CHAPTER - II

REVIEW OF LITERATURE
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The origin of governance can be traced back to the period of Emperors and noted Ruler of the past. Perhaps it existed right from the day of Adam Smith (1776), Marshall (1920), Berle and Means (1932) who were among the pioneers to deal with the separation of beneficial ownership and decision making in the Joint Stock Company. Notwithstanding these obscure beginnings, the contribution of corporate governance has emerged as a fairly new concept in the management science. In the meanwhile, the experts have established its links with the other disciplines like law, economics, ethics, sociology, political science, game theory, etc. Moreover, the subject has assumed international acumen. Thus, review of primordial literature on corporate governance predicts that any authority or committees did not formulate the subject.

2.1 THE TREAD WAY COMMISSION (1987) appointed by the Securities and Exchange Commission in USA dealt with the aspects of fraudulent financial reporting and other regulatory measures requiring an amendment to the listing requirements of the corporations. The commission examined the responsibilities of the board of directors on internal control evaluation and commitment of corporate to competence. The commission also handled specific level of competence needed for particular jobs and translated the desired levels of competence into requisite knowledge and skills. Further, it emphasized the role of board of directors and audit committee as an active and effective instrument in providing an important oversight function. Due to management's ability to overcome system controls, the board plays an important role in ensuing effective internal control.

The other recommendations of this Commission were on management's philosophy and operating style, nature of business risks accepted, e.g., whether management often enters into particularly high risk
ventures or is extremely conservative in accepting risks frequency of interaction between senior management and operating management appropriateness of the entity’s organizational structure and its ability to provide the necessary information flow to manage its activities and adequacy of definition of key managers responsibilities and their understanding of these responsibilities

2.2 First ever authentic record on the corporate governance came from the Cadbury Committee (1992)\(^3\) set up by the London Stock Exchange Financial Reporting Council (FRC) and accounting profession in United Kingdom. The objectives for setting up of this committee were to enhance the efficiency of management by specifying the role of board of directors, auditors and shareholders. The committee defined corporate governance as the system by which companies are directed and controlled. Board of directors is responsible for the governance of their company. The shareholders appoint the directors and auditors. The chairman is positioned to be crucial in the governance system. The board sets the strategic aims, provides the leadership and supervises the management of business and reports to shareholders on their stewardship. The board’s actions are subjected to laws and regulations. This definition though revolutionary in nature does not elaborately contain all aspects of dynamic subject of corporate governance.

The committee dealt with other crucial issues relating to controlling the business by laying down broad parameters on the composition of the board with the presence of outside and independent non-executive directors for a specified term. The committee’s findings revealed the necessity of identifying and early resolving of the potential conflict of interest between the executive management and the board. The committee further recommended that there should be a clearly accepted division of responsibilities at the head of the company with a system of reviewing the performance of the board. It is essential that there should be a strong and independent element on the board where the chairman is also the chief executive. The director’s responsibility
statement should appear in the directors report as a counterpart to a statement by the auditors about their reporting responsibilities.

The committee also suggested the **code of best practice (1992)** for setting standards of governance. These recommendations in the form of a code were suggested as a module for the corporate and sought the compliance. The auditors should review the company's statements of compliance before publication.

Another significant recommendation of the Cadbury Committee was about constituting an **Audit Committee**. It recommended to constitute with three members by all the listed companies all being non-executive directors with a majority of being independent. The members should be conversant with financial and accounting matters. The committee was entrusted the task of discussing with external auditors at least once a year without executive board members being present. This was to ensure that there are no unresolved issues of concern. Further, the audit committee was required to suggest a periodic change of audit partners to bring a fresh approach to the audit. The recommendation on establishing an audit committee has enabled most of the developed and developing economies to amend the respective corporate laws providing the mandatory constitution of audit committee on the lines of recommendations of the Cadbury Committee.

