‘Corporate governance’ is the latest buzzword in India. It is a topic of concern and discussion among business chieftains, bureaucrats, financial institution heads and academicians alike. It is evident from the ongoing debate on the subject, that people cherish divergent views with respect to its meaning, content and intent. But they all are unanimous that the key to good corporate governance is maximizing shareholder value through a well performing Board of Directors.

Suddenly, in the last two years, there is wide discussion about corporate governance in India. Nobody is quite clear as to what we want to achieve by good corporate governance. If, over the years, directors of the companies have put the basic concept that the directors are agents and trustees of the company as a whole and shareholders as a body, corporate governance would automatically have followed. Nine out of ten times where decision is taken which is not in the best interest of company, the people at the level of the board are fully aware of what they are doing. The utmost that they care to comply with is to see that they strictly adhere to the letter of law to ensure that they do not get into a situation where they could be penalized or prosecuted. For example, if there is a proposal to invest in the shares of companies, all that directors want themselves to be satisfied is that
the proposed investment is within the prescribed limit as required by the Companies Act.

The best thing that could happen about corporate governance would be for the companies to follow a definite code of conduct. Leading organisations like Federation of Indian Chamber of Commerce and Industry, Confederation of Indian Industry, and leading professional bodies like Institute of Chartered Accountants of India and Institute of Company Secretaries of India have all come together to lay down such a code and ensure that their members should implement it. The financial press in the country has taken upon them the job of watchdog and see that they play a very constructive role in this direction.

Companies all over the world are facing an increasingly competitive environment, both in terms of markets for products and for sources of funds. There is a demand for enhanced transparency in corporate dealings and behaviour. It has, therefore, become necessary for companies to reengineer and become learner and knowledge-based. In other words, sound corporate governance has emerged as an essential ingredient for success. Investors are interested in good governance and will pay a premium for this. The reasons for this are:

i. **Investors believe** that a company with good governance will perform better over time leading to a higher stock price;

ii. **Others see** it as a means of reducing risk. As it decreases the likelihood of adverse things to happen, a well-governed company would react and rebound quickly. Thus, good governance is important in times of crisis; and
Some investors consider that the stock of a well-governed company may be worth more simply because good governance is the "in-thing" today. Corporate governance is the organizational response to risk.

The recent interest about corporate governance is primarily the product of four factors such as:

I. The assertion of rights by the shareholders;

II. The significant presence of foreign institutional investors who are demanding greater professionalism in the management of Indian corporates;

III. The awareness on the part of lending institutions which are now being subjected to rigorous accounting norms, particularly with regard to income recognition and provisions against non-performing loans. So they are giving much more emphasis to good corporate governance; and

IV. There is the integration of India into the world economy, which demands that Indian Industry should play the game by a standard set of international rules rather than continue their traditional practices.

The objective of corporate governance is to help to achieve corporate objectives and, there by, to ensure good performance. Good corporate governance means maximizing long term shareholder value in a legal and ethical manner. The principal constituents of corporate governance are i. Shareholders ii. Board of directors iii. Management and iv. Auditors - both external and internal regulators. Good corporate governance can be ensured through team player interface and
coordination. This involves establishing the specific role, authority, responsibilities and accountability of each of above constituents and establishing a broad guidelines and controls to minimize risk and ensure effective and good governance.

2.1 KEY ELEMENTS OF CORPORATE GOVERNANCE

Corporate governance basically consists of two elements namely – i. the long term relationship, which has to deal with checks and balances, incentives of managers and communications between management and investors; and ii. the transactional relationship, which involves matters relating to disclosure and the authority.

The measures initiated by the Government of India to globalize the Indian industry have added impetus to those movements. With the incoming of foreign money through joint venture partners, corporate governance is assuming new importance. It is becoming more important that companies should be made more accountable to shareholders and follows certain ground rules especially after moving from 'permit raj' to open economy. There is a need to have a re-look into the role of directors so that based on professionalism and ethical standards the working of the board of directors is made more accountable, transparent, honest and less vulnerable to manipulation. These developments have put a question mark on the board meeting. For the past few years, quite a number of mergers and acquisitions are also taking place. The Government is contemplating to issue code/rules for take over, merger and acquisition, public issue and rationalization of
Companies Act. The basic governance issues relate to the effectiveness and the accountability of boards of directors. Effectiveness can be measured by performance. Effectiveness is, therefore, a measure of the quality of the leadership, which boards are giving to their companies and the test of effectiveness is the results, which those companies achieve.

2.2 CONFLICT OF INTERESTS IN CORPORATE GOVERNANCE

The key to Corporate Governance is transparency and 'arms length' relationship between 'family members' as owners and managers. This is easier to say than done, because there is a major problem of perception on the part of corporate managers and critics. Since the credibility of Indian family businesses is very low, neither is there appreciation of difficulties faced by Indian entrepreneurs nor the willingness to accept that many of them could be making genuine attempts to mend their ways, even if compelled by the changing environment.

