guillen (1999), contrary to the belief on convergence on Anglo-Saxon pattern, discusses and enumerates the reason for non convergence on some ‘best practice’ in corporate governance. The three reasons discussed against convergence in corporate governance are: legal, institutional and political. As per the author the corporate governance is tightly coupled with legal traditions that are unlikely to change in the near future. Further, variety of economic, social and political actors involved in corporate governance across countries, makes it hard to envision convergence, because they may attempt to shape and oppose changes adverse to their interests. Rose (2006) express doubt about recommendation based on one-size-fits-all so called “good governance metrics” which has itself little evidential support and thus may have harmful affects on corporate
governance. These practice and recommendations may pressure companies to adopt homogeneous rules which may not be suited to the company’s respective requirements. Davies (2001) examines the convergence or divergence of functioning of British one-tier board and German two-tier Supervisory board and argues that the reform throughout has moved the British one-tier board closer to the two-tier model at a functional level. At the level of the functions both British Boards and the German Supervisory Boards are committed by relevant rules to monitoring the management of the company. The paper however argues that divergence at functional level still continues so far as linkages to non-shareholder groups are concerned which is not a significant functions of the British Boards. German Supervisory boards however discharges an important function in providing linkages to stakeholder groups, notably employees, in addition to its monitoring role compromising on the effectiveness of the board’s monitoring role which has been accepted by German law and practice. The author however predict that if the structure of the shareholding changed in Germany in such a way that large shareholders were no longer able to fulfill monitoring role, the German Supervisory boards will have to take full charge of monitoring functions instead of linkages. Arcot & Bruno (2005) advocates against convergence on a single model of governance as companies are not a homogeneous entity. Mere compliance with the provisions of the Code does not necessarily result in better performance and there is no single model of governance which can be applied to all types of companies. Khanna, Kogan & Palepu (2001) finds pairs of economically interdependent countries-especially if the countries are both economically developed- appear to adopt common corporate governance standards. With data on governance in 24 developed countries as well as data on laws protecting shareholders and creditors in 49 countries, the study search for evidence that globalization is correlated with similarity in corporate governance. The study concludes that globalization may have influenced adopting few common governance standards but there is little evidence that these standards have been implemented. Coffee Jr. (1999) discusses the issue of convergence in corporate governance and note that the two contrasting theories of legal hypotheses and political theory yield very little predictions about the likelihood that globalization will produce significant convergence in corporate governance. The author
examines an alternative and more likely route to significant convergence through the
foreign issuer to the US securities market, and second through international
harmonization of securities regulation and disclosure standards. The author opines that
convergence in corporate governance however will occur not at the level of corporatelaws but at the level of securities regulations. The issue of global convergence of
corporate governance and convergence on the pattern of US model is studied by Branson
(2000). The author points out that despite of several virtues and the goodness in Anglo-
American Model, like truly independent directors who will confront and remove badly
performing CEO and having an element of lawsuit brought by activist shareholders, there
seems remote possibility of global convergence on the pattern of Anglo-American Model
because of many cultural settings which is as varied as post Confucian in Indonesia to
feudal value system in India. Moreover many societies reject all or most US or
westernizing influences. Moreover convergence requires ‘one size fits all’ which seems
to be a remote possibility. Wojcik (2004) investigates whether in the world of
globalization and financial integration, corporate governance arrangements become more
similar across countries, industries, companies or not. Using a dataset on corporate
governance ratings of 300 largest European companies from 17 countries provided by
Deminor Rating SA for the year 2000-2003, the author analyze the convergence issue in
corporate governance and provide evidence for the same. The study finds evidence of
convergence within individual countries and industries. The paper also demonstrates that
the diversity among companies within continental Europe is pronounced with systematic
differences between countries. The issue and need of a uniform European Corporate
Governance Code (ECGC) which is expected to increase the integration of the European
economy and increase the confidence level of investors is discussed by Zafirova (2007).
The paper takes the view that there is a need of ECGC and it can be expected that the
need will be answered to in the long run, but based on the report of 2002 Comparative
Study on behalf of the European Commission, the Report of the High-Level Group of
Company Law Experts, the European Commission, the ECGC should not be adopted at
present. Goergen (2007) discusses about the inconclusiveness of any one corporate
governance model and apprehend if there is any optimal model in any country. The study
further highlights lack of comprehensive knowledge of any system or for the matter on the alternative model so as to surge forward confidentially. The study further mention about lots of efforts that have been taken to make capital market—especially those based in Europe more shareholder-oriented but there are little known about the benefits and shortcomings of alternative system of corporate governance. The study concludes that it would be too premature to move in any one particular direction or model. Balgobin (2008) investigating 47 companies on the stock exchange of Trinidad and Tobago and Jamaica also agrees on the matter of convergence and posits that each country and industry is different to such an extent that convergence seems to be a remote possibility. But international organization like the OECD and international capital market will continue to push for standardization and convergence on board specific issue like its structure and conduct are now the subject of growing areas in convergence. In a World Bank Policy Research Working Paper, Fremond and Capaul (2002), review the experience of the preparation of 15 corporate governance country assessments across five continents. The assessment focuses on the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders, disclosure and transparency and duties of the board of listed companies. The study finds that none of the assessed countries comply with the OECD Principles in all respects. Yet all countries surveyed have undertaken or are currently undertaking reforms to bring their legal and regulatory frameworks in compliance with the OECD Principles.

2.8: Dominant Shareholder and Corporate Governance

Dominant shareholder or controlling group helps increase monitoring over the managers but side by side it also increases the problems of expropriation of minority shareholders (Biswas, 2008) by them. Fundamental issue of governance, because of dominant shareholder presence, is examined by Becht, Bolton & Roell (2002) and as per them the main question is how to regulate large shareholders so as to obtain the right balance between managerial discretion and small shareholder protection. The research finds however that while large and active shareholders are controlled and regulated to guarantee better small investor protection, another problem arises caused by increased
managerial discretion and associate misuse (free rider problem). The authors’ do not find any alternative effective measures till date to cope up with the increased abuse by managerial interests. Gelter (2008) examines the effect of dominant groups on stakeholder interests and argues that stronger shareholder influence, particularly in the case of concentrated ownership, implies a greater risk of expropriation of stakeholders such as employees. Laws aimed at protection of stakeholders (such as codetermination or restrictive employment law) are, therefore, more desirable in the presence of stronger shareholder influence, particularly under concentrated ownership. To avoid the holdup problem the author recommends shielding managers against shareholder influence. The absence of shareholder influence implies that shareholder-stakeholder conflicts are relatively insignificant, while both providers of capital and labor are equally exposed to rent seeking by managers. Enriques & Volpin (2007) examines the corporate governance issues that arise in firms with dominant shareholders. The investor protection is the main issue. The authors describe four legal tools that can be commonly used to protect investors which are: strengthening internal governance mechanisms (board of directors, regulations mandating greater independence for directors, setting executive compensation, etc), empowering shareholders (right to sell, sue, and vote), enhancing disclosure requirements (related party disclosures, self dealing) and tougher public enforcements (corporate and securities Law). The effect of large shareholders on corporate profitability for a sample of German and UK firm’s IPOs for the period 1981 to 1988 is examined by Goergen (1997). The study bears special importance as the two countries are characterized by different levels of ownership concentration and finds that the financial performance of firms does not depend on their ownership pattern. The study do not finds any linkage between concentrated stock holdings and better performance or the expropriation of minority shareholders. Edmans and Manso (2008) study recommends a novel solution of increased dominant group influence and posit that because of increased monitoring governance is strongest under a single large block holder but it is also associated with abuses. They suggest and demonstrate that a multiple block holder structure may be optimal for governance. While splitting a block reduces the effectiveness of direct intervention ("voice"), the paper opines that it increases the power
of a second governance mechanism—“exit”. By trading on private information, block holders move the stock price towards fundamental value, and thus cause it to more closely reflect the effort exerted by the managers to enhance firm value. In the Indian context RamMohan (2002) writes, “the governance problem in India is not the classical Berle and Means problem of dispersed shareholders not being able to control management. It is the problem of preventing the expropriation of minority shareholders by the controlling shareholders.” Hillier & McColgan (2004) examines the implications of majority ownership by the firm’s board of directors for a sample of 73 UK firms in which managers have an ownership stake greater than fifty percent. Based on annual reports data from the LSE listed companies from 1992-97, univariate and multivariate analysis, the study finds that majority owner-managed companies are less likely to remove their CEO or other board members following non-performance. These companies employ fewer non-executives and outside directors, are less willing to split the roles of the Chairman and CEO and as a result are less likely to comply with the model board structure outlined in the Cadbury Report. The result indicates that majority owner-managed companies outperform with more diffusely held ownership.

