CHAPTER - I

INTRODUCTION AND RESEARCH PLAN
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INTRODUCTION AND RESEARCH PLAN

1.1 SIGNIFICANCE OF THE STUDY

The history of corporate governance is as old as the origin of modern corporations. Modern corporations constitute a major segment of business. They have a status of separate person in law with contractual capacity under the authority of a legislature. Corporation is not a citizen so as to claim the fundamental rights. As the corporations grew in size and complexity, a large number of shareholders faced the challenge of structuring the corporate organization and to regulate its operations in a manner which assures them the attainment of corporate goals of efficiency, profitability, sustainable growth, pleasant working conditions for the workforce, accountability towards assets and providing best quality products and services to the customers. This perhaps necessitated the study on corporate governance. Any committees or authorities worldwide did not invent the subject of corporate governance.

The corporate entity is having multistakeholders namely shareholders, suppliers, lenders, employees, customers, the regulators, and the society. Therefore the corporate entity owes an onerous responsibility to all these stakeholders. This expanded role and responsibility of corporations has given a new dimension to the stakeholders expectations and corporate performance. The neglect of responsibility on the part of corporate would significantly impair the corporation as an effective vehicle for efficiency.

The functioning of modern corporations is a matter of concern even in most advanced countries. The separation of ownership of shareholders from the management in the corporations resulted into the problems of governance. The conflicting interest between the corporation’s objective of value maximization and manager’s self interest of maximizing compensation...
has added further gravity to the problems of governance (principal agent problems) Agency costs are incurred when the managers do not attempt to maximize corporate value and shareholders incur cost to monitor the manager's performance and influences on their actions. There are no costs when shareholders are also the managers which is a rare feature in Corporates except close net Corporates managed by families or promoter directors having a large stake in the corporate's ownership and centered decision making power with them.

In advanced countries large corporations are the most visible institutions of modern capitalism. Five hundred corporations generate the bulk of the world's economic output and employ substantial part of labour force worldwide. Large corporations with sizeable capital from dispersed investors make it impossible to exercise a majority control by consensus. Conversely, a large block of shares may give effective control even when there is no majority ownership. For instance, a surprising number of public U.S. Corporations do have majority owners. Nevertheless, the concentration of ownership of public U.S. Corporation is much less than some other industrial countries. The differences are not so apparent in Canada, Britain, and other English speaking countries, but there are dramatic differences in Japan and Germany. The problem of governance in such large corporations is the problem of ensuring that the managers act in the shareholders' interest. In this direction, it was a challenge to the owners to introduce the mixture of right incentives for management to resolve the agency problems and timely monitoring by the auditors, lenders, security analysts, and large institutional investors.

The modern societies have come to depend to a large extent on corporations for the supply of goods and services, for providing employment for international trade, for maintenance of standard of living, for contribution to tax, for research and development, and for economic growth of a Nation. The corporations are actively involved in modern society in one way or the other and therefore influence everyone in the society.
The expansion of corporations across the globe has increased the problems of governance both to the owners and other stakeholders. The domestic and foreign investors are increasingly demanding the corporations to improve performance to ensure more transparent reporting structure and adoption of internationally and nationally acceptable accounting standards. Moreover, increased integration of global markets calls for correspondingly improved compliances with global practices in the functioning of corporations.

The emerging competitive environment with new international economic order passed by UN Assembly emergence of privatization take over code international accounting standards volatility of stock markets enforceability of WTO agreement decisions of shifting manufacturing base from advanced countries to developing countries focusing cost effective business solutions due to improved information technology availability of global resources thrust for global marketing etc have demanded increased monitoring by groups of investors, regulators, and other stakeholders in relation to modern corporations. The promotions of corporate good behavior with transparent dealings, accountability, responsibility, and fair reporting have come to the forefront in these changed paradigms in the global economy and thus paving a way for good corporate governance system.

The imperative for corporate governance is essentially of an assurance of accountability for the safety and performance of corporate assets. The declining performance of several companies in advanced countries like US, UK etc in 1980s gathered discussion on establishing strict norms of appointing a well balanced board members professional managerial personnel and independent auditors. The role of audit function came up for a critical review by the investors and regulators since the financial performance disclosed was with manipulations to gain advantage of higher compensation to the management. The investors protection assumed significance in the light of rising scandals, scams, and flagrant violations of law by the management and consequential depletion of share values in most of the
leading stock exchanges worldwide. The issues of long-run efficiency of the management and effective functioning of corporations received a mixed response in the shareholders of all class institutional, individual, regulators, and banks in most of the advanced countries.