Although the business environment has changed for the better during the last few years, several corporate managers, including family entrepreneurs, are unwilling to appreciate the change in their role. Used to their past ways, for various reasons, they resist new standards of transparency and accountability even while accessing external public capital on a far larger scale than in the past.

There are instances of management misappropriating company profits for personal benefits. Even 'well-intentioned' managers fail to assess whether all their decisions with regard to companies under their management are in the best interests of other shareholders. With a view to 'enlarge business empire' under
their control, many promoters have used profits of ‘flagship’ companies for promotion of unrelated businesses. Some of them have structured ownership through a web of companies with the primary purpose of retaining control and at times getting more than their due share of profits.

Many of these practices are changing but there are two concerns of corporate governance experts not only in India but also in other countries are concerned. One, let to itself the process of change would be very slow and lack uniformity. Market forces alone cannot be depended upon to ensure that corporate governance conforms to high standards. It is because of these that there is a consensus, even in the most liberal democracies, that designing a code of conduct, framework of regulation and their effective monitoring by regulatory and self regulatory agencies are essential for good corporate governance. Vigilant shareholders and boards, competent and powerful enough to place interest of the company above those of a ‘class of shareholders’ are most important elements of corporate governance. This is how corporate governance practices have evolved elsewhere.

2.3 POSITION IN SOME DEVELOPING COUNTRIES

In developing countries like Malaysia, Sri Lanka and other countries, better corporate governance is considered necessary in the context of privatization of state owned enterprises. Many of these enterprises have become sick and they are being turned over to private individuals. While doing so, the need for transparency of operations and accountability on the part of these enterprises are considered
essential and important, having regard to the larger economic and social interests involved in managing these enterprises.

2.4 POSITION IN INDIA

As the Indian corporate sector is now free to adhere to the trends in the industrial world, it will face pressures for greater professionalism and accountability. Corporate boards in industrialized countries are more pro-active and take on large roles than merely endorsing Chief Executive Officer’s decision. In India, considerable discussions and debates are taking place on the need to bring about better corporate governance, in the context of liberalization, privatization and globalization of Indian economy. The New Economic Policy of 1991 and the subsequent trade related reforms have ushered in a new era of liberalized business and legal environment.

2.5 DIVERSE NATURE OF THE SUBJECT

A cursory glance at the available literature clearly indicates the multiple approaches to the concept of corporate governance, as every one is looking at the concept from different angles and perceptions. This shows the diverse nature of the subject. Corporate management is different from corporate governance. A corporation being a juristic person cannot function itself and it manifests itself through the Board of Directors. Therefore, the cause of corporate governance is better served depending upon how well the board is constituted. In a sense, the quality of the corporate governance is better served depending upon how well the board is constituted.
2.6 MAJOR PLAYERS

The major players in the area of corporate governance, within the corporation are the corporate boards, shareholders and employees. Externally, the pace for corporate governance is set by the Government as the regulator, customers, lenders of finance and the social ethos of our times. The scope and extent of corporate governance are set by legal, financial and business framework.

In essence, corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their enterprises. The shareholder's role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in force. Therefore, the role of the board and of the shareholders is inter-active in nature and the quality of governance depends upon the level of interface established by them. The legal framework facilitates this and this brings into sharp focus, the role of the state in ensuring better corporate governance.

2.7 MEASURING SHAREHOLDER ENRICHMENT

Maximizing shareholder value ought to be a fundamental goal of all businesses. Empirical evidence indicates that increasing shareholder value does not conflict with the long-run interests of other stakeholders. Winning companies create relatively greater value for all stakeholders; customers, labourers, government (through tax paid) and suppliers of capital. Yet there are additional reasons to adopt a system that emphasizes shareholder value. They are:
i) Value is the best metric of performance;

ii) Shareholders are the only stakeholders of a corporation who simultaneously maximize everyone's claim in seeking to maximize their own; and

iii) Companies that do not perform well will find that capital flows towards their competitors.

The value of a company's equity is the value of its operations of assets, less the value of its debt adjusted for any non-operating assets or liabilities. Value of business equals the present value of its expected cash flows discounted at an appropriate discount rate. Company value is determined by its discounted future cash flows and value is created only when companies invest capital at returns that exceed the cost of capital.

Free cash flows are gross cash flow (Net operating profit adjusted for taxes and depreciation) minus gross investment (increase in working capital plus capital expenditure). Since value is based on discounted free cash flow, the underlying value drivers of the business must also be the drivers of free cash flows. There are two key drivers of free cash flow and ultimately value; they are return on invested capital and growth.

Hence to increase a company's value one or more of the following should be done

- Increase the level of profits earned on the existing capital;
- Increase the return on new capital investment;
- Increase growth rate but only as long as the return on new capital exceeds weighted average cost of capital; and
- Reduce cost of capital.