2.3 A committee known as **King Committee (1994)** was constituted by the **Institute of Directors in South Africa** to examine the aspect of establishing an **Audit Committee** by companies with written terms of reference from the board. This committee's recommendations that a well-defined role of the board and directors, the role and function of company secretary, assessment of risk and responsibility for risk management, scope of internal audit to suit the control requirements, compliance and enforcement of disclosure requirements, board's self-evaluation mechanism would go a long way in improving the corporate governance system in the company. The code of corporate practice and conduct included the matters like integrated...
sustainability reporting ethical practices and organizational integrity. The committee also suggested the continual monitoring and suggesting for improvement of audit committee functioning.

2.4 Three Members Committee (1996)\textsuperscript{7} appointed by the Ministry of Finance Government of India New Delhi to look into the current state of corporate governance in India. The committee recommendations were (1) profits have no relation with the kind of corporate governance model followed in the sample companies (2) Directors in most of the companies are found ineffective in monitoring the management’s performance (3) Corporate were divided on the issue whether government should dictate corporate behavior or not (4) Indian corporate sector offers both best and worst kinds of corporate governance model. Results show that better corporate governance in Indian board is driven by its collective conscious and not by stakeholders’ demand or market forces.

THE CORPORATE GOVERNANCE GUIDELINES FOR NOMINEE DIRECTORS ON CORPORATE BOARD issued by the government owned Financial institutions (1996)\textsuperscript{8} contained various matters like financial performance of the company, payment of statutory dues, inter-corporate investment and deposits, award of contracts for works, control over undue or extravagant expenditure, setting up of joint ventures, raising of funds and appointing audit committees and concurrent auditors. Audit committees do serve a very useful purpose as they involve periodic review of performance, operations, internal and external audit findings and other matters. Audit committee would identify appropriate corrective actions with objectivity and better evaluation.

2.5 The Unit Trust of India committee (1997)\textsuperscript{9} appointed by Unit Trust of India recommended five important points on governance: (1) Induction of more independent directors (2) Revamp audit committees with only non-executive directors who are truly independent (3) Make the board more relevant by making corporate decisions with proper discussion and to bring...
greater transparency (4) Scrutinize pay packages of executives and whole
time directors on the lines of recommendations of the compensation
committee and (5) Better monitoring of investment in subsidiaries. UTI
emphasized its desire to tone up corporate performance at the board level.

UTI felt that nominee directors must keep a close watch on the
investment in subsidiary companies and stop transfer of assets/funds in
order to serve the interest of the promoters. The purpose of UTI code was not
only to ensure shareholders value but also to improve transparency and
revive investors’ interests in primary issues. A large number of investors have
fled the primary market due to wrong doings of a few companies. Efforts have
to be made to bring them back. If companies adopt good corporate
governance practices, one could see that the investors will come back to the
market.

On the same line in India, the CONFEDERATION OF INDIAN
INDUSTRIES (CII) constituted a National Task Force to suggest means to
improve corporate governance. Its recommendations are published in
Desirable Corporate Governance A Code (1997) As per the
recommendations, the corporate governance is a phrase that demands
transparency of management systems in business and industry, be it a
private sector, public sector, or financial institutions, all of which constitute
corporate entity. Just as industry seeks transparency in government policies
and procedures, the corporate governance also seeks transparency in the
corporate sector. Thus, the corporate governance assumes significance at
the time when the Indian economy is opening up to the global economy and
relatively, the Indian industry is striving to attain an international
competitiveness. Perhaps the present studies figure sharply at this context.

The CII code observed that corporate governance in India still remains
at an ambiguous and misunderstood phrase. However, as a backdrop, three
aspects are quite noteworthy: (1) Corporate governance in developed world is
not yet taken a unified shape. (2) Indian corporates, banks, Financial
Institution (FI) can no longer afford to ignore better corporate practices. And the investors in corporate sector in India will demand greater disclosure, more transparent explanation for major decisions, and expect better corporate values. And (3) Corporate governance goes far beyond company law. These aspects are quite relevant to the corporate sector of India.

The CII code observed that code of corporate governance cannot be static; it must be reviewed periodically. It was made applicable only to the listed companies demanding voluntary compliance for 17 recommendations only. Of these 17 recommendations, first ten are for companies (1-10), two are for financial institutions (14 & 17), three are for stock exchanges where the securites of the company are listed (11, 12, & 15), and two are for the government (13 & 16). The CII code recommended a more proactive role for non-executive directors in the process of corporate decision making and in maximizing long-term value of shareholders equity.