2.9: Corporate Governance and Performance

The research work dealing with the issue of corporate governance and its effects on performance are many. However most of the works deals in isolation with single parameters of corporate governance instead of their composite effects. The results found are mixed with different components of CG. Weir, Laing and McKnight (2001) investigating through a sample study of 312 UK Companies finds weak links between governance mechanisms recommended by Cadbury over performance. The study concludes that external control mechanisms are found to be more effective than internal ones. Biswas & Bhuiyan (2008) opines that rather than examining the impact of a complete set of governance standard on firm performance, the existing studies mostly investigate impact of single governance characteristics on firm performance which fails to capture the total effect and therefore brings misleading results. While agreeing on the above, Gill and Jha (2008) indicates that it is not possible to argue definitely that
corporate governance mechanism always improves firm performance. As per them the other two corporate governance mechanisms-board characteristics and ownership structure provide inconsistent result about their relationship with the firm performance. Both positive and negative relationship between firm performance and certain board characteristics like 'board size' and 'board composition' have been observed. On the other hand, the relationship between firm performance and ownership concentration is either positive or non-existent. As per Chhaochharia and Laeven (2008) however the improvement in corporate governance are reflected in higher market valuation. Morey et al. (2008) results are in agreement that improvement in corporate governance results in significantly higher valuations. The study utilizes a unique data set from AllianceBernstein which has monthly firm-level corporate governance ratings for 21 emerging market countries for almost five years. Using the data set the author examines firms, on a time-series basis, the effect on market valuations vis-à-vis improvement or declination of corporate governance. Balasubramanian, Black & Khanna (2008) agrees with the findings and suggest that better governance seems to correlate with higher firm market value for at least bigger firms. It is the disclosure and shareholder rights aspects of governance which are most closely associated with increase in firm market value. McKnight, Milonas, Travlos & Weir (2009) findings are in consistent with the view that the adoption of strong corporate governance system improves corporate performance in the UK context. However the findings are mixed with the effect over performance on the parameters like number of non-executive directors, executive director in its committees, shares owned by directors, size of the firm, separation of titles of the chairman of the board and CEO. The study too finds a positive association between corporate performance and the adoption of the Cadbury code of best practice. Corporate performance is positively associated with the establishment of audit committee and/or remuneration committee and is negatively associated with the presence of a key executive director on the committees. There is a negative association between corporate performance and the proportion of non-executive directors. But the relation is positive between corporate performance and the square of the proportion of non-executive directors when performance is measured by excess-Q. Brown & Caylor (2004) finds
better governed firms to be relatively more profitable, more valuable paying out more cash to their shareholders. The study shows that good governance, as measured using executive and director compensation, is most highly associated with good performance. In contrast good governance as measured using charter/bylaws is most highly associated with bad performance. Maher & Anderson (2000) discusses different corporate governance mechanism like concentrated ownership, executive remuneration schemes, the market for takeovers, cross shareholding amongst firms employed by various OECD countries to overcome the agency problems and examines whether or not they are conducive to firm performance and economic growth. Concentrated ownership reduces agency problems and provides better monitoring incentives and lead to better performance. But it also leads to the extraction of private benefits by controlling block holders at the expense of minority shareholders. Dharmapala & Khanna (2008) analyze, with the help of prowess database for a large sample of over 4000 Indian firms, from 1998-2006 effect of the reforms in Clause 49. The analysis results reveals a large and statistically significant positive effect (amounting to over 10% of firm value) of the Clause 49 reforms. The estimated effect of the initial announcement of Clause 49 in 1999 was found to be weaker than the effect of the 2004 sanctions, which underscored the importance of sanctions. Black & Khanna (2006) examines whether a package of mostly mandatory governance reforms affects firms' market value in India in the backdrop of introduction of Clause 49 which was introduced initially for larger firms and only after several years it was applied to smaller firms. The larger firms were the treatment group and smaller firms provide control group. The study for the purpose utilizes Prowess database and found that May 1999 announcement by Indian securities regulators of plans to adopt what became clause 49 is accompanied by a 4% increase in the price of large firms within two day and 10 % over a period of two week. Mid-sized firms had an intermediate reaction. Faster growing firms gained more than other firms which is in consistent with the notion that firms that need external equity capital is benefitted more from governance rules. Cross-listed firms gain more than other firms suggesting that local regulations can sometime complement the benefits of cross-listing. Padgett & Shabbir (2005) investigated the relationship between a firm compliance with its
performance measure both in terms of market driven measures and accounting measures of firm performance. The study develops an index for FTSE 350 companies based on the level of non-compliance with the UK code of corporate governance and then investigates whether compliance is related to both markets based as well as accounting measures of firm performance. The results obtained leads to conclusion that there is a clear link between compliance and the market driven measures for firm performance, i.e., the total Shareholder return (TSR). The increasing compliance leads to increasing total shareholder return. No such relationship is found, however, between compliance and the accounting measures of firm performance, return on asset (ROA) and return on equity (ROE). The result, therefore, suggests that although compliance may not improve a firm’s operating performance, it does improve investors’ perception of the governance of companies, which ultimately increases the firm value. Zhou (2005) constructs an corporate governance index (CGI, 0-100) to measure the overall corporate governance performance of 168 largest firm in Hong Kong market based on factors like rights of shareholders, equitable treatment of (minority) shareholders, role of stakeholders, disclosure and transparency and board responsibility and composition. The study concludes that good corporate governance practices helps to increase firm value which the firm can take advantage in terms of lower capital cost from the market. Clacher, Doriye & Hillier (2008) finds more explicit corporate governance systems as associated with increased firm value and performance, as well as lower cost of capital. The study utilizes data set from annual reports of FTSE 100 companies between 2003 and 2005 and constructs a CGI. Bassen, Prigge & Zollner (2008) studies relation between performance and single components of broad corporate governance aggregates such as governance codes and ratings. The study is unique in the sense that most of the available research is confined to U.S., Japan and emerging markets whereas this study enlarges it to German corporate governance code. The study is based on a sample of 100 large listed German stock corporations (GCGC). For the GCGC at large, all performance measures but Tobin’s q, is insignificantly associated with code compliance. The study further tests those eleven recommendations with a compliance rate of 90% or less individually. For three of them association with all performance measures is insignificant, four are
significantly positively and four are significantly negatively connected with at least one performance measure. The study advises the quality checking of GCGC and its different components based on the analytical analysis of significantly negative associations of GCGC with performance. Gill & Jha (2009) surveys the literature on relationship between corporate governance mechanism and firm performance and identifies three prominent corporate governance mechanisms—board, disclosures and ownership structure. The authors find that there is no unanimity among the researchers about the effect of these mechanisms on corporate performance. Whereas there is unanimity on the positive relationship between disclosure and firm performance, it is inconclusive on the relationship between board characteristics and ownership structure over firm performance. Pant & Pattanayak (2007) examines the effect of insider equity holding on firm value. The analysis finds that the relation between insider shareholding and firm value is not linear. Tobin's Q first increases, then declines and finally raises as ownership by insiders rises. When the shareholding of insiders is very low, the entrenchment effect is non-operational due to less control over the decision making process of the firm. However, once they gain controlling power in the firm, they can entrench themselves or pursue non-value maximizing activities. With majority ownership (more than 50%) their interest is better aligned with the interest of the firm. Kumar (2003) examines empirically the relationship between the ownership structure, corporate governance and dividend payout using a large panel of Indian Corporate firms over 1994-2000. Using dividend payout and detailed ownership structure of more than 2000 Indian corporate BSE listed firms over the period 1994-2000 and data from PROWESS maintained by CMIE, the result finds support for the potential association between ownership structure and dividend payout policy and the relationship differs across different group of owners and at different level of shareholding. Bhattacharyya & Rao (2005) empirically examines the impact of the SEBI regulation of Corporate Governance on stock market performance in terms of beta standard deviation and returns, in the pre-regulation time period (1st June 1998 to 31st May 1999) in comparison to post regulation time period (1st June 2001 to 31st May 2002). The study finds that the regulation has been effective in providing more and timely information to the investors, who in turn could use the information to determine
the appropriate risks of the stocks; thereby maximizing the shareholders wealth. Market risks of securities were reduced thereby reducing the expected cost of capital of companies. Adewuyi & Olowookere (2009) investigates the impact of corporate governance on firms' productivity performance in Nigeria, which has just released a new code for corporate governance, by utilizing the data for 64 non-financial firms listed under the first tier securities market of the Nigerian Stock Exchange for the period 2002 to 2006. The analysis shows that most firms that do well in their governance issues can also be associated with higher productivity level. Component of governance such as board size and independence vis-à-vis performance are studied by Dey & Chauhan (2009) in four categories of Indian firms namely, PSUs, stand-alone firms, private business groups affiliated firms and subsidiary of foreign firms. The study finds larger boards to be less effective in Indian firms, except in case of PSUs where it has no effect on the firm performance. Board independence is also found to be insignificant, so far as performance in all categories of Indian companies are concerned, which goes against the normal belief and expectation on the matter of board independence. Bebchuk, Cohen & Ferrell (2004) examines the relationship between entrenching provisions and firm valuation. The six entrenchment provisions have been put together and has been termed entrenchment index- four constitutional provisions that prevent a majority of shareholders from having their way (staggered boards, limits to shareholders bylaws amendments, supermajority requirements for mergers, and supermajority requirements for charter amendments), and two takeover readiness provisions that boards put in place to be ready for a hostile takeover (poison pills and golden parachutes). The study finds negative link between increase in entrenchment index and firm valuation. The study further finds higher levels of the entrenchment index to be associated with large negative abnormal returns during the period of 1990-2003. Sapovadia & Rehman (2007) emphasizes about the usefulness of good corporate governance which increases value of average shareholders and in the long term creating value for society in terms of prosperity for it and to the nation. Good corporate governance is an important step in building market confidence encouraging more stable, long term domestic and international investment flows. Bruno and Classens (2006) investigates the impact of company corporate
governance practices on company performance using large samples of 5300 US companies and 2400 non-US companies from 22 advanced economies for the period 2003-05. The study confirms that corporate governance practices play a crucial role in efficient company functioning and shareholder protection and therefore positively impact valuation. For large company and those companies who needs and relies on external financing, the corporate governance is more valuable. Yen (2005) investigates through empirical analysis whether the well governed firm yield greater return and that the investment in a well governed firm is less risky and concludes that well governed firms are riskier than badly governed firms and that a well governed firm do not yield abnormal returns. The findings contrast the popular feelings about good governance. Deb & Chaturvedula (2003) investigate the relationship between ownership structure and value in Indian firms and finds that at a certain range of insider ownership Indian managers get entrenched and firm value gets affected. Beyond the range convergence of interest however occurs and firm value increases. Biswas (2008) while dealing with the issue of corporate governance note that the agency problem are the natural outcome of a listed corporation and the corporate governance is the most widely known mechanism to deal with the issue. There are several mechanisms available but none of them can be called the most effective while dealing with the issue of agency problem. The author discusses several internal and external corporate governance mechanisms such as board of directors, board committees, ownership concentration, monitoring by banks, managerial compensation, dividend payment, market for corporate control and managerial labour market. The author further cautions that corporate governance differs in countries and depends upon the existing legal structure in a country. Blind adoption of any system disregarding the legal structure and practice may not be effective. Black & Khanna (2006) finds in Indian context disclosure and shareholder rights aspects of governance to be the most closely associated with increases in firm market value. Claessens (2003) describes why more attention is being paid to corporate governance and posits that along with the general benefit of growth, employment, poverty, and well-being, the corporate governance brings in increased access to financing, higher firm valuation, better
operational performance, reduced risk of financial crises, better relation with other stakeholders.

2.10: Audit Committee, Accounting and Corporate Governance

Most of the research in Indian context on Audit & Accounting observes Indian standards to review in the light of new development and international practices. On global scale there is mixed result of Audit Committee structural components over company performance. Shankaraiah & Rao (2004) find that Indian accounting standards are inadequate and are in infancy stage which results in the disclosure being ineffective. With ineffective disclosure the country cannot be valued accurately. Infancy stage of accounting standards gives rise to personal discretion and advises the gaps between Indian and International Accounting Standards to narrow down, the variety of approaches in each accounting standards to be kept limited and all accounting standards to be made mandatory in order to be trusted by Indian investors on corporate governance. Sapovadia (2007) discusses and compares the Accounting Standards (issued by ICAI) of India and the corresponding International Accounting standards and also suggests accounting standards to be reviewed in the light of new development and international practices and to harmonize with international standards and narrow the choice of alternative accounting practices to make fair disclosure of accounting and financial information. Bhattacharyya (1998) discusses in the Indian context the role and importance of the accounting profession which play a critical role in corporate governance through their attesting functions and urges ICAI to speed up the process of revising accounting standards along with such issues as educating the users of audited statements and strengthen disciplinary mechanism. Song & Windram (2000) examines audit committee effectiveness using post Cadbury cases by investigating following governance factors: board size, board composition and directors’ share holding, Audit Committee meeting frequency, financial literacy and other directorship by audit committee members. The study finds financial literacy to be an important determinant of audit committee effectiveness. Low meeting frequency and outside directorship, as the authors suggest, can undermine audit committee effectiveness. The study finds a link between board size and financial
reporting. Increasing director’s shareholding was not suggested as they did not increase incentive for effective monitoring of financial reporting. Turnbull (2004:1) argues that there are compelling reason to conclude that convergence of audit practices on those found currently in the US or UK are not in the best interest of directors or auditors in reducing their conflicts or the proprietary rights of shareholder for self governance. The establishment of an audit committee with independent directors cannot remove the conflicts. By not establishing a shareholder audit committee as provided in the model constitution of the UK 1862 Companies Act, author charge that the current audit practices based on oversight of audit by Audit committee as provisioned in the Sarbanes-Oxley Act or Combined Code has been muddled. Felo, Krishnamurthy & Solieri (2003) empirically examines the relationship between two audit committees’ characteristics- the composition (expertise and independence) and size of audit committee and the quality of financial reporting. The study finds that the percentage of audit committee members having expertise in accounting or financial management positively linked to financial reporting quality. The study also finds some evidence of a positive relationship between the size of audit committee and financial reporting quality. The result suggests mandating greater expertise on audit committee rather than simply requiring one expert on audit committee. The result also provides weak support for the recommendations of the Blue Ribbon Committee that firms devote significant directorial resources to the audit committee. Turnbull (2004:2) takes the view that the audit committees have not worked and cannot be relied to protect investors. The study review historical origin of Audit Committee and highlights the fundamental flaws in its concept of formation. The author suggests that unless the audit committee becomes a separate board elected by investors on a democratic rather than a plutocratic basis it cannot act as a protector of investors. Krishnan & Visvanathan (2005) examines the Audit committee attributes which are relevant in addressing the internal control deficiencies in post SOX period. Pre Sox period found audit committee composition to be significantly associated with internal control deficiencies. The study finds firms that report internal control deficiencies have lesser proportion of ‘financial experts” as defined in SOX. Greater audit committee activity in terms of the number of meetings rather than composition of the audit
committee was suggested to be relevant in timely reporting of internal control deficiencies. Zhang, Zhou & Zhou (2006) investigates the determinants of internal control weaknesses in the post SOX era by comparing a sample of firms with internal control weaknesses with a matched sample of control firms without internal control weaknesses with respect to audit committee quality, auditor independence and the disclosure of internal control weaknesses. The study confirms that a relation exist between audit committee quality, auditor independence, and internal control weaknesses. Firms were more likely to be identified with an internal control weakness, if their audit committees had lesser financial expertise or more specifically had lesser accounting financial expertise, if their auditors were more independent, firms had undergone recent auditor changes. Agarwal & Cooper (2007) examine the effect on the auditor and management turnover of a company after an accounting scandal. The study utilizes a sample of 518 US public companies that announced earning-decreasing statement during the 1997-2002 periods and a matched sample of control firms. The study finds strong evidence of greater turnover of CEOs, CFOs, top management than control firms. After accounting scandals the firms were found to have evidence of effective functioning of internal governance mechanism. Cohen, Krishnamoorthy & Wright (2007) investigates, through a semi structured interview of 30 audit managers and partners from three of Big four firms as their respondent, the Auditors experience post SOX which expanded the Management responsibility, Auditors and Audit committees. The authors find Audit Committees are substantially more active, diligent and knowledgeable and powerful. The study further finds management being continued to be seen as a major corporate governance actor and the driving force behind auditor appointments and terminations. The study finds CEO and CFO certification requirement by SOX very influencing on the financial reporting process. Dionne & Triki (2005) study researches the effect of the board and the audit committee independence and financial knowledge on the firm’s risk management activity. The work is motivated by the new regulation set by the SOX (audit committee entirely composed of independent members and at least one member who is financially knowledgeable ) and four requirements set by the NYSE (majority of independent directors on the board, audit committee with a minimum of three members,
each member of the audit committees must have accounting knowledge). The study finds the audit committee size and independence beneficial to shareholders, although maintaining a majority of unrelated directors in the board and a director with an accounting background on the audit committee may not be necessary. Financially educated directors were seemed to encourage corporate hedging while financially active directors and those with an accounting background played no active role in such policy. This suggested that financially active directors and those with an accounting background played no active role in such policy. Zaman, M. (2004) seeks to evaluate the nature and extent of available empirical evidence of the governance impact of Audit Committees (ACs) and their effect on audit functions, financial reporting quality and on corporate performance. The author argues that there is only limited and mixed evidence of effects in support of value of the audit committee toward governance. While some evidence of beneficial effects has been established, on many areas the findings thus far are either inconclusive or very limited. The study finds greater standardization around such factors as AC member independence and expertise. The author however express apprehensions over greater standardizations may not deliver guaranteed governance contributions.