By using the drivers of shareholder value in sales, operating profit margin, cash tax rate, working capital, fixed assets, cost of capital and growth duration period, managers will be able to identify where their own businesses are strong and weak in the creation of shareholder value. Mastering institutional value drivers, governance, strategic planning, resource allocation, performance management and top management compensation is fundamental to the ongoing, consistent creation of shareholder value over time.

To maximize shareholder value, business processes must be aligned from the chief executive officer down to the shop floor. Everyone on the team has to be focused and measured to pull in the same direction. Factors like sound competitive strategy, improved profits, sound distribution policy and corporate transparency reinforces investors confidence and over a time drives towards enhancement in shareholder value. Three principal tools that enable measurement shareholder value overtime are: Market Value Added, Shareholder Return and Economic Value Added.

The technique of Economic Value added (EVA) has acquired acceptance as a tool for assessing the financial status and predicting the future performance of a company. It encompasses all aspects of a company's financial management, from capital budgeting, acquisition pricing to strategic planning and shareholders'
communications, apart from identifying the value addition to shareholders by the organization during a specific period.

Evaluation of Economic Value Added (EVA) and Market Value Added (MVA) of corporate entities are already popular in the U.S. and is slowly catching on in Europe as well. In the Indian context too, financial consultants are required to make EVA and MVA projections for new projects when joint venture and foreign bankers are involved. However it is still in the nascent stage. Many well-governed Indian companies have started providing Market Value Added, Economic Value Added and Total Shareholders Return details in their annual reports.

Measures of performance and managerial effectiveness like earnings per share, return on equity, accounting profits and cash profits alone are no longer useful indicators of future growth and performance. There is a need for a performance measure that reflects the sum total of achievements of the company since incorporation. The EVA and MVA measures do the same.

2.8 MEANING OF ECONOMIC VALUE ADDED

Economic Value Added is a measure of financial performance that combines the familiar concept of residual income with principles of modern corporate finance—specifically, that all capital has a cost and that earnings more than the cost of capital creates value for shareholders. Thus EVA is the financial performance measure that comes closer than any other measure in capturing the true economic profit of an enterprise and is directly linked to the creation of
shareholder wealth over time. The most revealing of EVA is that it takes into account a factor no conventional measure includes (i.e.) the cost of capital. One of EVA's most powerful properties is its strong link with share prices. EVA measures may be applied at two different situations. Firstly, to calculate the quantum of value the concerned organizations have added from the current operations for its shareholders. Secondly, the technique may be deployed in the strategic planning process where it provides for the basic information for additional value creation. If a company's return on capital exceeds its cost of capital, it is creating true value for the shareholders. Companies consistently generating high EVA are top performers that are valued highly by shareholders.

Market Value Added is a measure of the real wealth a company has created for its investors. In effect, the MVA shows all the cash flows from and to the shareholders. MVA is a cumulative measure of corporate performance that looks at how much a company's stock has added to (or taken out of) investors pocket over its life and compares it with the capital those investors put in to the firm. If MVA is a positive number the company has made its shareholders richer. A negative MVA indicates how much shareholders wealth has been destroyed. In addition to EVA and MVA, Net Worth and Total Shareholders Return are also used to measure shareholder enrichment.

EVA shows the business profit left after adjusting for the cost of servicing the capital employed in the business. If the EVA, is positive, the business has generated wealth in excess of what is expected by the shareholders and vice-versa. If the figure for a particular year drops below zero, it indicates that the
expectations of the shareholders are not being met. The usefulness of EVA is that it can be applied to various divisions within a company to improve its efficiency.

It is believed that there is a fundamental correlation between Economic Value Added (EVA) and Shareholder Value.

An increase in EVA reflects:

- Greater efficiency in utilization of existing capital;
- Investment of additional capital in projects that return more than the cost of obtaining the new capital i.e. profitable growth; and
- Liquidation of unproductive investment that do not cover the cost of capital.

MVA enables one to conclude whether the company has been valued by the market in excess of its total funds. In instances where this is so, the assumption is that the market is willing to place a premium on the company's value in recognition of its future earnings potential.

2.9 SHAREHOLDER RETURN

Dividends and increase in market valuation are the two principal ways in which shareholders can be enriched. Total shareholder return takes into account the sum of these two factors. The increase in market capitalization is added to the dividend paid out by the company during a financial year. This sum is then expressed as a percentage of the market capitalization of the company at the start of the financial year under review. Procedure for calculating Economic Value
added, Market Value Added, Total shareholder Return has already been discussed in Chapter I.

### 2.10 CORPORATE GROWTH

This approach uses average growth rates from the past as the predictors of growth rate for the future. The average growth rate can be different depending upon whether it is an arithmetic average or a geometric average. The arithmetic average is the simple average of past growth rates, while the geometric mean takes into account the compounding effect. Though geometric mean considers the compounding effect, it focuses on the first and last earnings observations in the series. It ignores the information in the intermediate observations and any trend in growth rates that may have developed over the period. Arithmetic average is used in this study.