Since the shareholders are residual claimants, it followed that in well-performing capital and financial markets, whatever maximizes shareholders value necessarily maximizes corporate value and satisfies the claims of creditors, employees, and the state. However, this observation of CII code may not hold good in the condition where the performance of capital and financial market is in negative growth. In this situation, neither the shareholders nor other stakeholders will get corporate value.

2.6 **Punnir Selvam Committee Report** (1997) were appointed by the Indian Banks Association to study Non-Performing Assets (NPA) of public sector banks. The report of this committee expressed concern on the growing NPA and funds locking up in doubtful and loss assets which are non-contributing income to the banks. The recovery mechanism of banks in tackling NPA problem was highlighted besides the facilitation of recovery through the speedy debt recovery tribunals. This committee underlined the importance of good corporate governance in ensuring proper deployment of...
funds and recovery mechanism to strengthen the financial health of the banking sector.

27 The International Monetary Fund (IMF) press guidelines12 (1997) covered not only traditional macroeconomic fundamentals but also the role of good governance as an essential element of a framework within which economies can prosper. The IMF's intervention in governance of a country will be confined to its economic aspects under the mandate only. The IMF stressed the role of good governance in member nations so as to ensure sustained growth. The IMF will seek to improve governance in areas such as reforms in the public sector including administration procedure and support development of a transparent environment conducive to private sector activities.

The IMF announced a code of good practices in fiscal transparency and transparency in monetary and financial policies. The code on fiscal transparency addresses four key objectives: (1) clarity in roles and responsibilities of the government, (2) public availability of information on government activities, (3) transparency in budget preparation, execution, and reporting, and (4) integrity in fiscal information to be scrutinized by an independent authority. The approach reflects the concern of the IMF in promoting an external environment that would promote good internal structures and purposes which are necessary for corporate governance at the enterprise level.

28 The Disinvestment Commission on Public Sector Unit (PSU) (1997)13 appointed by the Ministry of Finance the Government of India, New Delhi, was constituted as part of the corporate governance code of public sector units in India. The commission has issued 12 autonomy rules including (1) professionalization of the board, (2) regulating salary and incentives for the top management, (3) greater accountability, (4) setting up of pre-investment board, (5) delegation of authority in investment matters with certain limits, (6) power to enter into joint ventures, (7) Autonomy in price
fixation (8) Strengthening of the investor interface (9) power to dispose of assets (10) provision to elect directors (11) selection of top management and (12) full freedom with regard to investment portfolio. These rules enabled PSUs to plan properly the process of disinvestments such that the Government would recover proper value of the assets and transfer the undertaking in a transparent and accountable manner as per policy guidelines. Since takeovers/exit rules ensure good governance, the recommendations of this commission have been viewed as important steps in this direction.

2.9 THE BASLE COMMITTEE ON BANKING SUPERVISION (BCBS) (1997) was appointed by the Central Bank Governors of thirteen countries: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden, Switzerland, UK, and USA to support good governance practices within banks, including principles of management of interest rate risk (Sept. 1997), framework for internal control systems in banking organizations (Sept. 1998), Enhancing bank transparency (Sept. 1998), and principles of management for credit risks (July 1999). The main thrust of these is related to the corporate values, code of conduct, and other standards of appropriate behavior.

In the Basle Committee findings, it is mentioned that it is difficult to hold the board and senior management properly accountable for their actions and performance when there is a lack of transparency. It observed that transparency can reinforce sound corporate governance. Therefore, public disclosure is desirable in the areas of board structure (size, membership, qualifications, and committees), senior management structure (responsibilities, reporting lines, qualifications, and experience), basic organization structure (line of business, structure, legal entity structure), information about the incentive structure of the bank (remuneration policies, executive compensation, bonus, and stock options), and nature and extent of transactions with affiliates and related parties.
The Basle Committee recognizes that the primary responsibility for good corporate governance rests with board and senior management of banks. However, there are many other ways that corporate governance can be promoted by governments—through laws, securities regulators, stock exchanges—through disclosure and listing requirements, auditors—through audit standards, on communications to the BOD, senior management and supervisions, and banking industry association—through initiatives related to voluntary industry principles and agreement on publication of sound practices.