Shankaraiah, K. & Rao, D.N. (2002) maintains that standards reduce discretion, discrepancies and distortions and enhance the degree of transparency in sharing the information with the stakeholders. A country cannot hope to tap the GDR market with inadequate financial disclosures. Based on data from annual reports for the year 2001-02 of ten top Oman companies in terms of assets, the study finds that most of the selected companies complied with twenty to twenty-five accounting standards with varied treatment of the items which jeopardizes the comparability and left the scope of personal discretion and confusion. The study suggests that the variety of approaches in each accounting standards are to be limited and all accounting standards have to be made mandatory. Hoitash, Hoitash & Bedard (2005), examines the association of audit fees with internal control problems disclosed by public companies under the provisions of the Sarbanes-Oxley Act during the initial period of SOX implementation. The study found that audit pricing for companies with internal control problems varied by problem severity, when severity was measured either as material weaknesses vs. significant
deficiencies, or by nature of the problem. Also while audit fees increased during the 404 period, the tests showed relatively less risk adjustment under Section 404 period than under Section 302 in the prior year. Further examining intertemporal effects, the author found that companies disclosing internal control problems under Section 302 continued to pay higher fees the following year, even if no problems were disclosed under Section 404.

2.11: Disclosure and Corporate Governance

A Company disclosure comprises of risk disclosure, financial disclosure and disclosure on its CG structures. All these disclosure improves information flow between companies and their shareholders and reduces information asymmetry. Alam (2007) researches over the extent of financial disclosure of firms with a particular emphasis on developing countries located in the region of South Asia and the Bangladesh has been taken as a country of reference. The study takes the help of three level of firms; level-1-listed and publicly traded firms, level-2- private limited companies but not listed and government entities and level-3- owner managed small and medium level firms. The study finds Level-1 companies disclose more as compared to all other types of enterprises and firms. The worst situation prevails in the government entities-the public sector enterprises. Labelle (2002) study finds that except for size and to a lesser extent ownership structure, there is no consistent and significant relations between disclosure quality of governance practices and firm performances or other corporate governance variables such as the proportion of unrelated director, the CEO's plurality of offices and the level of financing activity. Nasir and Abdullah (2004) examines the annual reports of healthy and distressed financial firms for the years 2000 and 2001 and analyses the relationship between voluntary disclosure and its different corporate governance variables. The study finds financially distressed firms had lower voluntary disclosure then matched healthy firms. Board independence was found to have significant influence on the level of voluntary disclosure. Audit committee is not associated with voluntary disclosures. Outside ownership is positively and significantly associated with the extent of voluntary disclosure. The extent of government-linked enterprises shareholding influences the
amount of voluntary disclosure. The extent of executive director's shareholding also has a positive influence to the voluntary disclosure level. Non executive directors' interest and the separation of CEO roles from board chairman are not associated with voluntary disclosures. Webb, Cohen, Nath & Wood (2007) examines a sample of 50 US firms excluding financial service company, investment funds and trusts for their disclosure patterns for the year 2004. The study observes a high degree of variability in the presentations and choice of reporting formats. As compared to larger firms, the smaller firms offered fewer disclosures on the matter of independence, board selection procedure and oversight of management (including whistle-blowing procedures). Lesser Independent boards offered fewer disclosures on independence and management oversight matters. Larger firms provided more disclosures on independence, board selection procedures, audit committee matters, management control systems, committee matters and whistle-blowing procedures. However on the whole larger companies do not appeared to disclose greater than smaller firms. Berglof & Pajuste (2005) document the extent to which rules and regulation relating to corporate governance disclosure is being implemented and enforced in individual corporations in Central and Eastern Europe by utilizing annual report data. The study finds that the level of disclosure varies across firms and there is a strong country effect in the deviations between the actual and required disclosure. Larger firms and firms with less leverage, firms with higher cash balance, and with slower growth disclose more. Surprisingly dependence on external capital does not encourage firms to disclose more. Lithuanian and Polish companies disclose less in their annual reports, while Czech and Estonian companies disclose more than is legally required. What is disclosed depends on the legal framework and practice in a given country, and does not depend upon firm's financial performance. Nowak, Rott & Mahr (2006) examines the effect of announcement of declaring compliance with the German Corporate Governance Code 2002 by German listed companies under section 161 of the Stock Corporation Act (Aktiengesetz). The study which is based on the hand collected data set from 317 German listed companies' for the year 2002-05 finds the result in contrast with the general belief that there will be positive reaction with the declaration of conformity with the disclosure arrangement. The study observed that
neither higher levels of Code compliance nor improvements in governance quality have a positive impact on stock price performance as compared with low level or even reduction in the levels of compliance. The study, therefore, shows the irrelevance of disclosure in German stock market. Sayogo (2006) aims to identify and examine empirically the determinants that will influence the utilization of Internet to disclose information through internet for a sample of companies listed on Jakarta stock exchange for the year 2004. The study utilizes statistical tools like multiple regression, chi-square and Kruskal-Wallis and finds that the utilization of internet is relevant in enhancing information transparency. Company size, profitability, independent board composition and stock distribution were found to have relationship with corporate governance disclosure index. Bhuiyan & Biswas (2007) examine the actual corporate governance practice in the listed public limited companies among Bangladesh. The study takes a random sample of 155 listed Public Limited Companies (PLCs) and considers 45 disclosure items. The study finds significant difference between CGDIs of various sectors. Financial sectors have been found to make more intensive corporate governance disclosure than non-financial sector. Companies, in general, disclose more financial disclosure than non-financial disclosure. Multiple regressions show that corporate governance disclosure index is significantly influenced (at 5% level of significance) by local ownership, the SEC notification and the size of the company. The factors like being financial or non-financial institution, age, multinational company, size of the board of directors are not found to have any significant impact on corporate governance disclosure. Sharma & Singh (2009) studies the voluntary corporate governance practices of the Indian companies which are over and above the mandatory requirements as per Clause 49 of the Listing Agreement. Based on extensive study of the annual reports a voluntary corporate governance disclosure index has been prepared consisting of 40 items. The study of voluntary behavior has been applied on 50 companies from four industries. The companies were found to follow less than 50% of the items of voluntary corporate governance disclosure index. The study note that few of the items of the index like risk management, whistle blowing policy and code of conduct for directors and senior management personnel have become part of the revised Clause 49 from 2005-06. The study advises to extend the scope for rest of the
Fong & Shek (2009) investigates the relationship between corporate governance disclosure and financial performance of both Hong Kong-based and China-based family-controlled property development companies listed on the Hong Kong Stock Exchange. The study finds a positive relationship between CG disclosure and financial performance, especially operating profit margin and net profit margin in Hong Kong-based companies. Subramanian (2006) examines the differences in the disclosure levels of Indian companies by considering management control as a critical factor. The study categorizes Indian companies based on management control as PSUs, Private sector companies and the subsidiary of Multinational companies (MNCs). The study computes disclosure levels by Standard and Poor's Transparency and Disclosure index methodologies. The result indicates no significant difference between the disclosure levels of PSUs and Private companies. However, the disclosure levels of MNCs in the Financial Transparency and Information Disclosure categories are evidently lower than that of the other companies.

Stanton, P., & D. Huddar (2003) examines and compares the influence of culture on disclosure practices between India and Australia for a sample of 28 companies, 14 nos. from each country, from the top 50 companies according to market capitalization from annual report data for the year 1995-96. Disclosures made in the annual reports were analyzed using content analysis, which does not provide any evidence of the quality of these disclosures. Overall, the study found wide differences in social reporting between the two countries. There is a lack of uniformity in disclosure by companies, and a bias toward positive aspects of a company's social performance. Australia and India scored differently on the cultural dimensions of 'individualism' and 'power distance', and the modified dimensions of 'professionalism' and 'secrecy'. Australia, with low power distance and high individualism categories, was predicted to disclose more information, and to do so voluntarily. Professionalism, exemplified by independent attitudes and a predisposition to exercise judgments, was another dimension on which Australia was ranked highly, with the implication that Australian companies would disclose more social information. These predictions were confirmed by the results, India, on the other hand is characterized as high power, collective society, heavily influenced by statutory control.
and secrecy. Indian companies, it was suggested, would disclose little information not required by law. This result, also, was confirmed. Bhattacharyya (2004) examines financial reporting practices in the context of changes in economic and regulatory environment in India and note that with the induction of independent directors, the formation of audit committee, flow of international finance into Indian companies, amendments incorporated into the Companies Act from 1999 to 2000, inclusion of Director Responsibility Statement (DRS) and others will have a positive impact on the quality of financial reporting by Indian companies. The author argues that the pre-reform era was plagued by poor disclosure of financial reporting mainly because of smaller public holdings and the situation can be gauged from the fact that until 1999, Companies Act made no reference to 'accounting standards' and it was the changing information needs of the new generation of investors and international finance provider that pressurized the Government to incorporate the need for accounting standards in the Companies Act. The literature further attributes the little or no incentive for proper transparency and disclosure because the Indian companies are still dominated by promoters who make extensive use of cross-holding to retain control. Thus the author argue that there will be two class of companies based on financial reporting practices, one top-rung companies benchmarking their financial reporting practices with international standards, while a second category whose shares are not frequently traded and will attempt to circumvent the new regulations. Increased regulatory activities are therefore suggested. The author however cautions that there will be dearth of right individual to man the audit committee for which training of potential directors is required to create a pool of individuals who will be available to act as independent directors. The Disclosure of information also includes timely disclosure of information as the disclosure delayed is also meant as having less disclosure. McGee (2007) investigates the timely disclosure of Russian energy sector companies along with non-Russian energy sector companies for the same period of time. The timeliness of financial reporting in the Russian energy sector was measured by counting the number of days that elapsed between year-end and the date of the independent auditor's report. The study found that Russian companies took significantly more time to report financial results than did the non-Russian
companies. The author attributes the cause to the culture of former communist countries in not disclosing information. United Nations publication document (2006) on the disclosure practices (Financial and Non Financials) intends to assist enterprises in the international disclosure practices to be followed irrespective of its legal forms and sizes. The documents draws upon recommendations for disclosure from internationally recognized documents such as the revised OECD Principles of Corporate Governance (OECD Principles), the International Corporate Governance Network (ICGN), the Commonwealth Association for Corporate Governance Guidelines (CACG Guidelines), the pronouncements of the European Association of Securities Dealers (EASD), the EU Transparency Directive, the King II Report on Corporate Governance for South Africa, the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance (Cadbury Report), the Combined Code of the UK, the United States Sarbanes-Oxley Act, and many others. The document signifies the efforts of the world community towards convergence of corporate governance disclosure practices and corporate governance practices in general.