Past growth rates are useful in forecasting future growth but can seldom be considered sufficient information. The value of past growth in predicting future growth is determined by a number of factors namely variability in growth rate, size of the firm, cycles in economy, changes in fundamentals and quality of earnings.

### 2.11 REVIEW OF RELATED STUDIES

Sudden awareness and interests among the academics, analysts, corporate professionals and the Government about the importance of corporate governance in India has been generated consequent to the changing corporate environment in
the wake of globalization policies of the Government. To achieve the rapid industrial growth and increase the export, the internal structure and organization such as the relationship between managers, entrepreneurs, workers, shareholders, banks, financial institutions and so on, which are governed by the law of land, play a vital role.

The researcher has not come across studies relating to corporate governance and corporate growth in India. However, a number of theoretical studies relating to corporate governance are available. Most of the reviews are based on the papers presented at various seminars and conferences on corporate governance. They are presented below. The review of reports and recommendations of various committees on corporate governance are presented in Chapter III entitled "Corporate Governance in India".

INSTITUTIONAL INVESTORS AND CORPORATE GOVERNANCE

The following is a summary of governance concepts as suggested by Carolyn Kay Brancato. Brancato states that both the corporation and institutional investors clarify their objectives and take action to meet their mutual needs to achieve success and generate investor value.

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Role of Companies

1. Understand that the institutional investor community is comprised of investors with a wide range of investment objectives and corporate governance goals and strategies;

2. Organize their corporate governance structures to enhance corporate value;

3. Organize their strategic corporate planning process to measure and enhance future corporate value;

4. Appropriately align the interests of their managers and boards of directors with those investors who are most important to the company;

5. Target specific shareholders they would like to hold their stock based on common investment and corporate governance perspectives; and

6. Communicate in a constructive manner with institutional investors to achieve their mutual goals.

Role of Institutional investors

1. Clarify their investment objectives with respect to the corporations in their portfolios;

2. Take responsibility for investment, and proxy voting decisions, if they wish to have say in corporate affairs;
3. Press management and board of directors for corporate governance structures and process that will generate value and not be distracted by other types of initiatives; and

4. Communicate in a constructive manner with management and board of directors to achieve their mutual goals.

Shareholder value, meaning price appreciation plus reinvested dividend return, therefore no longer accurately reflects the varied expectations and demands of different segments of the investment community. The concept of shareholder value should now be defined along a spectrum with trading value at one end and investor value at another end. Trading value should be defined to focus on immediate return on investment, while investor value should be focused on a corporation’s ability to generate a stream of profits from which investors will reap sustained returns.

In order to engender the confidence of their investors, corporations will need to find ways to link the success of the corporations to that of these targeted investors. Corporations should examine their executives' and directors' compensation practices in this light. A full alignment of the interests of management boards and investors is the key to improving sustained corporate performance for enduring the benefit of corporations and their investors alike.
According to Brancato:

1. **Corporations cannot create shareholder value through one all-purpose strategy.** They must define which shareholders they intend to create value for and design strategies accordingly;

2. **Markets are not short-term oriented;** they are made up of complex groups of shareholders with different investment objectives and trading patterns. **Corporations must analyze the investment community and target those segments they believe share their goals for sustained success.** They must construct their strategic plans accordingly;

3. **Companies do not necessarily neglect needed long-term investments to please short-term investors;**

4. **Stock markets are not necessarily efficient when it comes to matching the needs of the individual corporation with the investing public;**

5. **Investors may have political clout far beyond what their economic concentration of holdings would suggest; and**

6. **The corporation should ensure that its major drivers of success and compensation schemes are inextricably linked to measures that also satisfy its investors.**

Most management and boards of directors list improving shareholders value among their top goals. Yet, given the fact that all shareholders are not the same in their exercise of economic (and political) power, management and boards must take important decisions about which shareholders should be those for whom the company designs its strategies to achieve improved value.
While corporations may attract traders for certain periods of time, they should not gear their investment strategy to satisfy these traders lest they impair their viability to generate sustained investor value.

Regulators, corporate finance officers and public and private pension fund managers continue to debate what constitutes shareholder value. Numerical methods of determining shareholder value are:

1. Calculating cumulative shareholder return as the sum of returns to shareholders assuming reinvestment of dividends over a specified period of time, usually five years;
2. Determining excess returns over and above a market index such as S & P 500; and
3. Calculating a variety of balance sheet and income statement ratios such as economic value added (EVA) and market value added (MVA).

CORPORATE BOARDS AND GOVERNANCE

N. Balasubramanian analyzed the reasons for growing concern on corporate governance. According to him, many of the developing countries, including India, have moved in varying degrees in the direction of an open, market driven economy, that is an essential ingredient of capitalist societies. In the capitalist societies, inherent application of concepts such as 'survival of the fittest' does tend to encourage malpractices.