2.10 The Stateholders Theory (1998) It comprises of a questionnaire on information on various aspects of Public Enterprise Board. It was circulated to 246 Central Public Enterprises. 35 responses were received. A five-point option scale ranging from 1 to 5 was provided to rank the responses over the last six years. The findings revealed that governing boards are the most important links in the chain as their proactiveness is vital to stir the other elements. These boards are required to have clear vision about their role, the role of government nominees, appointment of subject committees for their improved functioning and evaluation of the contribution of the CEO and other board members.

The findings of the study revealed that the government lacked the understanding of the role that the boards could play in public enterprise. This is evident from the fact that 40% of the sample enterprises had vacancies on their boards to the extent of more than 50%. Forty-nine percent of the sample enterprises had vacancies in the range of 20 to 50%. The study pointed out that 29% of the sample enterprise had government nominees exceeding 50% of the boards' strength. Whereas 71% of the sample enterprise had government nominees in the range of 50% or less. Ninety-seven percent of the sample enterprises were not in favor of increasing the presence of government nominees. Against the optimum number of 12 as suggested by the corporate governance, the average size over the six year period turned out to be 7 members in case of sample enterprise. The study revealed that the sample enterprises board meetings averaged was 7 per year.
The other findings revealed that the indifference towards reorganization of the boards as an instrument of corporate governance has displayed not only by the government but also by the corporate management at the enterprise level. Fourteen percent of the sample enterprises sent agenda for board meeting within less than a week before the board meeting whereas 63% of enterprises sent the agenda papers just a week before. 22% of enterprises sent agenda papers 15 days before the date of board meeting. Further, the study revealed that 69% of CEOs opined that the board members gave constructive suggestions and 31% of the CEOs mentioned that only sometimes the board members made value addition. The governing boards of 40% of sample enterprises had less than an adequate idea of corporate governance as seen from the fact that they did not appoint sub-committees.

The findings revealed that corporate governance must ensure a healthy interface resulting in higher growth. Sixteen percent of sample enterprises felt that economic reforms did not make any impact on public enterprise. Fifty-five percent of enterprises felt that economic reforms created an impact in terms of parameters such as customers focus, down sizing, leading edge technologies, capacity utilization, development of competitive edge, commercialization, diversification, customer orientation, professionalism, long term planning for growth and exit policy.

The findings further revealed that corporate governance did not improve much in the sample enterprises as seen from the fact that close to 50% of the enterprises did not experience change in the management style even after the introduction of economic reforms. However, 30% of the sample enterprises revealed that bureaucratic orientation changed significantly. 20% of sample companies noticed a significant change in their commercial orientation. 20% felt a change in their market orientation and 40% felt that a significant change has taken place in their administration orientation. The study of corporate governance function in a sample of 35 companies' response data revealed that the corporate governance function is not in a
healthy shape The performance of both the boards and CEOs does not conform to the norms advocated by the various experts committees and studies

2.11 THE BLUE RIBBON COMMITTEE (1998)\textsuperscript{16} was constituted by The Securities Exchange Commission New York to examine the role of audit committee to act as catalyst for effective financial reporting and for framing the guiding principles of best practices The findings of the committee are as follows The members of the audit committee should be independent directors and financial literate Outside auditors are responsible to the board as representative of the shareholders Auditor should discuss with board about the quality of the company’s accounting principles in relation to Generally Accepted Accounting Principles (GAAP)\textsuperscript{17} There is a need for independent communication and information flow between the audit committee and internal auditors There should be a procedure to discuss with the management the internal auditors and outside auditors regarding issues implicating judgment and quality and strengthening the role of audit committees in overseeing the corporate financial reporting process