India assumed a key role in the global economy with vast potential of attaining high growth and thereby contributing to the global output. The corporations in India contribute a sizeable portion of manufacturing output to the GDP (besides providing) gainful employment, contributing a sizeable portion to the national revenue in the form of taxes, establishing global standards infrastructure including research and development centers. In the sphere of knowledge-based industries, India is second to none in the world. The Information Technology industry has already occupied an eminent position worldwide by contributing mission-critical technology solutions to the complex global business transactions.

Recently, the corporate scenario in India is fast changing. The legislative changes introduced in India after July 1991 have focused more on free market economy and relaxation of the rules. The corporate sector witnessed increased mergers, takeovers, joint ventures in the areas of core products with foreign/domestic companies with a view to establish market leadership in a range of products and to be a socially responsible corporations integrating growth with ancillanisation. Capital market reforms, relaxation in foreign exchange management and investors protection cells announced by SEBI and other leading corporates have also paved a smooth way to expand business in the changed policy framework. The series of reforms have made Indian companies to compete with multinationals by introducing challenging strategies with innovative and quality products on par with international standards. These compelling circumstances have all the more rendered the corporate sector in India to adopt good governance to enhance their competitiveness in the global market.
The corporate sector in India is beset with certain deficiencies or complex problems like inability to separate family interest from the interest of business, lack of focus on long-term business strategy, lack of focus on customer relations, family splits resulting in halting corporate smooth functioning, declining confidence level of the investors owing to poor performance, absence of dividend payments, overlooking of interest of minority shareholders, lack of accountability and transparency of the board while dealing with internal and external stakeholders, lack of professionalism in management and agency problems, rampant scams resulting from suspicious means of management, ineffective audit function resulting in untrue financial state of affairs, ineffective role of the Nominee Directors resulting in more comforts to the executive board, the absence of uniform accounting standards which created doubts on credibility of information to the users, the investors backing out of poor governed corporations, absence of strong capital market, increased role of stakeholders and their expectations gap over regulated corporate sector with minimal governance, necessity for further reforms in banks and financial institutions, poor performance of Public Sector Undertakings (PSU), new hurdles arising from global economy and free market mechanism etc.

The regulatory framework in India revealed the presence of such laws having no relevance in India's economic environment. The Indian laws and legal system were not comparable with other countries which acted as a blockade for higher foreign direct investment. Due to high incidence of rigid legal system, the individuals and corporations were forced to operate in quasi legal or illegal involvement resulting breach of laws in business transactions. The legislative and judicial oversight of the executive was weak for decades and paved way for accumulation of various legal cases in High Courts and Supreme Courts involving huge financial implications and mental agony.

Under these circumstances, it appeared worth investigating on the problems faced by the corporate sector in India, which has created a unique place in global economic landscape. Following is the modest attempt to
investigate into some of these deficiencies/problems. The study examines the subject of corporate governance in the context of economic liberalization and globalization of India with special reference to pre-governance legislation period and post-governance legislation period by selecting sample corporations in India.


Different countries for different reasons have reviewed the system of governance. For example, United States of America in 1980 initiated a debate on widespread corporate restructuring and takeovers. In the UK, the direct fallout of serious mismanagement in a number of large corporations resulted in constitution of the Cadbury Committee. In continental Europe, privatization fueled the growth of equity market and a corporate governance code emerged out of a concern to protect the interest of the investors. In east European economies, the response of the first generation shareholder gave importance to governance. In South Africa, the initiative favoring corporate governance code took place amidst widespread corporate failures. In India, the non-executive directors, nominee directors, stakeholders in order to give...
more protection to the investors in the globalized market environment induced the regulators and voluntary organizations to announce guidelines on corporate governance namely CII (1997) KMBC (2000) and SEBI directive (2000)

Most of the committees recommended that corporate governance must be improved by regulating the key players namely the board the shareholders the auditors based on legal framework socio economic conditions capital structure prevailed in their respective countries However they have not stated what exactly is required to be done to overcome the various problems faced by the corporate sector The link between corporate governance and corporate performance stakeholders and the corporation legislative changes in shareholders nghts auditors role and nominee directors were not studied in depth