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Globalization of markets calls for a correspondingly improving compliance with global practices in all spheres of corporate activity. He observed an apparent linkage between a company's governance standards and its market value. Shareholder activism is driving more and more companies towards better standards of governance. He stressed the need for separation of the chair of the board and chief executive in private as well as public sector undertakings. He emphasized that the non-executive directors should be well remunerated.

With the rise of corporate form of business organization, ownership and management have been considerably distanced from each other. The corporate board functions as an institution just between the two, guarding and monitoring management on the one hand, and on the other protecting the interests of owner shareholders. Given the all-round importance of organizational survival and growth not only to shareholders but, indeed, to all other stakeholders, a high performing board is a great asset and something to be looked forward to.

The primary responsibility of the corporate board of directors is often perceived to be that of trustees for the shareholders. These sentiments are reflected in current thinking world wide on corporate governance. For example, the Canadian initiative highlights the stewardship responsibilities that must be assumed by corporate boards. It is the responsibility of the board to oversee the conduct of the business and supervise the management which is responsible for the day-to-day conduct of business.
The practice of appointing senior managers from within to their company boards is by no means universal and often, it is in the local subsidiaries or affiliates of multinational corporations and in public reactor undertakings that one finds in-house managers on the boards. With increasing professionalisation of management, however, the concept of whole time directors is slowly gathering ground in family or promoter controlled corporations as well. A large measure of credit for the development should also go to development financial institutions that have, in the last few decades, encouraged and insisted upon broad based company boards when granting long-term loans to them. Also, unrealistic government restrictions on director’s remuneration that until recently influenced such appointments to the board.

It is relatively easy to enumerate the qualities to look for in potential directors. The basic requirement is a sound business orientation. Undoubtedly, their functional skills will help them in comprehending overall business issues, but care should be taken to ensure that such separations or departmental affiliations (especially in care of internal directors) do not inhibit the required broader appreciation of business situations.

As an accountable body, the board should be responsible for deciding who shall join it and who shall chair it. That the public Enterprises Selection Board, in case of public sector undertakings should have the right to select or recommend the working director, chief executive as well as other directors is extraordinary. It should clearly be the function of the board, backed as it may
be by government nominees, to take decisions on working directors, chief executives and others.

In the private corporate sector, similarly, it should be the board who should exercise their authority. A nomination committee comprising members of the board is, indeed, an appropriate vehicle to choose and recommend such appointments, without fear and favour, in the larger interests of the organization and its shareholders. The board, like the parliament, is supreme; it should have the power to nominate, remunerate and dismiss the chief executive if it becomes necessary, without reference to anyone but the shareholders. That will be the day, when corporate governance and board performance would be seen as moving along the right lines, by everyone concerned.

In England, the Cadbury committee was set up in May 1991 by the Financial Reporting Council, the London Stock Exchange and the Accounting Profession to address the financial aspects of corporate governance. This is the first major effort by any country towards implementation of good corporate governance.

The Cadbury committee (1991)³ reviewed the structure and responsibilities of board of directors. It recommended the code of best practices, role of auditors and addressed a number of recommendations to the accountancy profession. The committee examined the role of Company secretaries, internal control and reporting practice. It emphasized the importance of audit, auditors’

control and reporting practice. It emphasized the importance of audit, auditors' liability and audit committees. It suggested the ways to increase the effectiveness and value of the audit. The rights and responsibilities of shareholders are specified separately.

Chandratre (1997)\(^4\) observed that corporate governance is concerned with establishing a system whereby directors are entrusted with responsibilities and duties in relation to the direction of a company's affairs. It is founded on a system of accountability primarily directed towards the shareholders in addition to maximizing shareholders' welfare. An effective corporate governance system should provide mechanisms for regulating directors' duties in order to restrain them from abusing their powers and to ensure that they act in the best interests of the company in its broad sense.

Israni (1997)\(^5\) analyzed the modern paradigm in the corporate governance. The root of the concept is traceable to the fact that, over the last few decades, industrialization and technological revolution have changed the nature of enterprise from a family owned organization to a corporate entity. The modern corporation is owned by a large body of widely dispersed shareholders and is run by managers who may not have any stake in the ownership. Therefore, unless the board of directors is effective, the managers may not show commitment to

\(^4\) K.R. Chandrate, Role of Board of Directors in Emerging Dimensions of Corporate Governance and Impending Changes in Company Law, Chartered Secretary, May 1997, pp.505-510.

Athreya (1997) examined ethics in Indian business. He pointed out that good ethics in business would bring good corporate governance. He classified Indian entrepreneurs and executives into two groups. The vast majority would prefer to operate ethically, but experience undesirableness in dealing with the illicit demands of some political, administrative, financial, legal and other functionaries, for getting the still late permits, clearances and a multitude of documents. The other group is a declining minority who cynically exploits the temptations of various regulators and, thus, sustains corruption for personal gain.