2.12: CG Codes: Relevance, Irrelevance, evolution, compliances within and beyond

Codes are voluntary guidelines with different levels of enforcements depending on the country where they are issued. Generally codes are developed in order to improve the country’s corporate governance system to promote investment and growth. The first code of good governance came into being in the United States in the late 1970s Thereafter in 1989 the Hong Kong Stock Exchange became the second issuer. The corporate governance codes grew rapidly after Cadbury Codes of best practice in UK in 1992 which later became the flagship guidelines in corporate governance codes. Cuervo-Cazurra & Aguilera (2003) .The corporate governance code has been defined as, “a non-binding set of principles, standards or best practices, issued by a collective body and relating to the internal governance of corporations”, Weil, Gotshal & Manges LLP (2002). Kumar (2008) analyzes the compliance of Corporate Governance standards which is beyond the statutory in the 30 BSE listed firms. The paper looks into details of
modern and critical governance parameters and finds that by and large, even big companies in India do not consider governance from a strategic point of view when analyzed from the listed parameters with the exception of new generation companies and technology sectors. A majority are concerned about conformance and compliance to the regulatory framework rather than looking at it from strategic perspectives or with an intention to look beyond what is statutory. The paper further finds our mandatory requirements not up to the marks as compared to other systems. The author further put question marks on the corporate governance practices of old and well known reputed business groups of India. Balasubramanian, Black & Khanna (2006) study comprehensively the compliances of broad arrays of parameters of corporate governance and identify area where Indian Corporate Governance is relatively strong and weak and areas where regulation might be relaxed or strengthened. The study is based on a survey of 506 Indian firms with detailed fifteen page corporate governance questionnaire conducted during early 2006. Overall, the results suggest that compliance with India’s governance rules amongst the responding firms is fairly good, with room for improvement. Better governance is correlated with higher firm market value for at least bigger firms. Strengthening in the area of related party transaction is required. The paper further recommends some relaxations for smaller companies. Gupta & Parua (2006) find out the degree of compliance of the Clause 49 codes by private sector Indian companies listed in BSE with the help of CG report of 2004-05 of 1245 companies. 21 codes (19 mandatory and 2 non-mandatory) have been selected for the study. The study tested compliance rates of individual companies. Thereafter mean compliance rates taking into account all the companies and the variation among the companies from the mean compliance rate have also been tested. The study finds that the average compliance rates of the CG codes is satisfactory. However there is cautious note that the corporate governance practices is far from compliance with the form and it is the spirit of compliance which matters. Arcot & Bruno (2005), through hand collecting of information from corporate governance reports included in the Annual Reports of 245 non-financial companies of FTSE 350 index for the period 1998 to 2004, studies whether UK companies have genuinely embraced the spirit of the Combined Code which is based
on “Comply and Explain”. The study finds that on the whole the code seems to be working effectively in encouraging compliance from 10% in 1998-99 to 56% in 2003-04. On an average 17% of non-compliance goes unanswered. 51% of the explanations provided are standards and uninformative which gives a feeling of mechanical “tick-box” approach rather than compliance in the spirit of the code. Shabbir (2008) investigates the compliance practice among a panel of firms from FTSE 350 companies in UK and more specifically the change in their compliance practice over time. The study finds that firms become more compliant when their prior period stock market performance declines and become more compliant when their performance improves. The mergers and acquisitions tend to decrease compliance whereas reorganization/restructuring tends to increase compliance. The author advises investor to look for inconsistency rather than the result of one or two year. Aguilera & Cuervo-Cazurra, A. (2004) examines development, adoption and diffusion of codes for corporate governance codes of 49 countries and apprise that these codes serve to compensate for deficiencies in the legal system covering shareholders’ rights. The study finds size of capital markets, degree of government intervention and percentage of foreign investors in the stock market as the predictors of existence of codes of corporate governance. Country openness has no significant effect. Data analysis supports the argument that both efficiency needs and legitimation pressure leads to code adoption. The empirical results show that countries with strong shareholder protection rights tend to be more prone to develop codes possibly for efficiency reasons. The study discovers that from 1978 to 1987 only four codes were developed all in USA, Further 1988 is the milestone year after which there is a rapid growth in codes and the number of countries issuing codes. Dent Jr. (2005) points out that despite repeated waves of reform corporate governance still suffers from the same basic problem identified by Berle and Means in the 1930s- the separation of ownership from control. New designs and changes are introduced continuously but still no common and stable framework for good corporate governance has surfaced. The author offers a means of solving the problem by formation of a shareholder committee comprised of a company’s largest shareholder who will align the investor’s goal with that of management. Coombes & Wong (2004) takes a critical look at the pros and cons of corporate governance codes
which are voluntary in nature and has become almost universal as 50 countries have CG codes as on date. The codes have been found effective but the authors warns of current developments over adding of more details or broadening of their scope, overemphasis on ‘complying’ rather than ‘explaining’ and progressive convergence code leading to one-size-fits-all approach may jeopardize their use. Chhaochharia & Laeven (2008) study finds that market rewards companies in terms of higher valuations to those companies that are prepared to adopt above average governance attributes and beyond those required by laws and common corporate practices in their home country. The study further reveals that, despite the costs associated with improving corporate governance at firm level, there are many companies who choose to adopt governance provisions beyond what can be considered the norm in the country. Firms that choose not to adopt sound governance mechanisms tend to have higher concentrated ownership and sizable free cash flow.

2.13: Remuneration/compensation and Corporate Governance

Executive compensation is one area which is being frequently cited as being necessary to defend the interests of shareholders. The relation between top executive compensation and board composition has been studied empirically by Lambert et. al. (1993) and Boyd (1994) who has found a positive relation between CEO compensation and percentage of board composed of outside directors. Hall & Liebman (1997) have linked the executive compensation to firm’s performance. Using a 15 year panel data set of CEO’s of large US firms and using a variety of pay to performance measures and a broad measure of CEO compensation that included CEO’s stock holdings and stock options they found a very high correlation between CEO compensation and a firm’s performance. Hallock (1997) by considering interlocking board of directors provided explanation for rise in CEO compensation. He found that CEO pay increase when a board contains interlocking directors, who are more likely to be influenced by the CEO. He opined that CEO pay increase when a board contains interlocking directors, who are more likely to be influenced by the CEO. If two CEOs or their subordinates serve on each other’ boards (they are reciprocally interlocked), then these CEOs may have both the incentive and the opportunity to raise each other’s pay. Parthsarthy, Bhattacharjee & Menon (2006) works
adds to the empirical literature on the determinants of executive compensation in Indian Firms and establishes the interrelationships between executive compensation, firm performance and various corporate governance parameters by studying a large sample of Indian Companies. The study finds firm size is a significant variable in explaining both total CEO pay and the proportion of variable or incentive pay that a CEO receives. The CEOs who are promoters or owners receive higher compensation and with a greater incentive component when compared to other CEOs. This study also finds evidence for the fact that CEOs of PSUs are significantly underpaid when compared to their counterparts in other firms. Boumosieh (2006) examines the effect of director compensation and board effectiveness. The major finding of the study is that stock option for outside directors improve board decision making because it aligns the interests of shareholders and directors. In fact stock option for outside directors become more involved in corporate decisions and associates themselves with greater monitoring of financial information, increased monitoring of management and riskier investment plan. Jensen, Murphy & Wruck (2004) report provide history, analysis and over three dozen recommendations for reforming the system surrounding executive compensation. While citing the case of legendary General Electric CEO Jack Welch the paper notes that the issue of proper disclosure of remuneration is a key one. Interspersed throughout this report are recommendations and guidelines for improving both the governance and design of executive remuneration policies, processes, and practices. The author has not attempted to design an optimal remuneration policy since such a policy must be specific to each organization taking into account its idiosyncrasies and the specific competitive and organizational strategies, culture and the laws and regulatory conditions. Fernandes (2005) examines the relationship between board structures especially the non-executive directors, remuneration and firm performance in Portuguese settings and the results obtained were mixed. No relationship between board remuneration and firm performance were observed. Firms with more non-executive board members were found to pay higher wages to their executives.
2.14: Literatures on Survey of Corporate Governance

The literatures on Survey of literatures on corporate governance are growing. Whereas much research has been observed in the backdrop of USA, there is little in the Indian context. Farinha (2003) surveys the available theoretical and empirical literature on the corporate governance and studies the effectiveness of the set of available external and internal disciplining mechanism that firm may face in their efforts to reduce the underlying agency costs, their limitation and applicability for individual firms. The study finds that the residual agency costs are significant and there are internal and external mechanisms for their controlling. Internal mechanism includes composition of board of directors, insider ownership, large shareholders, compensation packages and financial policies in dividends and debts. External disciplining devices include takeover threats, managerial labour market, mutual monitoring by managers, reputation, competition in product-factor markets and financial analysts. These monitoring devices carry benefits but cost as well and not unlimited in their effectiveness. Moreover their marginal benefits and costs are likely to vary across firms and industries, making it likely that firms may choose different mixes according to their own characteristics. Shleifer & Vishny (1996) surveys corporate governance system around the world with emphasis on separation of financing and management of firms, importance of legal protection on investors and of ownership concentration in corporate governance around the world. The survey finds that most of the empirical literatures on corporate governance come from the United States. There has been great surge of work on Japan, and to a lesser extent on Germany, Italy and Sweden. There is little systematic research on Russia corporate governance except recent literatures on experience of privatized firms in Russia. Except for countries mentioned, the paper finds extremely little research on corporate governance around the world. Two generations of existing international corporate governance research has been reviewed by Denis & McConnell (2003). The first generation of research examines governance mechanisms that have been studied in the US and one or more non-US countries and is broadly related to board composition and ownership structure and examines individual countries in depth and establishes that there are important differences in governance system across economies. Second generation of research
examines many countries in a unified framework and considers the possible impact of differing legal systems on the structure and effectiveness of corporate governance and compares systems across countries. An important insight generated from the second generation research is that a country's legal system – in particular, the extent to which it protects investor rights – has a fundamental effect on the structure of the markets in that country, and on the effectiveness of those governance systems. The study is of the view that issues such as board structure, compensation and changes in control have been extensively studied in the US but much less have been studied for many other world economies. Claessens & Fan (2003) review the literature on corporate governance issues in Asia especially related to ownership concentration in detail and its probable reasons and confirm the limited protection of minority rights in Asia, allowing controlling shareholders to expropriate minority shareholders. Low corporate transparency, rent seeking and relationship based transactions, extensive group structures and diversifications, risky financial structures which enhances the agency problems. Controlling shareholders bear some of the agency costs in the form of share price discounts and expenditure on monitoring, bonding and reputation building. Michaud & Magaram (2006) paper is based on research conducted by the author over the 200 papers, draft and pre-published papers, posted by SSRN during the year 2004. The authors segregates and clubs all the articles in four categories: (1) the role of board in addressing the corporate governance crisis (2) the relationship of executive and director compensation and corporate governance (3) the effect of governance indices on firm performance, and (4) the market for corporate control. Empirical Research were classed into Type I papers. Type II papers were classed as those who were based on prior research rather than new empirical research. The study note that while many of the Type-I (based on empirical research) articles provide answers to individual corporate governance factors (or set of factors), they address only partial elements of a multivariate equation rather than an organic whole which cannot offer a unified solution and strengthen corporate governance. Gillan (2005) provides an overview of recent corporate governance research and splits the recent works into two broad classifications - Internal Governance and External Governance. Subramanian & Swaminathan (2008) surveys the
literature on corporate governance in Indian context and has been classified into five categories: corporate governance system in India; ownership/capital structure and corporate governance; institutional investors and corporate governance; board characteristics and firm performance; and executive compensation. The study finds that there is a consensus among researchers on Indian corporate governance model moving towards the Anglo American Model. The author finds several research gaps where the future research in Indian context can be undertaken such as: CG practice in Banks, PSEs, role played by institutional investors, effect of cross directorship on the firm's performance etc.