Some of these issues have been examined and corrective measures including policy changes are suggested New conceptual approach to monitor corporate governance is required to overcome the problems confronted by corporate sector in India In this study the new concepts namely Stakeholders Confidence Index (SCI) Good Governance Indicators (GGI) Corporate Mis Governance Instances (CMGI) Good Performance Indicators (GPI) and Professional Management Level Indicators (PMLI) have been suggested based on application of these concepts to the sample companies data and arriving at useful conclusions

SCI measures the confidence level of the stakeholders in the corporate GGI highlights indicators to be practiced by the corporate to enhance the level of good governance CMGS indicates various ctenons of misgovernance resulting compromise on the objective of good governance i.e long term value maximization by the corporate in the best interest of stakeholders GPI provides a measurable mechanism to assess the level of corporate performance and PMLI reveals the presence of professional management in the corporate as one of the pre requisites to measure
corporate performance. These concepts have been included as a part of the suggested code of corporate governance for India.

The study has also made an attempt to suggest a *Code of Corporate Governance for India (CCGI)*. The desired objectives of the code is to ensure that a corporate is well managed by establishing an effective supervisory and executive body by clear announcing the purpose and mission of a corporate and by establishing an acceptable standards of corporate performance to ensure value maximization in the best interest of the corporate at the same time protecting the interest of all the stakeholders.

1.2 OBJECTIVES OF THE STUDY

In the light of the aforementioned issues, the study is undertaken with the following objectives:

1. To examine the concept of voluntary versus rule-based corporate governance in the context of economic liberalization and globalization.
2. To analyse the role and expectations of the stakeholders in the corporate sector.
3. To study the experiences of corporate governance at global level.
4. To analyse the impact of corporate governance on corporate performance in India and suggest appropriate code of corporate governance.
5. To suggest suitable policy measures to improve corporate governance in India.
13 THE HYPOTHESES

The present study seeks to test the following hypotheses from analysis of the collected data:

1. Corporate misgovernance has resulted in undermining the confidence of the stakeholders in the corporate system.
2. Professional management has led to better corporate governance.
3. Acceptance of global standards of governance has improved the performance of Indian corporations.

14 RESEARCH METHODOLOGY

(a) The Data Base

The study intends to examine the level of corporate governance compliance in the corporate sector of India by reviewing the existing developments on the subject. After the introduction of the SEBI directive on corporate governance, certain listed corporations have complied with the said directive. For this purpose, top corporations rated by leading business publications have been selected. Primary data have been collected through a pre-designed and structured questionnaire. Initially, the questionnaires were mailed to more than 700 corporations in India. Subsequently, another set of 500 questionnaires were sent to the corporations. Finally, another 300 questionnaires were sent to the listed corporations. After a continuous follow-up with the corporations, 302 questionnaires from various corporations were received. The scrutiny was done as regards completeness of information required for the purpose of the study and only 261 corporation questionnaires were found to be in order. These corporations are spread all over India covering major sectors of industry.

This study is based on the secondary data from the sources such as published reports on corporate governance in advanced countries, World Bank and professional institutions. Referring to the published data of Fortune global 500 corporations, the status of compliance of corporate governance at...
global level has been done. The database available on Internet has been accessed to find latest developments at global level on codes of corporate governance. For this purpose, most advanced countries namely USA, UK, Japan, Germany, Russia, Canada, France, China, South Africa, Italy have been selected. At national level, the publications of National Stock Exchange, SEBI, Ministry of Company Affairs, CMIE, FICCI, CII, Government publications on economic survey and reforms, Annual reports of corporations in India and Fortune Global 500 corporations, Business World and Business Today, top listed and unlisted corporations, reports on corporate governance published in India, professional institutes like the Institute of Company Secretaries, The Institute of Chartered Accountants of India, The Institute of Directors, The Indian Institute of Management, books, articles in various journals and research papers presented in conferences in India were referred. Certain leading professionals and CEOs were interviewed on the basis of five parameters of rating corporate governance in India. The researcher attended various conferences in India on Corporate Governance and interacted with the experts on the subject. The experts include Personalities from CII, ICAI, CSI, FICCI, CRISIL, IIMB, SEBI, MOF, DCA, BSE, RBI, IGF, BS, ET, NSE, MOL, WCGF, IRAI, and other leading management educational institutions and Universities.

(b) The Time Span
The time span of the study consists of four financial years from 1st April 1998 to 31st March 2002, which represent the period of initiating corporate governance in India beginning from the initiative of the Confederation of Indian Industry (CII) in 1998 and SEBI's directive in February 2000. For the purpose of analysis, the period of study is divided into pre-legislation period (1998-2000) and post legislation period (2000-2002) of corporate governance in India.