Dixit (1997) emphasized code of good practices, business ethics and transparency, investor protection and social responsibility. He analyzed the legal aspects of corporate governance in India and stated those business practices and ethics in any society are the reflection of the general practices and ethical standards of that society.

He examined the effectiveness and relevance of various provisions of laws and regulatory agencies and to suggest modifications to streamline legal framework for providing facilitative stringent legal environment for the smooth corporate governance. As the corporate governance varies from country to country and is shaped during the course of development of policies, legislation and corporate environment of that country, it is important that the corporate governance is designed and developed keeping in view ground realities of the

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and is shaped during the course of development of policies, legislation and corporate environment of that country, it is important that the corporate governance is designed and developed keeping in view ground realities of the country, so as to create an environment of more disclosures and greater shareholder value.

Iyer (1997) defined corporate governance as a set of systems and processes, which ensure that a company is managed in the best interests of all the stakeholders of the company. A company would typically have five stakeholders namely: 1. Employees; 2. Shareholders; 3. Customers; 4. Creditors; and 5. Community. System would include structural and organization aspects, which facilitate better corporate governance.

He reviewed the structure and organizational aspects of corporate governance. He discussed the optimum size and the composition of the board. He recommended that the Chairman should be different from the Chief Executive Officer of the company. He emphasized the role of nominee directors, importance of personal competencies and qualities of the director and need for the different committees of directors.

Narang (1997) evaluated the corporate governance developments in India and abroad. He examined the role of non-whole time directors and market oriented

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8 L.V.V. Iyer, Corporate Governance - Some Thoughts, National Seminar on Emerging Dimensions of Corporate Governance, New Delhi, April 10, 1997.
9 S.P. Narang, Development of Corporate Governance in India in the wake of Country's Liberalization Policy, National Seminar on Emerging Dimensions of Corporate Governance, New Delhi, April 10, 1997.

He reviewed the shift in the base of power among different shareholder groups and he observed that management team and financial institutions have a major influence on the corporate governance, in the changing Indian corporate scenario. There is thus the need to develop a shared understanding among different groups on matters such as setting directions, supervising executive actions and ensuring accountability to achieve effectiveness in the process of overall corporate governance.

Dixit (1997)¹⁰ examined the relevance of the Companies Act, 1956 and Arbitration and Conciliation Act 1996 in dealing with corporate governance. He evaluated the issues of deliberations, directors’ meeting on telephone, shareholders’ democracy, Government approvals, SEBI and market regulations. He stressed the need for the top management to learn lessons from their counterparts in developed countries particularly USA and adopt appropriate inbuilt system for the settlement of disputes, to ensure that they have enough time and money to formulate better strategies and policies to enhance shareholders value which will act as an important ingredients of better corporate governance.

¹⁰ S.K.Dixit, Legal Aspects of Corporate Governance in India - An Analysis, National Seminar on Emerging Dimension of Corporate Governance, New Delhi, April 10, 1997.
money to formulate better strategies and policies to enhance shareholders value which will act as an important ingredients of better corporate governance.

**Sonia Chopra (1997)** analyzed that the corporate responsibility and business ethics are gaining greater prominence, thereby resulting in the revision of forms and characters of corporate governance across the world. In today's business environment, a high degree of professionalism is needed to manage the business and achieve long term objectives. Vision, commitment, intellectual caliber, integrity and effectiveness of directors as leaders affect the very existence, survival and growth of a company. While the shareholders could participate in corporate governance by appointing the directors, the Board of Directors is entrusted with the responsibility for setting the company's strategic aims and providing the much-needed leadership for maximizing shareholders value. An effective corporate governance system should provide mechanisms for regulating director's duties in order to restrain them from acting ultra vires.

**Ramappa (1997)** stressed the tasks before the directors and duties and powers of a corporate director. He opined that those responsible for corporate governance should also be in consensus about the adequate levels of disclosure of information regarding the company activities, its true financial position, pricing of the products, particularly food and pharmaceutical items, and truth in their advertising.

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Ramakrishnan (1997) examined the role of non-whole time directors and nominee directors with regard to corporate governance. It is true that, considering the complexities of the business enterprises, excepting a very few organizations, one or more managing Director(s) supported by one or more whole-time director(s) invariably run their companies. The whole-time directors are supported by what is commonly called non-whole time director, who may be persons of eminence or with business experience and acumen. With the advent of all India and state level financial institutions extending substantial assistance for enterprising entrepreneurs to set up industries, the role of non-whole time directors assumed importance.

He observed that considering the methods of appointment and the role of nominee directors, it may be stated that nominee directors are persons (nominated or appointed) to represent the interest of the appointing authorities. Such appointing authorities may be holding companies, technical collaborators, financial institutions, state development institutions or debenture holders. Nominee directors hold their office at the pleasure of the appointing authorities. Generally, they are requested to report periodically the affairs of the companies and also seek specific guidance from the appointing authority with regard to their role in considering specific items that may come up in the board meetings.