As per the recommendations of this committee the listed companies with a market capitalization of above $ 200 Million or smaller companies as determined by New York Stock Exchange (NYSE) and National Association of Securities Dealers Automated Quotations (NASDAQ)\textsuperscript{18} are required to comply with the recommendations as regards audit committee its formal charter responsibilities structure process membership annual review and reassess the adequacy of the same and suggest by way of corrective measures The further recommendations broadly cover the implementation of the definition of independence\textsuperscript{19} for purposes of service on audit committee to have audit committee comprising of minimum 3 independent directors with one committee member having an accounting or related financial management expertise The committee recommended publishing a statement in the annual report on the management’s review of the audited financial statements with the audit
committee and outside auditors to satisfy that the financial statements are in conformity with GAAP. The findings and recommendations of this committee are in line with the requirements of the Agency Theory, which requires the compliance of reporting norms to the principals as per the statute by the board of directors including non-mandatory disclosures in the interest of shareholders or users of the financial information.

2.12 As per the recommendations of Cadbury and Greenbury Committees, the Sir Ronald Hampel Committee (1998) was constituted to monitor and review the implementation of recommendations of Cadbury committee report and Cadbury code. The committee was asked to suggest recommendations to promote high standards of corporate governance in the interest of investors' protection and to preserve and enhance the standing of companies listed on the stock exchange. The committee was entrusted an additional task to look afresh at the roles of the directors, shareholders, and auditors in corporate governance.

This committee recommended that the companies should include in their annual report and accounts a narrative statement of the ways in which they apply principles of corporate governance to their particular circumstances given that the responsibilities for good corporate governance rest with the board of directors. The written description of the way in which the board has applied the principles of the corporate governance represents a key part of the process. The committee did not prescribe the form or content of this statement which could conveniently be linked with the compliance statement required by the listing rules. The committee findings included among others that the larger listed companies have implemented both codes fully. Small companies have also implemented most provisions but some aspects they found difficult to comply with.

The Sir Ronald Hampel Committee set out the principles of governance under the following broad heads: (A) Directors (the board, the chairman, and CEO, board balance, supply of information, appointment to the board, and re-election) (B) Directors remuneration (the level and make up of...
remuneration procedure disclosure) (C) Shareholders (shareholder voting
dialogue between companies and investors evaluation of governance
disclosures and the AGM) (D) Accountability (financial reporting internal
control relationship with auditors external auditors) The findings of the
Hampel Committee helped creating awareness on the level of practice of
principles of corporate governance by certain companies in UK The
committee observed Good governance ensured the constituencies
(stakeholders) with a relevant interest in the company’s business and
provided accountability In addition good governance could make a
significant contribution to the prevention of malpractices and fraud although it
cannot prevent them absolutely

2.13 **THE COMBINED CODE** (1998)\textsuperscript{22} appointed by the London Stock
Exchange Financial Reporting Council London extracted the principles and
provisions from the recommendations of other committees (The Cadbury
1992 The Greenbury 1995 and Hampel Committee 1998) and suggested
the codes of conduct as applicable to all listed companies in UK

As per the terms of reference all listed companies in London Stock
Exchange are required to make a disclosure statement in two parts (1) The
company will be required to report on how it applied the principles in the
combined code The shareholders and others are required to evaluate this
part of company’s statement (2) The company will be required to confirm
whether it complies with the code provisions or not or provide an explanation
It must be for the shareholders and others to evaluate such explanations The
key principles of good governance for companies included among others
clear defining the responsibilities of chairman and CEO formal and
transparent procedure for appointment of new directors including re election
of any director and new set of principles of governing by the institutional
investors

2.14 **NARASIMHAN COMMITTEE**\textsuperscript{23} published its first report in (1991) and
the second in (1998) It was appointed by the Ministry of Finance Department
of Economic Affairs (Banking Division) Government of India. Though the corporate governance was not the subject explicitly addressed, several recommendations of these reports primarily are aimed at improving the quality of governance through external policy changes, changes in the role of supervisory structures and practices, as well as internal changes in the BOD and top management practices. This committee report contained a number of recommendations to make the financial sector competitive and healthy by improving the productivity, efficiency, profitability of the banking system on one hand and providing greater operational flexibility and functional autonomy in decision making on the other. It covered policy aspects, accounting practices, and institutional and structural issues.