(c) Data Analysis
Data collected from the above sample companies were fed into Pentium III systems and analyzed using Microsoft Word, Microsoft Excel, Microsoft Windows 2000, and a software developed in VB and MS Access with the help of computer programmes specially devised for
the purpose of this study. After processing the data, appropriate statistical tools have been employed to analyze the data. The new concepts suggested in the study have been applied to the sample data by using score system and sample companies are objectively rated.

1.5 THE SAMPLE PROFILE

For the purposes of analysis, the sample companies have been classified into various categories based on Gross Fixed Assets (GFA) and then on other parameters namely industry segment, activity location, turnover, profits, and return on capital employed. The purpose of classifying sample companies in this manner was to identify and quantify possible similarities or variations in corporate governance issues across different sized companies, sectors of industry, patterns of ownership, regions, and across the implications of governance issues in totality of the corporate sector in India.

The size of a company on the basis of Gross Fixed Assets (at cost) is determined in case of sample companies. The small company is classified as having gross assets less than Rs 200 crores. The medium sized company is classified as having gross assets between Rs 200-500 crores. The large company is classified as having gross assets in excess of Rs 500 crores. Adopting gross fixed assets basis is highly suited in terms of objectives of the study. Growth in turnover and assets is acclaimed as the most suitable parameter to assess the performance of the companies. Hence this method has been followed.
Table No 11 Classification of sample companies based on Assets

<table>
<thead>
<tr>
<th>Category</th>
<th>Assets Basis</th>
<th>NOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>&lt;200 (Rs In Cr)</td>
<td>131 (50.19)</td>
</tr>
<tr>
<td>Medium</td>
<td>200 500</td>
<td>55 (21.07)</td>
</tr>
<tr>
<td>Large</td>
<td>&gt;500</td>
<td>75 (28.74)</td>
</tr>
</tbody>
</table>

NOC = Number of Companies

The sectors of industry with specific area of activities are given in the Table 12 & Table 13

Table No 12 Sector Wise Classification of Sample Companies

<table>
<thead>
<tr>
<th>Sector No</th>
<th>Sector</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Automobile &amp; Auto Ancillaries</td>
<td>9</td>
<td>6</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>2</td>
<td>Chemical (All Kinds)</td>
<td>14</td>
<td>5</td>
<td>11</td>
<td>30</td>
</tr>
<tr>
<td>3</td>
<td>Financial Services</td>
<td>15</td>
<td>4</td>
<td>8</td>
<td>27</td>
</tr>
<tr>
<td>4</td>
<td>Information Technology</td>
<td>37</td>
<td>7</td>
<td>8</td>
<td>52</td>
</tr>
<tr>
<td>5</td>
<td>Iron &amp; Steel &amp; Engineering</td>
<td>15</td>
<td>9</td>
<td>14</td>
<td>38</td>
</tr>
<tr>
<td>6</td>
<td>Pharmaceuticals</td>
<td>14</td>
<td>8</td>
<td>4</td>
<td>26</td>
</tr>
<tr>
<td>7</td>
<td>Power Oil &amp; Gas</td>
<td>3</td>
<td>3</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>8</td>
<td>Textiles</td>
<td>10</td>
<td>2</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>9</td>
<td>Others/ Diversified</td>
<td>14</td>
<td>11</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>131</td>
<td>55</td>
<td>75</td>
<td>261</td>
</tr>
</tbody>
</table>

(50.19) (21.07) (28.74)
Table No 1.3  Sector Wise Classifications With Activity of Sample Companies