13 S. Ramakrishnan, Corporate Governance - Role of Non-Whole time Directors and Nominees, National Seminar on Emerging Dimensions of Corporate Governance, New Delhi, April 10, 1997.
Srivastava (1997)\textsuperscript{14} examined the role of directors nominated by the financial institutions. He observed that the all-India financial institutions and investment institutions collectively have substantial stake in the companies assisted by them not only by way of term loans but also as shareholders in some cases. The institutions appoint official as well as non-official nominees on the board of these companies, inter alia, to serve as valuable link between industry and institutions not only for effective project monitoring and follow up but also to serve the interest of financial institutions, and shareholders of the company. The interest of the institutions will be well served only when the project is implemented within the permissible cost and time schedule and is run on sound commercial principles within the policy framework of the government.

Mehta (1997)\textsuperscript{15} examined the role of professionals. According to him, the role that the board of directors is expected to play in corporate governance should in no way be competitive to the role played by the company chief executive officer and his team. They need to be complementary to each other and not competitive. The board of directors is not expected to be parallel or alternative centre of power and authority. The role of the management is primarily to run the business operations effectively and efficiently.

\textsuperscript{15} D.S. Mehta, \textit{Corporate Governance - Role of Professionals}, National Seminar on Emerging Dimensions of Corporate Governance, New Delhi, April 10, 1997.
Mathur (1997)\(^{16}\) analyzed a model, which can be adopted for India and relevant to the corporate environment in this country. The voluntary effort of the professional institution and Chambers of Commerce will go a long way in evolving the code of best practices and modify it from time to time. He emphasized the disclosure of information to shareholders. Code of business practices presently has emphasis on financial disclosures. The code also needs to concern itself with corporate responsibility towards consumers and environment.

Narang (1997)\(^{17}\) stated that the entire debate on corporate governance relates to financial aspects and the trading aspects of the business. That the concepts to be crystallized into implementable practice is something of an unarguable fact for most economies. "How best should it be achieved" is the crux of debate across nations. Lot of work has been done in different countries on financial and related aspects of corporate governance.

Macdonald (1997)\(^{18}\) has tried to cover briefly the background for the creation of the Cadbury Committee and the need for a process of change within the leadership and management of a company coupled with the need for adequate systems of control. He has considered the vital need for suitable 'language' to

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\(^{16}\) S.B. Mathur, Corporate Governance - Concept and issues, National Seminar on Emerging Dimensions on Corporate Governance, New Delhi, April 10, 1997.


\(^{18}\) MacDonald Nigel, Corporate Governance, Chartered Secretary, May 1997, pp.491-494.
enable these matters to be discussed without the implications of criticizing integrity and competence.

Prahlada Rao (1997)\textsuperscript{19} observed the position of corporate governance in the developing countries like Malaysia, Sri Lanka and other countries. Better corporate governance is considered necessary in the context of privatization of state owned enterprises. While doing so, the need for transparency of operations and accountability on the part of these enterprises are considered essential and important, having regard to the larger economic and social interests involved in managing these enterprises.

He observed that in India considerable discussions and debates are taking place on the need to bring about better corporate governance, in the context of liberalization, privatization and globalization of Indian economy. The new economic policy of 1991 and subsequent trade related reforms have ushered in a new era of liberalized business and legal environment. Self-regulation of corporate affairs is the order of the day in which accountability and transparency of operations are crucial.

Mitra (1997)\textsuperscript{20} described corporate governance as a transnational phenomenon that everywhere a company or a corporation is a creature of statute and not nature, designed to encourage the collective mass and continuity of power

\textsuperscript{19} D.K. Prahlada Rao, Corporate Governance - A Multi faceted issue, Chartered Secretary, May 1997, pp.501-504.
that the sophistication of modern economies require. Such a concentration of resources, however beneficial in intention, inevitably leads to effects on those inside and outside an individual corporation. The structure of the modern day corporation generally follows the same pattern, although the cultural background does lend individuality to companies in different countries.

Aggarwal and Dixit (1997)\textsuperscript{21} while observing the initiatives for international regulation of transnational business, examined the U.N code of conduct on transnational business corporations. Transnational business corporations are required to respect the national sovereignty of countries in which they operate. Transnational corporations are required to give consumer protection and environment protection. Disclosure of financial information should be clear and comprehensive regarding their structure, activities and policies as a whole.

Kala (1997)\textsuperscript{22} evaluating the ISO Quality systems stated that the gravity of problem of poor quality, in the modern age was recognized with the onset of industrialization. She observed a phenomenal growth in Indian interest in Quality Management and also in corporate governance. Most major corporations are looking at quality programmes. Many of them are going for ISO certifications. The growth of business schools, the in-house and external quality training programmes are indicative of the increasing demand for implementation of quality

management in managing the affairs of the companies. She stressed the need for application of ethics in the practices followed by a board to build good corporate governance.