2.15: Family Managed Companies and Corporate Governance

Literature on corporate governance practices in family businesses (FB) is of particular importance and relevance in the Indian context because of dominance of family controlled firms forming a majority. Even largest corporate are run like family controlled business. But very little empirical research is available on family business corporate governance practices in Indian context. Compared to a widely held firm a family managed business can be better managed but may not always be better governed. Family controlled firm does help to protect shareholders interest against managerial abuse, since the controlling owner and the manager are often the same person. However families, like managers in a widely held company, can abuse their power and use corporate resources to their own advantage. When this happens in a family-controlled firm, things are even worse than in a widely held company, because controlling families cannot be ousted through a hostile takeover or replaced by the board of directors or by the shareholders' meeting. (Enriques & Volpin (2007). The paper by O'Sullivan M., & Koutsoukis A. (2008) titled 'The Life Cycle of UK Family Businesses' reports about the UK family business and discuss the major issue that affect them. The paper apprises that in the UK, large-scale family businesses are more unusual, though they remain a driver of the economy at the smaller-business level. Such businesses are prevalent widely among ethnic-minority led class and most of them are situated outside London and concentrated in areas like Scotland. Women play an increasingly important role in entrepreneurship
and family business in UK. The issues of governance and matters like strategy, succession are discussed outside management. The paper argues that prevalence of family ownership among listed companies in the UK is a sign of maturity rather than weakness. The study of Berghe, Lutgart & Carchon (2002) explores the relationships between ownership structure, board and management practices and find out where Flemish family businesses differ from non-family businesses (NFB). The study is in Belgian context and the authors note that different family ownership structure, different family generations influence the governance structure installed. The study conclude that since FB constitute a substantial proportion of business in many countries the corporate governance in family business are and should be an important area for future research. Franks, Mayer, Volpin & Wagner (2008) analyses, through empirical study, in historical perspectives, how does the ownership structure of firms of France, Germany, Italy and the UK differ based on comparison of the data for the year 1996 with 2006. The study finds that family firms have become significantly less important in France and Germany, while there were little changes in Italy and the UK. The results found are consistent with the role of families in an outsider versus insider system. In the latter the family retains control over generations in order to capture private benefits of control. In the former family firms quickly evolve into widely held companies. The study finds that during 1996 the UK resembles an outsider system whereas the other three countries resemble an insider system. However, over the subsequent decade France and Germany showed significant increases in the proportion of widely held companies and a decline in family owned firms. The authors attribute this trend in part to those countries evolving into outsider system. Kumar & Narayanan (2006) discusses the issues of corporate governance practices in Indian family-managed companies while citing the recent episodes in Reliance group over the ownership issues between the two brothers. The paper take note that while developed countries like USA, UK have been successful in delineating the ownership from management, the scenario in India is not encouraging. The promoters still are actively involved in the day to day management for private benefit of control and run the enterprise as their private property even when their holding is low in comparison with outside holding. Bhattacharyya (2005) discusses the role and responsibility of FMC
business and argues that board of directors have a greater roles and responsibility in family managed companies than in widely held companies because of the unique situations prevailing in there. It has to be sensitive to family aspirations especially of the entrepreneurship of the younger managers of the family but at the same time provide required checks and balances ensuring that the shareholders wealth is not exposed to unwarranted risks. Mendes-da-Silva W. & Grzybovski D. (2005) while analyzing the family and Non-family business in the Brazilian settings finds the existence of significant differences in financial performances, the company value and corporate governance structures between family and non-family businesses. The study highlights that on an average the family businesses are smaller have administrative council comprehended by a smaller number of members and whose independence is smaller than the non-family businesses. Kim E. (2005) in his study on Chaebol firms (Korean large business groups with entrenched family control, diversified business structure and heavy debt-dependence) findings are in support of the family managed company and finds that the there is a positive relation between family ownership concentration and productivity performance and the relationship is much stronger in case of chaebol firms than to non-chaebol firms. The finding is in consistent with the hypothesis that ownership concentration leads not only to greater convergence of interest between controlling shareholders and other shareholders, but also to greater investment in firm-specific investment that result in better long-term productivity performance.

2.16: Corporate Ownership and control

The dispersal of ownership in USA and UK is unparalleled. The American ownership landscape is even more dispersed than its British counterparts. The UK pattern of ownership and control is characterized by the dominance of large institutional investors, with much greater levels of holdings as compared with Continental Europe. Owen, Kirchmaier & Grant (2006). Indian corporate is characterized by high concentrated ownership. However ownership pattern is gradually shifting toward widely dispersed because of the market forces and Govt. policy as many state owned companies are being privatized and existing family-owned companies are becoming highly diversified groups.
Cheffin (2000:1) identifies the similarities and differences between the British and American system of corporate governance and argue that though institutional investors play an important role in both countries, the British equities market is more institutionally dominated than its American counterparts and that shareholder concentration is higher in Britain compared to USA. Cheffin (2000:2) in an another study argues that a country is only likely to develop a widely dispersed pattern of share ownership if its legal system regulates companies in such a way that outside investors feel ‘comfortable’ about buying shares. The author points out that development in the UK suggests that a highly specific set of laws governing companies and financial markets does not have to be in place to ensure separation of ownership and control becoming central features of a country’s corporate governance system as the paper finds that the country legal system did not do a great deal to improve the “comfort level” of outside investors. Instead, alternative institutional structures did the job. For other country however the paper says that the law will matters in its path for ownership dispersion. Franks, J., Mayer C., & Rossi, S. (2005) examines the evolution of equity markets and dispersal of ownership of corporation in historical perspectives and reports that the UK had flourishing equity markets since 20th century. In spite of weak investor protection capital markets flourished there because of informal relations of trusts rather than regulation. Formal regulation only emerged in the second half of the century. Investor protection was not therefore a necessary condition for the emergence of active securities markets in the UK in the 20th century. In fact it was week till 1920 and became strong only later half of the century. From the beginning the equity issues were prevalent, takeover were widespread, local market were active and all this helped in dispersal of ownership which is seen today in UK. Bainbridge (2001) investigate the dispersal of ownership in the USA and reports that the corporate governance structure of what it is seen today may not be optimal as because it was allowed to be evolved within a boundary of set laws and that the laws itself were defined on the presumption of what Mark Roe termed ‘fear of concentrated economic power’. The paper question ‘Strong Manager’ premises regarding institutional investor activism. Cheffins (2001) investigates the common linkage in ownership structures of USA and UK. The author points out the British path towards dispersal of ownership and control
was different from that of American experience and can be called unique in the sense as the normal factors required for dominance for the Anglo-American system of ownership and control in any country, like company law, financial services regulation and political ideology have not been the decisive variables in case of UK. Kumar (2005) examines the link between capital structure and shareholding pattern for a panel of more than 2478 publicly traded Indian Corporate firms over the years 1994-2000 and analyze the firms corporate financing behavior in connection with its corporate governance arrangements, especially its shareholding pattern. Result showed that the debt structure is non-linearly linked to the corporate governance (ownership structure). The study finds that firms with weaker corporate governance mechanisms, dispersed shareholding patterns, in particular, measured by the entrenchment effect of group affiliation, tend to have a higher debt level. Firms with higher foreign ownership or with low institutional ownership tend to have lower debt level. No significant relationship between ownership of directors and corporate capital structure was observed. Bebchuk (1999) develops a rent-protection theory of corporate ownership structures and identifies how large private benefits of control distort choices of ownership structure. When private benefits of control are large, founders of companies that take them to public will be reluctant to leave control up for grabs. The result suggests that in countries in which private benefits of control are large, publicly traded companies will tend to have a controlling shareholder. Kirchmaier & Grant (2006) investigates the ownership and control issue in the context of European countries of France, Italy, Germany Spain and UK. The study categorizes the owners of these European countries in terms of family, institutions, etc and shows the importance of ownership coalitions to achieve control. The author finds that more than half of all large publicly listed companies in continental Europe are still under the legal control of a small group of investors. The situation in UK is however different where institutional investors are the predominant investor in Britain collectively holding almost complete control over large British firms. Also individual ownership by the various institutions is widely dispersed. Spain is the country having close ownership structure with that of UK with large Spanish firms having dispersed ownership structure. Family ownership is of practically no importance in Spain which are the largest shareholders in only 7 out of top
100 firms. France, Italy and Germany still have the family as the largest category of block holders and associated control. Berkman, Cole & Fu (2002) examine GOE in the Chinese context and finds evidence of improvement where the State transferred its control from government agencies to corporatized firms where the State is the Controlling shareholder and conclude that corporate governance in state-controlled firms can be improved by including private block holders in the ultimate ownership structure, which help align cash-flow rights with control rights. Goergen & Renneboog (2003) compares the control structures between Germany and UK listed companies. German investors prefer controlling stakes because of poor investor protection and holding large controlling stakes is less expensive in Germany relative to UK. To find what causes the early change of control of initial shareholders in UK than Germany, the study utilizes database of IPOs over the period 1981-1994 for UK and Germany matched sample of companies and find that UK companies lose majority control after 2 years of going public whereas the German companies lose majority only after 6 years of going public. Further the study finds that for the UK, the probability of a transfer of control to a concentrated shareholder increases when a company is risky, small and poorly performing and when UK firm is large, fast growing and profitable, it is more likely to be taken over by a widely-held firm. When German firms are profitable and risky, control is likely to be acquired by a concentrated shareholder, but growth and low profitability increase the likelihood of being acquired by a widely-held firm.

2.17: Public Sector Enterprises and Corporate Governance

The literature on corporate governance practices of Govt. owned enterprises in Indian context and on other countries are very little and more needs to be done in this regard. Whereas the essential ingredients of good governance like AGM, press, investment analysts constantly analyzing balance sheets and interacting with corporate leaders on regular basis is present in private sector and very little is escaped from the attentions, the real problems lies with PSU’s. In PSU’s the shareholders are the tax paying public who have almost no say in the management or the activities of the PSU’s and the PSU boards are subservient to the respective ministries and constituted with government nominees
with little independent representation (Parekh, 1997). The situations are improving a bit where a few of them are being made to corporatize and binded by listing rules, many such PSU's and Govt. companies are still out of the ambit of compliance rules of listing or for the matter subject to proper clause of governances. IOD (2005) address the issue of only limited number of Govt. Companies which comes under the gambit of listing and associated control. Reddy (1998) looks into the issues of governance in Public Enterprises of India and suggests several remedial measures for empowering the boards of PEs in order to compete on equal footing in the open market and play significant role in countries economy. The paper speaks on the circumstances which virtually reduces the position of functional directors to a high profile employee accountable directly to the Chief Executive. The paper advises the GOI to appoint top-ranking professionals instead of civil servants in its boards as advised by several of its committees. The paper further stresses on the need of performance evaluation, re-nomination, restricting the Government Directors on the board to two, autonomy in its operation along with other measures. Another work on PSUs governance by Bhattacharyya (2005) discusses on the issue of corporate governance of PSU in the context of the Govt. policy of divestments of its holding gradually without their privatizing and autonomy to the board of directors of those enterprises, CAG practices of reviewing the work of statutory auditors and suggest that Govt. should relinquish controls on PSUs except formulating the strategic and objective function, framing vision and mission statements, approving five year business plan, avoid excessive representation through Govt. officials in the board of directors and instead appoint professionals with competence and business knowledge. In the Indian context, the work of Reddy (2001), attempts to develop the relevant set of principles for government controlled enterprise. Dr. Y.R.K. Reddy, Chairman, Yaga Consulting Pvt. Ltd., suggests a document for wider discussion in the public. The objective of the report is to develop an approach and the first principles for improving the conditions for good corporate governance in public enterprises in India. The report includes special features of the state controlled enterprises, typical structure of the board, the process of decision making and dynamics of control in central public sector undertakings and the principles for good governance for Govt./PSU. Wong (2004) in his article express concern on the
matter of corporate governance for state owned enterprises throughout the world and enumerates the ills: multiple and conflicting objectives, excessive political interference and opacity (lack of transparency in operation). The author suggests remedial measures: clear direction, political insulation, and transparency which can lead SOEs to higher level of corporate governance and performance. Grantham (2005) discusses an altogether different issue of viability of private sector governance structure to public sector entities. Enumerating differences on several counts like risk of failure, market for corporate control, capital markets etc the author advises that as long as the GOC remains in public ownership and subject to political control, its governance structures cannot, and perhaps should not, replicate those of the private sector. Corporate governance principles are applicable for all including Govt. companies and HM Treasury (2005) of UK Govt., on the lines of its listed companies, has issued the Code for its Central government departments titled ‘Corporate Governance in central government departments: Code of good practice’. The code covers governance aspects on the board, skills, independent non-executives, internal controls and for arm length bodies. For each aspect there are Principles and Supporting Provisions like Combined Code for listed companies of UK. Such codes on a unified scale seem to be non-existent in Indian context, except an attempt by a private company as noted above.