<table>
<thead>
<tr>
<th>Sector No</th>
<th>Sector</th>
<th>Activity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Automobile &amp; Auto Ancillaries</td>
<td>Manufacture of Automobiles Auto ancillaries Tubes Tyres</td>
<td>24 (9.2)</td>
</tr>
<tr>
<td>2</td>
<td>Chemical (All Kinds)</td>
<td>Fertilizers Petrochemicals Lubricants Paints</td>
<td>30 (11.49)</td>
</tr>
<tr>
<td>3</td>
<td>Financial Services</td>
<td>Finance Leasing Hire purchase Banking</td>
<td>27 (10.34)</td>
</tr>
<tr>
<td>4</td>
<td>Information Technology</td>
<td>Manufacture of H/W S/W Development Electronics Telecommunication &amp; Exports of IT services</td>
<td>52 (19.92)</td>
</tr>
<tr>
<td>5</td>
<td>Iron &amp; Steel &amp; Engineering</td>
<td>Manufacture of Iron &amp; Steel Engg Goods Mining Shipping Building R &amp; D units Construction Materials</td>
<td>38 (14.56)</td>
</tr>
<tr>
<td>6</td>
<td>Pharmaceuticals</td>
<td>Manufacture of Bulk Drugs Health Care Products Medical Preparations</td>
<td>26 (9.96)</td>
</tr>
<tr>
<td>7</td>
<td>Power Oil &amp; Gas</td>
<td>Power unit Oil exploring Manufacture of Gas</td>
<td>18 (6.90)</td>
</tr>
<tr>
<td>8</td>
<td>Textiles</td>
<td>Textile of all kinds</td>
<td>14 (5.36)</td>
</tr>
<tr>
<td>9</td>
<td>Others/ Diversified</td>
<td>Food processing Sugar Tea Tobacco Hotels Plastic Paper Etc</td>
<td>32 (12.26)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>261 (100)</td>
</tr>
</tbody>
</table>

The regional distribution of sample companies made on the basis of the location of the companies principle place of business shows that there has been a balanced representation from all the regions of the country namely Northern Southern Western and Eastern India. The distribution pattern is shown in Table 1.4

Table No 1.4 Regional Distribution of Sample Companies

<table>
<thead>
<tr>
<th>Region</th>
<th>States Represented</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>Delhi Haryana M P</td>
<td>17 (12.98)</td>
<td>9 (16.38)</td>
<td>11 (14.67)</td>
<td>37 (14.18)</td>
</tr>
<tr>
<td></td>
<td>Punjab Rajasthan U P</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South</td>
<td>A P Karnataka Kerala</td>
<td>44 (33.59)</td>
<td>15 (27.27)</td>
<td>18 (24.0)</td>
<td>77 (29.50)</td>
</tr>
<tr>
<td></td>
<td>Tamil Nadu Pondicherry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West</td>
<td>Goa Gujarat Maharashtra</td>
<td>54 (41.22)</td>
<td>24 (43.64)</td>
<td>32 (42.67)</td>
<td>110 (42.15)</td>
</tr>
<tr>
<td>East</td>
<td>Assam Bihar Orissa W Bengal</td>
<td>16 (12.21)</td>
<td>7 (12.73)</td>
<td>14 (18.67)</td>
<td>37 (14.18)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>131 (100)</td>
<td>55 (100)</td>
<td>75 (100)</td>
<td>261 (100)</td>
</tr>
</tbody>
</table>
The largest representation of companies is from western India followed by southern India, Eastern India and Northern India in that order. The pattern of representation is almost the same for the small and the medium sized companies. But in the case of large companies, the largest representation comes from Western Region followed by Southern, Northern and Eastern Regions.

The size of a company is determined on the basis of its turnover as per the turnover details collected from sample companies. For determining the size of the company, its turnover in a given year appears to be reasonable criteria since the latter measures the volume of business that a company has done and performance during that financial year.

The method of distributing sample companies into three groups on the basis of their turnover was adopted as the best available alternative to classify small or medium size or large companies. The small company is classified as having turnover less than Rs 200 crores. The medium sized company is classified as having turnover between Rs 200 and 500 crores. The large company is classified as having turnover in excess of Rs 500 crores.

The size of a company on the basis of profitability has been determined as per profits data of sample companies. The small company is classified as having net profits less than Rs 50 crores. The medium sized company is classified as having net profits between Rs 50 and 100 crores. The large company is classified as having net profits in excess of Rs 100 crores. Profitability is one of the significant parameters to measure the performance of a company.

The size of a company on the basis of Return On Capital (ROC) is determined as per return on capital employed in sample companies. In performance evaluation process, the ROC plays a key role in assessing the most optimum usage of capital employed for the companies' business. Based
on ROC the sample companies are classified as The small company is classified as having a ROC of less than 10% The medium company is classified as having a Return On Capital (ROC) of 10-25% The large company is classified as having a ROC above 25% Table 1.5 is depicting the above classification.