Ahuja (1997) analysed the impact of TRIPS agreement of WTO on corporate governance that liberalization and globalization of economies followed by successful conclusion of Uruguay Round of Multilateral Trade Negotiations (URMTN) have opened up vast market for the Multinational companies (MNCs) to exploit. Liberalization as commonly understood related to relaxation of controls and regulations which govern economic activities in order that the growth, efficiency and resources allocation within the economy may improve in response to market forces of demand and supply whereas globalization is the integration of business activities across geographical and organizational boundaries. It is the freedom to conceive, design, buy, produce, distribute and sell products and services in a manner which offers maximum benefit to the firm without regard to the consequences for individual geographical location or organizational units.

Dixit (1997) evaluated the multilateralism in trade and industry. He examined the multilateral trading system, initiatives for World Trade Organization

and Multilateral Trade Organization. He analyzed the issues influencing the corporate governance, labour standards and environment, liberalization of computers and telecom sector, anti-dumping and counter-veiling measures and General Agreement on Trade and Service (GATS).

Ahuja (1997) analyzed the reasons for having non-executive members on board. He recommended a procedure for the appointment of non-executive directors. He also analyzed the consequences of appointment of non-executive directors. He compared non-executive director in India with other countries. A non-executive director is no different from any other member of a board of a company, in that his primary duty is to the company. All directors are equally responsible in law for the board's actions and decisions whereas certain directors may have particular responsibilities, as executive or non-executive directors, for which they will be accountable to the board.

Sonia Chopra (1997) evaluated the global initiatives for better corporate governance. She examined the care and due diligence in the corporate governance, board structure and procedure for effective corporate governance. She evaluated the function of unitary and two-tier board. It may be said that the initiatives taken so far at various levels throughout the world have been able to develop an optimum level of awareness among the corporate as well as the regulatory


26 Sonia Chopra, Corporate Governance - Need for Paradigm Shift in Board of Directors, National Seminar on Emerging Dimensions of Corporate Governance, New Delhi, April 10, 1997.
agencies about the importance of an effective corporate governance system. The Codes of Conduct developed by various committees provide minimum standards of functioning. However, what remains is the will to adopt and implement such practices, with suitable modifications in accordance with individual company's requirements and structure in their day to day functioning and overall corporate governance system.

Jhaveri (1997) analyzed the reasons for the emergence of corporate governance and its function. He emphasized the regulation needed and self-regulation. The general debate on corporate governance has missed this broad perspective. Its initial focus, understandably, is on 'corporate scandals' and 'patently unfair' management style. But adherence to basic ethical business practices, which were attracting attention by their absence, is only the first step. Although corporate governance concerns are more profound on account of their widespread nature and gravity in the case of family run companies, there is increasing evidence that in 'professionally managed' companies the quality of governance is mixed.

Shah (1997) analyzed the critical issues towards corporate governance. He emphasized the importance of board and management's accountability to investors need for exit route and changes in industrial legislation and necessity for


judicial reforms. He emphasised the existence of corporate governance be made really effective and serving the basic purpose.

Bebber (1997)\textsuperscript{29} analyzed the composition of board of directors. He examined the powers of directors He compared the function of part-time chairman vs. full time managing director, chairman vs. functional directors and Government's representatives on the board of public sector undertakings. He observed that due to increasing inflow of money through joint venture partners of Foreign Institutional Investors route, the corporate governance assumed new importance.

Varadharajan (1997)\textsuperscript{30} emphasized the need for legislative reforms for effective corporate governance. He analyzed the content and contours of globalization. He described company secretary as an indispensable professional for proper corporate governance. He analyzed the Government companies with writ jurisdiction. He stressed the need for amending article 12 of the constitution to unencumbering Government companies from writ jurisdiction.

Kaushik (1997)\textsuperscript{31} examined the role of board of directors, value systems and accountability orientation, role of non-executive directors, Information flow to and from directors, best practices in respect of desirable disclosures, dissemination

\textsuperscript{29} D.K. Bebber, Board Dynamics in Indian Public Enterprises, \textit{Chartered Secretary}. May 1997, pp.527-530.
\textsuperscript{30} D. Varadharajan, Corporate Governance and Legislative Reforms, \textit{Chartered Secretary}, May 1997, pp.538-541.
\textsuperscript{31} D.D. Kaushik, \textit{Corporate Governance in India: Prognosis, Prescriptions and Issues of Concerns}, Corporate Governance - Global Perspective Silver Jubilee National
of disclosed information and issues of shareholders/public access to corporate information.

Malegam (1997) observed the reasons for Cadbury committee set up. He emphasized the Cadbury committee’s recommendations and its implementation. He evaluated the auditors’ responsibilities and the public’s expectation towards the auditor’s role regarding the prevention and detection of fraud. He pointed out that the core business of accountants will disappear and clients whom we know today will be replaced by a much larger market that there will be a merger between professions. For example, this is already taking place in some countries between the law firms and the accounting firms and so on. This may well happen in India too. But if it does, we must realize that there will be certain consequences of this happening.