2.18: Institutional Investors and Corporate Governance

These categories of literature review the role and effectiveness of institutional investors in different county context. There is a substantial and growing literature on the desirability and feasibility of greater activism by institutional investors on the matters of corporate governance as the institutional investors have the potential to obviate the problem of dispersion of shareholder. Hill (1994). Among the institutional investors foreign equity ownership has a significantly positive influence on company value in India. Sarkar & Sarkar (2004). Mohanty (2003 paper explores the role of institutional investors in the corporate governance system of companies in India. The study finds no effect of equity investment of the institutional investors on the corporate governance records of the companies rather the author notes that developmental financial institutions
and mutual funds have lent money to companies with better corporate governance records. Lin, Khurshed & Wang (2007) investigates how corporate governance mechanism such as, director’s ownership, board composition and proportion of NED sitting on the board affect the investment behavior of Institutional Investors in UK. The findings are that institutional shareholding are positively associated with board composition, but negatively associated with director’s ownership, there is an evidence of nonlinear relationship between institutional and director’s ownership and that UK institutional investors generally prefer smaller firms and firms with smaller boards, lower share turnover, and shorter listing history in the London Stock Exchange. This is in contrast to the findings of US studies which show that US institutional investors prefer large firms and firms with longer listing history and higher trading activity. The result also indicates the investment preference of UK institutional investors on the matter of internal control. Sarkar and Sarkar (1999) investigate the influence of institutional investors on the corporate governance in the Indian context. The study identifies no positive and significant relationship between institutional investors and company value at any level of equity ownership which indicates passivity of their roles in company governance. The findings are in sharp contrast to the developed countries UK, USA, Germany and Japan where there are strong evidence of the effectiveness of large shareholders on the corporate governance at firm level whereas the same is missing in India who has a hybrid of outsider-dominated market-based system of USA and UK and the insider-dominated bank-based systems of Germany and Japan. In India lending institutions start monitoring the company effectively only when they have substantial equity holdings. The study however finds evidence of effectiveness of foreign equity ownership and having a beneficial effect on company value. The roles of Institutional Investors are limited and practically non-existent in India. Hill (1994) has investigated the greater activism of institutional investors in the Australian context. His paper cites several instances of high profile aggressive form of activism where the institutional investors prevailed and sacked the managing director. The paper examines the funds flow and investment by superannuation funds in Australia and change in the role of institutional investors in corporate governance. Legal obstacles to Institutional Investor
activism have been discussed in the end. Klausner (2001) cites the two dual and conflicting roles played by institutional investors when they are most active on the issue of independent boards and board committees, confidential voting, separation of roles of CEO and Chairman, while fighting with proxies’ battle. At the same time these Institutional Investors remain silent or compromise over these issues when they invest among the companies and the investing companies goes public with charters containing the same takeover defense that these institutions opposed earlier. Geis (2007) examines the issue of large independent block holdings like institutional investors, pension funds, Hedge funds and other share block holders can effectively check against the abusive behavior of the management. The study takes the ownership case of 50 large public companies on the National Stock Exchange of India and shows that at present the strategy of independent block holding is not feasible at the moment. The author maintains that while the idea has some merit, the present ownership structure of Indian corporate, which largely consists of insiders, the Indian government and independent investors, does not permit to get a sound block holding strategy.

2.19: Internationalization of firms and effect on Corporate Governance

There is a general feeling that a company when decides to go international and cross-list in a foreign country exchange there is a general behavior in the decision to improve the governance level to the next higher level and to enjoy the benefits of being subjected to better regime. The dominant factors in the choices of cross-listing are access to cheaper finance and enhance the issuer’s visibility. Most of the studies have reported the positive effect of foreign equity ownership on company value in India and the presence of foreign direct investment have pressurized Indian companies to increase their governance level to the international accepted practice. Apart from the foreign equity, cross border mergers and acquisitions, cross-listing have increased pressure to improve Indian corporate governance practice. Litcht (2003) reveals that the insiders of the company going international behave opportunistically with regard to the cross-listing decision. Instead of bonding hypothesis with a view to rent that market superior corporate governance system, there is a tendency to avoid the same and the alternative ‘avoiding’ hypothesis is
observed. The study is in the backdrop of foreign listings on U.S. markets and more commonly on US listed ADR and concludes that improvement in issuers' corporate governance can be achieved primarily through sustained efforts by law makers and regulators in firms' home countries. How, Khoo, Ng & Verhoeven (2003) however observes that there is a weak link between internationalization and governance structure of the firm and finds significant relationship between degree of internationalization and the proportion of independent non-executive directors with international experience. This suggests the importance of international experience of the CEO for companies engaged in international activities. The study is in the Australian perspectives. Dahiya & Desgupta (2001) maintain that as the Indian corporations are gradually globalizing their funding, a transformation is taking place in corporate governance because of the requirement of International capital market and with the acceleration of the process of development a severe liquidity squeeze has gripped the economy and it has become imperative for the corporations to seek more cross-border funding.

2.20: Privatization and Corporate Governance

The aim of private business is best described by Clark & Demirag (2002) when they quote Kapner(2002), “Private business, would be more efficient than the government at running businesses and providing services and opening industries to competition, which are the ideal way to pass savings on to consumers.” Gray (1996) focuses on the goal of privatization in transition economies which is not to change the ownership from state to market but to expand the market infrastructure and legal norms and supporting institutions and good corporate governance. The study cites the different models and pace of privatization in transition countries settings, from extensive efforts at sales to strategic owners (as in Estonia and Hungary), to program based primarily on insider buyouts (as in Russia and Slovenia), to innovative mass privatization programs involving the creation of large and powerful new financial intermediaries (as in the Czech and Slovak Republics and Poland). The author raises apprehension about the final outcome of privatization and cautions that the privatization programme however should not be allowed to become the period of “primitive capital accumulation.” Gupta (2001) investigates whether the
performance of Indian government-owned firms whose control rights are not transferred (i.e., partial privatization) have been affected by the sale of minority stakes or not. The study observes that partially privatized firms and even the sale of minority stakes has a positive impact on firm performance and productivity. As the government remains the controlling owners in these firms, the study infers that the improvement is attributable to the role of the stock market in monitoring managerial performance. Banerjee & Munger (2002) analyzes analytically the privatization process in thirty-five low or middle-income developing countries. Privatization is a means to an end rather than an end in itself. The study finds that often the privatization policy is a crisis-driven and last ditch effort to turn the economy around, rather than a carefully and considered policy with explicit long term goals. The decision to privatize is captured here in three related but distinct dependent variables: (1) Timing (2) pace, and (3) intensity. The paper hypothesize that net political benefits positively affects the timing, pace, and intensity of privatization. Black, Kraakman & Tarassova (1999) discuss the cause and failures of Russian rapid privatization programme of State Owned Enterprises, which had started in the early 1990s, and gave its control to managers and controlling shareholders (insiders) by extensive self dealings which the government did nothing to control. In this self dealing transaction between the insider and company, the insiders profited at the company’s expense and grew reach and powerful. Later privatization auctions increased the self dealing process and control of its largest enterprises cheaply went to these crooks, who transferred their skimming talents to the enterprises they acquired, and used their wealth to further corrupt the government and block reform process that might constrain their action. Punitive tax system, official corruption, organized crimes and an unfriendly bureaucracy further hampered the restructuring process of privatized businesses.

2.21: Culture and Corporate Governance

Culture and social are differentiating factors in good and bad governance. Jeffrey Sonnenfeld in a Harvard Business Review article titled “What Makes Great Boards Great,” says that, by definition, guidelines and checklists address structural issues such as board composition, board size, age of directors, number of meetings, number of meetings
without management, existence of committees, powers of various committees, and
definition of independence. He points out, however, that what determines the quality of
governance is "not rules and regulations, it's the way people work together." In other
words, social and cultural issues, not strict adherence to guidelines and checklists, are the
The authors further adds, "It's not Rocket Science. Corporate Governance is not a science
subject to immutable rules. It is a culture of relationships. Whether or not it works
depends on how its participants behave and interacts with each other. Good governance
comes from developing the right relationships among the right people." Breuer &
Saizmann (2008) examines whether culture has relation with type of corporate
governance model adopted by a country. With reference to the Schwartz cultural value
model the study analyze the impact of culture on the development of corporate
governance systems. The research focuses on corporate control, investors' objectives,
ownership structure, protection of minority shareholders, corporate boards, and hostile
takeover as main attributes of corporate governance systems, and their developments in
relation to the Schwartz cultural dimensions of Embeddedness, Autonomy, Hierarchy,
Egalitarianism, Mastery, and Harmony. The study shows that countries with a strong
emphasis on the cultural dimensions of Embeddedness, Egalitarianism, and Harmony
tend to have bank-based corporate governance systems, whereas countries with a strong
emphasis on the cultural dimensions of Autonomy, Hierarchy and Mastery tend toward a
market based system. Gorga (2003) discusses how existing values in society might
prevent the adoption of corporate norms designed to increase overall efficiency. The
paper uses a case study of recent Brazilian corporate law reform, seeking for stronger
investor protection and strengthens Brazilian’s capital market.

2.22: Corporate Governance: Important Works

This section of the literature reviews discusses the important works carried out in the
broad and varied area of corporate governance.

Dubey (2000) article reveals the secret of 70 companies that ran away with investor’s
money in the last boom and brings to light the faces, the methods, and the modus
operandi of the fraudsters, including promoter involved, and is a blot in the name of investors' protection and corporate governance. The anatomy of the most vanishing company has been described as below: Ill equipped, inexperienced promoters invite friends and professionals to join as directors of a new company; Company hires unknown lead managers, goes public without bank and FI appraisals; Issue is fully subscribed but promoter refused to move ahead with the project; Company moves out of registration office, change bank account, professional directors resign; Promoters vanished with issue amount; SEBI, stock exchange delists company. The article tabulate the information of the 70 companies in terms of company issue opening date, amount, Lead Manager, Chairman, MD, Director and their current status.

Goldman & Filliben (2001) discusses the possible tools and techniques in the growing area of technology, mode of raising capital, technology facilitating capital markets, electronic commerce, electronic proxies, electronic consents and electronic attendance at board meetings which will change the face of business outright. The article further mentions the effect of globalization like disintegrating boundaries, European boundaries, European Monetary Union, European stock corporation will influence the way corporation will be managed and governed and further note that corporations that wish to compete will need chameleon-like qualities in order to adapt to the ever changing capital markets.

Doidge, Karolyi & Stulz (2004) develops and tests a model of how country characteristics, such as legal protections for minority investors and the level of economic and financial development influence firms' costs and benefits in implementing measures to improve their own governance and transparency. The most important benefit to a firm having good governance is access to capital markets on better terms. A firm located in countries having poor financial development will not find enhancing their corporate governance standards rewarding as the firm will raise a smaller amount of funds from the capital markets. Consequently, in countries with low financial and economic development, firms will find it less rewarding to invest in governance.

Mehra, M. (2005) discusses the role of corporate governance in the present day context when he says, "we need to broaden the role of corporate governance. With a fifth of the
world population below the poverty line, the biggest challenge of our times is to make markets work for the poor. The best way to achieve it is by bringing transparency in the stock markets". The compilation of 6th International conference on corporate governance under the headings “Making corporate governance work for the poor” sums up the proceedings of the 6th International conference on corporate governance at London and attended by 33 countries including India. The compilation contains the “London Declaration 2005” which is a 10 steps action plan for better corporate governance with the acronym PREEMPTIVE: Participation, Responsibility, Equity, Ethics, Maximize corporate value, Performance, Transparency, Independence of the Board, Variety improves the crop, Education and Training.

Porta, Silanes, Shleifer & Vishny (1999) examines investor protections and its various dimensions and highlight that strong investor protection is associated with effective corporate governance and is reflected in broad financial markets, dispersed ownership of shares. Improvement in investor protection requires radical changes in the legal system, securities laws, company laws and bankruptcy laws. The study finds that most of the obstacles and objections to such reform come from families that control large corporations and who take it as curtailment of their control and expropriation opportunities and have an interest in keeping the system as it is. As the paper says, “What the reformers see as protection of investors, the founding families call expropriation of entrepreneurs”. So far as securing the finance is concerned these firms and families obtain them through close political influence and connections, captive or closely connected banks or through internal means.

Paredes (2005) mentions about two competing models of corporate governance that policymakers can choose from. One is market-oriented model, as in USA, that relies on relatively little mandatory law to protect shareholders. Instead it depends on a host of other formal and informal mechanisms, such as incentive based compensation and hostile-takeovers to hold managers and directors accountable. The second approach depends on a mandatory model of corporate laws in which the state, as opposed to the market place, plays a central role in shareholder protection by fashioning mandatory rules that define shareholders property rights. The author suggest developing countries to adopt
a mandatory model of corporate governance as compared to the enabling market-based approach as developing countries lack the advanced market essential for a market-based governance system to work.