Table No 1.5 Classification of Sample Companies based on Turnover, Profits and ROC

<table>
<thead>
<tr>
<th>Category</th>
<th>Turnover Range (Rs. in Cr)</th>
<th>Profits Range (Rs. in Cr)</th>
<th>ROC Range (%)</th>
<th>NOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>&lt;200 (39.08)</td>
<td>&lt;50 (56.70)</td>
<td>&lt;10</td>
<td>113 (43.30)</td>
</tr>
<tr>
<td>Medium</td>
<td>200-500 (19.16)</td>
<td>50-100 (10.73)</td>
<td>10-25</td>
<td>103 (39.46)</td>
</tr>
<tr>
<td>Large</td>
<td>&gt;500 (41.76)</td>
<td>&gt;100 (32.57)</td>
<td>&gt;25</td>
<td>45 (17.24)</td>
</tr>
</tbody>
</table>

ROC = Return on Capital
NOC = Number of Companies

1.6 CHAPTER SCHEME OF THE STUDY

The organisation of the dissertation is as follows

The first chapter highlights the significance of the study need of the study enumerates its objectives and hypothesis and explains the research methodology the organisation of dissertation limitations of the study and potential areas for further research

The literature relating to corporate governance is reviewed in second chapter It covers the research studies of governments and non governmental bodies agencies individual research studies etc both at global and national level

The third chapter presents an examination of the concept of corporate governance and also the discussion concerning the voluntary and rule based governance at global and national level
The fourth chapter covers multistakeholders' roles, responsibilities, and expectations, as well as the assessment of power of the stakeholders.

The experiences of corporate governance systems prevailing in different countries like the USA, Germany, Japan, France, UK, Canada, Italy, South Africa, China, and Russia, with possible concurrence and contradiction in the system of corporate governance, are discussed in the fifth chapter.

The sixth chapter is devoted to situational analysis of the corporate sector in India, highlighting the basic issues of governance arising from the separation of management from ownership, corporate boards, compliance of SEBI directives on corporate governance, with reference to nominee directors, audit, and other committees, with an analysis of data from the respondents. This and the next chapter form the core of the study.

A detailed analysis of good corporate governance practice in India and its impact on the corporate performance are made based on primary data. 20% of the global fortune 500 and Indian top 500 Corporates as the sample size has been taken based on random sampling method to assess the level of corporate governance from the secondary data. A comparative rating has been made based on certain parameters. Further, an attempt is also made to devise a new code of corporate governance appropriate to the corporate sector in India.

The last chapter contains the summary, conclusions, and policy suggestions to improve corporate governance in India.

1.7 LIMITATIONS OF THE STUDY

The subject of the present research has both national as well as international dimensions. The sample companies have been taken on all India level to assess true representation on the subject. However, the limitations of the individual researcher in contacting all companies to procure the required data...
data within the time frame cannot be ignored Resorting to regional representation of companies would have distorted the significance of the study and it would not have attained the objective of the study especially in view of corporate governance emerging as a discipline in management science. Sectoral and region assessment of the practice of corporate governance was not considered mainly because of universal importance of the subject irrespective of the sector and regions. Even though the research study commenced during 1997-98, the response from majority of the companies indicated lack of awareness of the subject. The initiative of CII in 1997 and announcement of a desirable code in 1998 brought about an awareness level at least in the members of CII. The subsequent constitution of KMBC during 1999 and announcement of SEBI directive in February 2000 enlarged the knowledge base of company leaders on the subject. Considering these aspects, the research study concentrated on post-governance legislation period by referring to pre-legislation of Corporate Governance period. Three rounds of Questionnaires were dispatched to 700 companies in India which represent approximately 30% of the companies practicing corporate governance as per SEBI directive. The response in the early phase of the study i.e., 1998-2000 was not encouraging. After realizing this response, the entire Questionnaire was put on the website www.corpgovernance.com and the response was made through email. After repeated reminders through emails, personal visits, 302 companies responded to the questionnaire. The response was received. After scrutiny of questionnaires in regard to completeness in all respects, only 261 questionnaires were found suitable for study.
18 POTENTIAL AREAS FOR FUTURE RESEARCH

1 Corporate governance at national and international level – convergence and divergence
2 Impact of dominant shareholders and minority shareholders on the corporate governance systems
3 Effects of privatization policies on corporate governance and re-structuring with special reference to minority shareholders
4 Corporate governance reform – A study in developing countries
5 Measurable and non-measurable aspects of rating corporate governance practices
6 Auditor’s role in corporate governance in select countries
End Notes and References