Pajuste (2002) investigates the factors behind stock market performance measured in terms of stock returns and activity in nine Central and Eastern European countries: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. The author finds many cases where the controlling owners have artificially kept down prices in order to abuse minority shareholders. The study thus reveals the importance of enforcement of law, financial regulations and protection of minority shareholders on stock market performance in the given set of countries.

Oman (2001) paper is based on the findings of the seven country case studies undertaken as part of the research programme on corporate governance in developing countries and emerging economies by OECD development centre. Countries studied are Argentina, Brazil, Chile, China, India, Malaysia and South Africa. While emphasizing the importance of corporate governance in national development the paper deals with the forces working in favor of improved corporate governance and forces against it. As per the author, “forces working in favor of improved corporate governance in developing countries include those operating both on demand and supply side of domestic and international portfolio of equity flow to corporations in those countries. The forces working against the improved corporate governance are corporate insiders, powerful vested groups, oligopolistic coalitions, and in the sphere of domestic politics. They are sometimes called as ‘distributional cartels’ because in seeking to maintain control they often invest significant corporate controlled as well as government controlled resources”. Such forces however give lip service to the need for corporate governance.

CFA (2005) in their manual for investors aims to educate and empower the investor in assessing a company’s corporate governance policies, understand and analyze how corporate governance may affect the value of their investments and thus help them in making informed investment decisions. While suggesting issues for investors to consider, it alerts investors to the primary corporate governance issues and risk affecting companies and some of the factors they should consider.
Saricar (2007) deals with the level of shareholder protection for a number of countries including India. Based on comprehensive time series data set for corporate governance with reference to shareholder protection at the Centre for Business Research, Judge Business School, University of Cambridge, over the period 1970-2005 with the help of 28 broad categories and 60 legal variables on a scale of 0 to 1, the analysis find that India’s shareholder protection level is very much comparable to that of many OECD countries with highest protection in many areas and at worst level in other. The paper further concludes that the change of shareholder protection law so far has no relationship with stock market development and private capital accumulation.

Dyck and Zingales (2002) focus on the role of media and argue that media are important in shaping corporate policy and its role cannot be ignored in any analysis of a country’s corporate governance system. The authors further posit that pressure of the press can act as compensation in many countries where there is weak infrastructure of corporate governance such as inadequate laws and malfunctioning judicial systems.

Jiraporn, Singh & Lee (2008) studies extensively, with the help of 40,000 observations of individual directors across more than 1,400 firms, the relation between multiple directorship and board committee membership based on director busyness hypothesis and reputation hypothesis. The study finds that by and large, individuals holding large number of outside directorship serve on fewer board committees. There are reduced possibilities of director being in work heavy compensation and audit committees when they occupy larger number of board seats. Those directors who also hold equity ownership tend to serve on more board committees in order to contribute more. Directors on smaller and independent boards serve on more committees. There is a particular class of directors e.g., women and ethnic minorities who finds more places in board committees.

Banerjee (2004) argues that Banks are just the organization like any other incorporate entities and the primary requirements of corporate governance apply to them. The paper looks into the details of corporate governance in banks and the necessity of government intervention in banks in Indian scenario. The author focuses on the Indian Public sector banks and highlights that NPA is the issue of primary risk in such banks.
Filatotchev & Bishop (2001) study examines the complex and dynamic interrelationship between executive characteristics, board member selection and IPO performance in UK. The authors find the importance of board characteristics and managerial ownership at the time of IPO. In particular, a high number of non-executive directors and intensity of their extra organizational links reduce the extent of under pricing of the share issue.

2.23: Pension Funds and Corporate Governance

The pension fund system in India is not developed and its contribution towards market development is non-existent. Pension funds in UK in comparison are much better positioned because of their expression of their voice, because of the legal independence of the pension funds and the residual power that they can call an EGM with having 10 per cent of the share capital (Goobey, 2006). Vittas & Michelitsch (1995) examines the prospects for private pension funds in Central Europe and Russia and their potential long-term role in corporate governance and argues that no private pension laws have been enacted in Poland and Russia. Though Russia has non-state pension funds but they are not grown up and they operate in a non-standardized environment. Some of the pension funds have the potential of growing and become important Institutional Investors and play a critical role in improving corporate governance systems in Russia and modernize securities market, foster better accounting and auditing standards and promote more disclosure of information. A more robust corporate governance structures can be persuaded by these special institutional investors which will also reduce the problem of free riding and enhance the corporate performance monitoring. Watson(2002) of Hermes Pension Management Ltd, documents ‘Hermes Principles’ and explains what they expect from the companies in which they invest. Hermes is an important UK fund managers and invests in some of the best companies and only in those companies where it finds that the principles of the Hermes toward good governance are maintained and followed and intervenes actively where it finds that companies are in deviation. The importance of the fund managers can be gauged from the fact that several millions people depends on Hermes Investment to secure their income in old age. Herms have their own principles and opinion on critical matters of governance and the present paper outlines ten such
principles. The paper gives a understanding of how a responsible and effective institutional investors such as Hermes can impact on company performance by close scrutiny of the annual reports and the amount of pressure the exert by their expert comment. Becht, Bolton & Roell (2002) writes, “The growth in defined contribution pension plans has channeled an increasing fraction of household savings through mutual and pension funds and has created a constituencies of investors that is large and powerful enough to be able to influence corporate governance. The author further mentions that over the 1990s in OECD countries, share of financial assets controlled by institutional investors has steadily grown over. Institutional investors in the USA alone command slightly more than 50% of the total assets under management and 59.7% of total equity investment in the OECD, rising to 60.1% and 76.3%, respectively, when UK Institutions are added. A significant proportion is held by pension funds (for USA and UK 35.1% and 40.1% of total assets respectively). With the increase in life expectancy rate in UK the defined benefit pension plan which has to pay promised pensions to its members are in stressed condition. The fall in equity value, if any, further complicates the issue. The research from Cocco & Volpin (2005) investigates and finds how the investment decisions in a defined benefit pension plan are affected by the presence of trustees who are also directors of the sponsoring companies, or trustees who are insiders to the company. The study finds evidence in support of an agency view where insider-trustee acts in the interest of shareholders of the sponsoring company, and not necessarily in the interest of the members of the pension plan.

2.24: Corporate Governance Ratings and Corporate Governance

There are several corporate governance rating firms who provide company rating based on the company corporate governance practices and sometimes they recommend shareholders for proxy proposals. The shareholder activism based on the ratings so furnished is quite popular. Audit Integrity, RiskMetrics (previously Institutional Shareholder Services), GovernanceMetrics International, Corporate Library are some of the internationally reputed rating agencies. Though India has few such agencies the activism on the scale of the developed countries such as US and UK is not observable.
However given the amount of institutional investor's money deployed in the markets and the institutional investors using these ratings for deployment of capital the influence of these rating is considerable. Daines, Gow, Larcker (2008) investigates the effectiveness of corporate governance ratings and the association between these ratings and future firm performance and undesirable outcomes such as accounting restatements and shareholder litigation. The study utilises the data from four rating providing firms: Audit Integrity (AGR), Risk Metrics (CGQ), Governance Metrics International (GMI) and The Corporate Library (TCL_Rating) for the year 2005. The study finds little cross-sectional correlation among the ratings and suggests that either there were high degree of measurement error or ratings are measuring very different corporate governance constructs. Further the study finds serious disconnect between the actual predictive validity of the ratings and the impact of the rating on actual voting outcome. Balling, Holm & Poulsen (2005) investigates the relationship between corporate governance ratings and its effectiveness in reducing information asymmetries. The study is in the context of Danish data set. The study appraises that the rating process consist of two broad general activities: data reduction phase and the weighing, aggregation and classification phase. The study finds that it is the selection of relevant attributes and not the later process of classification, weighing and aggregation which matters in the quality of a rating provider. The authors' further finds that it is on the part of intelligent selection of relevant attributes by the rating providing agency that improves the screening of companies based on governance quality. The study further finds that asymmetric information can be reduced by an intelligent use of the CG ratings. CG ratings impacts on dividend payouts has been studied by Mitton (2004), by using firm-specific corporate governance ratings developed by Credit Lyonnais Securities Axis (CLSA) for 365 firms from 19 emerging markets, and finds that firms with higher corporate governance ratings have higher dividend payouts.

2.25: Scandals, Sarbanes –Oxley Act and Corporate Governance in USA

The passing of the Sarbanes-Oxley Act during the year 2002 in USA marks one of the landmarks in corporate governance history when a nation has imposed legislation for
their corporate to comply and practice corporate governance. All such literature related with Sarbanes-Oxley Act, before and after the legislation, have been put at one place and classified into one category of literatures. These literatures depict the state of reaction for or against legislation of corporate governance and render useful information and lessons for other country to learn. Ahdieh (2005) posits that the imposition of Sarbanes-Oxley Act of 2002 has been the subject of severe criticism and the same have grown over time. The real cause with the Act is 'federalization' of corporate law and its imposition of public regulation where private incentives and the market forces held sway. The regulation of modern public corporation in USA, therefore, faces conflicting goals of privatization on the one hand and nationalization on the other. The author offers a new model of mixed governance to take care of both public and private dynamics and argues that such a scheme of mixed governance might allow the regulation of corporate governance to operate more effectively and provide the opportunity of evolving more efficiently over time. Romano (2005) takes a critical look at the corporate governance mandates adopted by congress in the wake of the Enron scandals and suggests that the decisions to mandate was seriously misconceived and the same are not likely to improve audit quality or enhance firm performance and thereby benefit investors as congress intended. The author narrates the frantic political environment in which SOX (2002) was enacted, which was at odd with the literature prescription, and suggests working in the direction of educating the media, the public, political leaders, and agency personnel regarding the reality that what the congress did was a public policy blunder in enacting SOX’s and there is a need to rectify the error or at least to make the mandate rescinded or made voluntary. Romano (2004) discusses the situation and circumstance prevailing before the enactment of SOX in the year 2002. The author mentions that SOX was enacted as emergency legislation amidst falling stock market and media frenzy over corporate scandals shortly before the mid term congressional elections. Their inclusion was election year politics and the scholarly literature recommendations were ignored and not enough considered attention was given on the governance provisions. The Paper recommends stripping of SOX’s mandatory governance provisions and rendered optional. Other European Union members have also been advised in the paper to avoid congress
policy blunders. Holmstrom & Kaplan (2003) takes a moderate look at the current legislative change in USA and seeks to answer such questions in the backdrop of such scandals as Enron, WorldCom, Tyco, Adelphia, Global Crossing, whether USA corporate governance system is so bad and whether the resultant legislative change in the form of Sarbanes-Oxley Act of 2002 and regulatory change in the form of new governance guidelines from the NYSE and NASDAQ will led to improved corporate governance system in USA. The author concludes that though parts of the USA corporate governance system has failed under the exceptional strains of the 1990s, the overall system has worked and the US market have performed well both on absolute basis and relative to other countries over the past two decades and that change in legislation and regulation provisions will led to make the good system better. However there are chances of overreaction to extreme events in few cases. Anderson (2008) takes note of the situation arising out of imposition of Sarbanes-Oxley Act of 2002 and the resultant exodus of companies from US to less rigid governance structures. This has resulted in discussion for a less burdensome and principle-based soft law structure as in UK. The paper however argues that even if a soft law principles-based regime were adopted into US law its longevity would be dubious because of cultural settings in USA which is different from UK. The author notes that United States has never allowed corporate luminaries like Sir Cadbury to form and reform its law. Congressional committees may seek advice and insight from such luminaries, but ultimately the rules and regulations come from government, principally state governments, and not from chief executive officers and board of directors. Given the long history of aggressive congressional responses to corporate misdeeds, the principle based approached would be eradicated at the very first instance of any corporate misdeeds. Clark & Demirag (2002) discusses the immediate fall out and consequences of failure of Enron corporate governance during the month the December 2001. As a result of collapse of the company, the state had to take over many of the functions that were previously in the private domain such as assuring supply and running the transmission system. The authors note that if the goal of deregulation was to reduce state involvement over prices and supply of power, exactly the opposite happened. Private regulated utilities became less powerful then they were before deregulation. The
author reveals that Enron had a corporate culture of influencing public policy-makers on the deregulation or privatization of the US and world energy sectors, dubious connections with policy makers especially in California and other states and had instructions to its accounting firms into 'dubious' financial transactions. Turnbull (2002) posits that failure of Enron and the like signifies a crisis in the 'command and control hierarchies- the top down corporations with single unitary boards- that have become the dominant model of capitalism. It does not matter whether an enterprise is owned by the State-arms-length or otherwise- whether it is owned by investors, or whether it operates in the private sector or as a charity or non-profit organizations. All such organizations, if they are run as command and control hierarchies, will suffer identical problems – the tendency of centralized power to corrupt, the difficulty of managing complexity; and the suppression of ‘natural’ – human-checks and balances. The author suggests, “what we need now are organizations which recognize these failings and are designed to overcome these complexity down into manageable units, decompose organizational decision making into a network of independent control centers and allow the private interests of executives to be harnessed to the public good.” The author suggests a new model, ‘network governance’ which will replace the Command and Control hierarchies. Coglianese, Healey, Keating, & Michael (2004) submit the need and extent of government role in the corporation economy in USA on the wake of various abuses and scandals. The paper is of utmost importance as it signals a rethinking of policy on whether the corporation should be left to be played by self regulatory organizations or there is need of government agencies to tightrope their behavior.