The share of corporate income tax has grown steadily from 22.44% of all direct taxes collected in 1950 51 to 51.24% in 1994 95. As a proportion of the total revenue receipts of government of India, the share of corporate tax has increased from 0.10% in 1950 51 to 15.6% in 1994 95. Burgess R and Stern N (1994) THE TAX REFORMS IN INDIA Puttaswamaiah K (ed.) (1994) ECONOMIC POLICY AND TAX REFORMS IN INDIA Indus Publishing Company New Delhi pp 92 95 REPORT OF THE CONTROLLER AND AUDITOR GENERAL OF INDIA for the year ending 31/03/1995 UNION GOVERNMENT (Revenue Receipts—Direct Taxes) No 5 p 12.

Capital issues of modern corporations as percentage of gross domestic savings were 10.3% in 1995 96 as against 20.7% in 1994 95. Department of Economics and Statistics STATISTICAL OUTLINE OF INDIA (1997) Tata Services Ltd Mumbai p 137.


5 Supreme Court of India (1963) State Trading Corporation of India Ltd V CTO (1963) 133 Company cases 1057 AIR 1963 SC 1811.

6 Total value of assets of Fortune Global 500 companies as on 31 12 2001 accounts at US $458076236.6 ml stock holders equity is US $55274019.5 ml Revenues US$14064960.02 ml Profits US $667209.8 ml These companies have provided employment to 47225289 people worldwide—Fortune 2001 Global 500 companies data base—July 23 2001 page F 10.

7 Indian economy performed above the world GDP growth. GDP in US dollars growth rate of India is 6% as against world GDP growth at 2.6% during 1990 2000. (World GDP is US$ Bn 31336.9 and GDP of India US$ Bn 479.4 during 2000) Gross Capital Formation as a percentage of GDP for the year 2000 is 23% as against 25% of India Department of Economics and Statistics Statistical Outline of India (2001 02) Tata Services Ltd Mumbai page 245.
Total Foreign investment in India has gone up from $2412 million during 1998-99 to $5925 million during 2001-02. Similarly, foreign direct investment has gone up from $2480 million to $3905 million during the same period. NRI deposits in banking sector have gone up from $960 million during 1998-99 to $2754 million in 2001-02. India got increased foreign investment during last decade. The foreign investment to GDP ratio is at 1.1%. The cumulative FDI approval by Government/RBI during 1991-2001 was around $75 billion of which actual FDI inflows were $28 billion mainly in Telecommunications, Power, Oil refining, Computer software, Chemicals and Financial services. Total cumulative amount invested by FIs in India till 31.03.2002 is $15.24 billion as against the present market capitalization of $120 billion. The Indian market now constitutes less than 5% of global emerging market capitalization. BSE completed 127 years with vast and varied experience of growth and developments of capital markets in the Asian region with the largest number of listed companies and as an institution conceived and run with totally indigenous and private enterprise and initiative and representing India in the world of finance with its benchmarks index - the sensex. Adapted from RBI data base published in The Hindu Survey of Indian Industry 2003 pp 20-21 & 87.

India ranked 14th in the world on the basis of GNP, which stood US $442.2 billion in 1999. India accounted one among 20 largest FDI recipients among the developing countries in 1998. In 2000 out of 59 countries, India was placed at 49th position in terms of Growth Competitiveness Index (GCI). In terms of Micro economic Competitiveness Index (MCI) for 1999, India was placed at 42nd position out of 58 countries surveyed. In terms of Current Competitiveness Index (CCI) for 2000, India was placed 37th position out of 58 countries much higher than GCI rank of 49th position and higher than China (44th), Mexico (42nd) reflecting future growth. Reddy Y V (2001) Indian Economy – 1950 2000 2020 Eds Kapila Raj & Uma K, in India’s Economy in the 21st Century, Academic Foundation Ghaziabad pp 30-58.

8 ibid

9 Indian IT exports grew by 29% during 2002 and are expected to clock a growth of 30% during 2003. The software and service industry in India now accounts for 16% of the countries overall exports for 5 lakh jobs and over $1.5 billion investments. More than 50% of the fortune 500 companies have established relationships with Indian IT services providers by the end of 31.03.2002. A survey of CIOs conducted by Merrill Lynch in 2001 indicated that over 70% of respondents currently outsource less than 5% of their IT services budgets to Indian companies which is likely to cross 15% in the medium term. NASSCOM database published in The Hindu Survey of Indian Industry 2003 Page 248.