2.26: CEO and Corporate Governance

CEOs are key players in a corporate governance. The implementation of almost any policy taken by the board depends upon the effectiveness of a Chief Executive Officer. The most important responsibility of a board is the right selection for the post. Paredes (2004) discusses the issue of CEO overconfidence and resultant bad decision and shareholder value loss which are generally not considered compared to conflicts of interest, disloyalty and frauds which are carefully monitored. The author theorizes that
CEO overconfidence is a product of factors like high compensation, positive feedback, recent success which poses the risk of bad decision and suggests appointing a chief naysayer for managing CEO overconfidence and ensure that the CEO and the board of directors consider themselves opposite. Keeping in view the risk and cost involved in CEO bad decisions the author advises future research to be undertaken in the direction of effects of overconfidence as against human psychology and the managerial behavior. Landier, Sraer & Thesmar (2005) argues that the careful design of the chain of command such as placing an independent minded top-ranking executive can impose strong discipline on their CEO in spite of the executive being formally under his authority. The author argues that such a feature forms part of a robust internal governance and is considered good for corporate governance. The paper provides robust empirical evidence consistent with the fact that firms with high internal governance are more efficiently run. Hermalin (2003) posits that while the statutory authority of the board is relatively broad, the available empirical evidence indicates that boards play a significant role in only a few corporate decisions, the most common and the most important being all those decisions pertaining to the selection- internal or external, monitoring, and retention or dismissal of the CEO based upon the monitoring. The author posits that it is amount of board diligence which affects the decision process, with greater the board diligence, the higher the probability of selecting external candidate as CEO. Because the probability of dismissal increases with the intensity of board monitoring, greater board diligence leads to shorter CEO tenures. The CEO’s incentive to increase efforts are greater when there is more likelihood that the board will make a decision about retaining him based on its inference of his ability. Increase in CEO effort as a consequence of board diligence should lead to a trend toward greater CEO compensation. The paper mentions that less diligent board will have the stronger demand for the CEOs with the higher estimated ability. Such ‘star’ CEOs command, not surprisingly, a wage premium. Thus the paper infers that it could be the less diligent board that hires the more expensive CEOs. Trojanowski & Renneboog (2003) find in UK settings that CEO turnover has the strongest performance-sensitivity for industry-corrected accounting measures and less strong a relation with stock performance measures. This suggests that CEOs are only
dismissed at a rather late stage when poor performance is reflected in the accounting returns. CEOs remuneration reflects past good accounting performance and stock price performance w.r.t. abnormal returns, Tobin's Q and dividend increase. The study finds CEO remuneration as sensitive to stock price in firms with strong outside shareholders whereas remuneration in insider-dominated firms is sensitive to measures of accounting returns only. Neither total ownership concentration nor the presence of large block holdings held by outsider shareholders (Institutions, families or individuals, other corporations) are related to higher CEO turnover even in the wake of poor performance. This implies that there is little evidence of disciplinary monitoring by outsider shareholders. Insider with strong voting power successfully resists CEO dismissal, irrespective of corporate performance. Insider-dominated underperforming firm has the probability of CEO replacement 11.4% whereas it is as high as 21.3% for an outsider-dominated company. Boards with a high proportion of non-executive directors and with separate person fulfilling the tasks of CEO and chairman replace the CEO more frequently, but these boards are not more apt to replace underperforming management.

The Business Roundtable (2002) opines that apart from other, the selection, compensation and evaluation of a well qualified and ethical CEO is the single most important function of the Board. Senior management, led by the Chief Executive Officer, is responsible for running the day-to-day operations of the corporation and properly informing the board of the status of such operations. Management responsibilities include strategic planning, risk management, and financial reporting. Gibson (2002) investigates the effectiveness of corporate governance in terms of CEO turnover and firm performance in emerging markets. The developed markets like that of USA and UK are most likely to change its CEO on poor performance of the firm indicating the effectiveness of corporate governance in developed markets. The result received is that in case of emerging markets the firms with large domestic shareholder do not replace their CEO indicating that these firms evaluate their CEO not in terms their ability to run the firm profitably but on the CEO's ability to maximize the well-being of the large shareholder. For this subset of firms the corporate governance is ineffective. Faccio and Lasfer (1999) test the entrenchment hypothesis which predicts that CEO will create a
board that is unlikely to monitor and will dominate the board reducing its monitoring role. Based on 1650 nos. non-financial LSE listed companies hand packed data for the period 1996-97 the study finds that for ‘low’ levels of ownership, managers may initially align their interest with those of shareholders. However, when their stakes increase, they may be tempted (and, most important, be able) to reduce the monitoring role of the board by combining the position of chairman and CEO or appointing an executive director as chairman. They will also reduce the proportion of non-executive directors in the board or they will operate within an oversized board whose ability to control the management will decrease and the communication and co-ordination problem will increase. Boumosieh & Reeb (2005) examines the role of insiders on the board of directors by examining their impact on CEO governance, alleviating information asymmetries, and their counterbalance effect over their CEO. This is against the common belief that the presence of insiders signifies greater CEO influence and grip over the board functions, as the insiders on the board are puppets of CEO and their action are significantly controlled by him and their career depends upon him. The author’s finding is in quite contrast and suggests that insiders on the board are not necessarily a reflection of the CEO power, but instead, may be a way to mitigate CEO influence on the board. In firms without insiders on the board, the CEO can have an even greater capacity to shape the agenda and control the information available to the board. Thus, the study posits that board monitoring may be diminished when corporate insiders are excluded from the board of directors.

2.27: Theoretical Perspectives

There are two main corporate governance systems: the Anglo-American (labeled as outsider, Common-Law, market oriented, shareholder-centered, or liberal model) and the Continental European (also labeled as insider, Civil Law, block holders, stakeholder-centered, coordinated, or “Rhineland” model) models. Bhasa (2004) identifies four different governance models in practice, out of which three governance models are widely discussed while the model IV is the emerging models which is increasingly getting known. The four models discussed are Type-I-Market centric governance model;
Type-II-Relationship based governance models, Type-III-Transition governance models and Type-IV-Emerging governance model. The paper identifies type IV model having the best feature in increasing realization by the state of its role in the governance process. The author finds that where much has been written about Model I and Model II, not much has been written on Model III and Model IV barely finds any mention in literature. Aguilera (2004) maintains that the study of corporate governance, that originally developed in the context of the agency theory and is based on the premise of shareholder maximization, has been enriched by economic sociologists and other social scientists that developed two new theoretical and empirical dimensions: The Shareholder View of Corporate Governance and The Stakeholder View of Corporate Governance. The Shareholder view of corporate governance is conceptualized around the corporate governance ‘problem’ where principals-risk bearing shareholders, interested in maximizing their investments-monitor agents- who might be shirking or working towards enhancing their individual interests. The Stakeholder view of the firm expands the firm’s boundaries and recognizes its stakeholders (e.g., employees, suppliers, customers among others). According to this view, firms are not always driven solely by shareholder value maximization for other reasons like market pressure for long term profitability, survival of the firm etc. Fama and Jensen (1983:1) in their paper ‘Separation of Ownership and Control’ address the problems of agency, which originates from the issue of ‘decision agents bearing no wealth effects of their decisions’ as a result of separation of ownership from control. The authors contend that the issue of separation of decision and risk bearing functions survives primarily because of the benefits of specialization of management, benefits of risk bearing and common approach to controlling the implied agency problem through the means of separating the ratification and monitoring of decisions from the initiator and implementer of the decisions. Fama and Jensen (1983:2), in another paper, ‘Agency problems and residual claims’, develops a set of propositions that explain the special features of the residual claims of different organizational forms (corporations, proprietorships, partnerships, mutuals and non-profits) as efficient approaches to controlling agency problems. The author views that only those forms of organizations will survive, which will be able to serve and satisfy the society needs at the lowest prices.
while covering the cost. Dallago (2002) discusses the three main governance perspectives and their usefulness in the case of transformation economics: The Shareholders Value Paradigm, The Stakeholders Interest Perspective & the Innovative Firm. The Shareholder Value Paradigm concentrates on the separation of ownership and control and contract incompleteness. In order that shareholders partake their money and invest in a firm, particularly dispersed one, such solution as allocation of control rights to shareholders, providing standardized, transparent, free and reliable information and relying on market for corporate control are suggested. The presence of limited liability, reality of incomplete contracts for all suppliers of inputs to the corporate enterprise renders questionable the assumption that shareholders bear all the residual risk. According to the Stakeholder Interest Perspective, the firm is a coalition of different actor with different roles and capabilities such as employees, suppliers, subcontractors, customers, local societies and government, the environment who has a particular interest in the firm and they expect some kind of return. The stakeholder interest perspective is certainly less powerful and less precise than the shareholder value paradigm. The Innovative firm approach consider the governance process through which resources are developed as well as utilized in the economy, as against the previous two theories which focus on the governance structures that facilitates the optimal utilization of existing productive resources. Jensen and Meckling (1976) develops a theory of ownership structure of the firm integrating elements from the theory of agency, the theory of property rights and the theory of finance. The author argues that agency costs are as real as any other costs the level of which depends, among other things, on statutory and common law and human skills in devising contracts. The paper defines the concept of agency costs vis-à-vis separation and control issue, investigates the nature of the agency costs caused by existence of debt and outside equity, demonstrates who bears the cost and why, and investigates the Pareto optimality of their existence. Jensen (2001) discusses the unaccountability aspects of stakeholder theory which calls managers to take decisions which takes into account the interest of all stakeholders in a firm. The author argues that since it is logically impossible to maximize in more than one dimension, purposeful behavior requires a single valued objective function. The author, therefore, argues that in
absence of any specification for necessary tradeoffs in stakeholder theory among the competing interests, the managers are left unaccountable for their actions. He, therefore, develops a model called 'Enlightened value maximization model' which retains much of the concept and structure of Stakeholders theory but accepts maximization of the long run value of the firm as the criterion for making the requisite tradeoffs among its stakeholders. Enlightened stakeholder theory, therefore, specifies long-term value maximization or value seeking as the firm's objective and therefore solves the problem that arises from the multiple objectives that accompany traditional stakeholder theory. Stout (2003) provides two hypotheses for why shareholders, instead of governing themselves, assign the task to a board and tolerate the board. The two hypotheses are: the Monitoring Hypotheses and Mediating Hypotheses. Monitoring Hypothesis derive the cue from the 'agency costs' associated with the self-interested managers. The Mediating Hypotheses takes the view that shareholders also seek to 'tie their own hands' by ceding their control to directors as a means of attracting the extra contractual, firm specific investment of stakeholder groups such as creditors, executives, and employees.

2.28: Research Gap

Comparative studies on corporate governance in Indian context vis-à-vis any other benchmarked country or for the matter any country are not available. There is, therefore, an acute scarcity of literatures comparing our corporate governance system with advanced countries, with an aim to enhance our system and take a quantum jump on the matter of corporate governance. The present research fulfills the gap. Keeping in view the importance and relevance of better corporate governance, these studies may considered very useful in identifying the system gap and shortcomings on short notice, and that is why there is now a increasing trend globally to undertake such efforts. On the global level too, though there are comparative studies between two countries but they are not empirical in nature and comparisons are confined to respective codes provisions and are based mainly on theoretical comparisons. This research is also aimed to fill the gap on the global level as empirical studies comparing the corporate governance practices are not available. Keeping in view the importance and usefulness of such empirical study the
present research is likely to open the floodgate of a series of such empirical research on
larger scale and dimensions on global scale which will further the interest of convergence
in corporate governance. The present research has the potential of becoming the trend
setter for such type of studies on bigger dimensions and domains.
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