The committee focused on important aspects of the banking business like income recognition and classification of advances in performing and non-performing assets. As a result, the banking sector for the first time quantified the extent of non-performing assets and laid down ground rules to tackle the menace of NPA effectively. This report has been viewed as a landmark report in the history of banking sector in India. In respect of legal and legislative framework, the committee recommended several changes in the Banking Regulation Act, the Reserve Bank of India Act, the Bank Nationalization Act, the Transfer of Property Act, the Sick Industrial Companies Act, and the State Bank of India Act.

2.15 The **TURNBULL COMMITTEE (1999)** was appointed by The Institute of Chartered Accountants in England and Wales to assess the effectiveness of effective internal control systems. The committee dealt with the significance of the system of internal control in managing the risks that are significant to the fulfillment of business objectives. Therefore, it stated that the company's internal control system should be embedded within its operations and not to be treated as a separate exercise. It must be able to respond to changing risks within and outside the company.
One of the key features of UK corporate governance regulation is that the governance was understood to be primarily about relationship between shareholders and managers. The principal recommendation of the report was to include a statement in the directors' report on compliance of internal control system, internal audit, assessing the risk and control process for consideration of the members.

2.16 The Organization for Economic Co-operation and Development (OECD) Code of Corporate Governance (1999)\textsuperscript{25} was appointed to suggest a set of internationally applicable principles of corporate governance based on the experience in the member countries with inputs from World Bank and others. The code consists of measures for protecting shareholders' rights including right to propose methods to secure ownership registration, transfer of shares, participation, and to vote in general shareholders' meeting. Further to elect members of the board, share in profits of the corporation, right to participation on decisions concerning fundamental corporation changes like amendments of statutes, articles of incorporation, etc. Further more, the code assured that the rights of stakeholders to get timely and accurate disclosure on all material matters regarding the corporation including the financial situation, performance, ownership, and governance of the company. Thus, the legal rights of stakeholders and their role to encourage active cooperation in creating wealth, jobs, and the sustainability of financially sound enterprises were granted by the committee and hence it became obvious that no single model of good corporate governance be suggested but there should be a continuous evolution and improvement in the model.

After the advent of economic liberalization and globalization of Indian economy, the Securities Exchange Board of India (SEBI) constituted Kumar Mangalam Birla Committee (KMBC) (2000)\textsuperscript{26} with a view to improve the standards of corporate governance and to ensure proper protection to the investors and other stakeholders. The terms of references of the committee were to suggest disclosure of material information both financial and non.
financial manner and frequency of such disclosures to analyze the responsibilities of independent and outside directors to draft a code of corporate best practices and to suggest safeguards to be instituted within the companies to deal with insider information and insider trading.

After accepting the recommendations of KMBC the SEBI amended Clause No 4927 of listing agreement to incorporate some of the recommendations for compliance by the listed companies in India in a phased manner. KMBC and SEBI created a revolutionary approach on the subject of corporate governance on line with global developments by suggesting immediate legislative amendments.

The committee considered various reports available on corporate governance mainly in developed economies besides considering the earlier steps taken by SEBI in improving corporate governance namely strengthening disclosure norms for initial public offers as per MALEGAM Y H COMMITTEE28 which required the disclosure of information in directors report for utilization of funds raised together with cash flow in annual report declaration of quarterly results as per clause 41 of listing agreement mandatory appointment compliance officer for monitoring the share transfers timely disclosure of material and price sensitive information including details of all materials events having bearing on the performance of the company and providing for a fair and transparent frame work for takeovers and substantial acquisitions.

The KMBC considered the critical issues having a bearing on the quality of financial reporting (1) consolidation of accounts of subsidiaries (2) segment reporting in case of multiple lines of business (3) disclosure and treatment of related party transactions. These recommendations have made a paradigm shift in the preparation of financial reports by the board to enable the users of financial information for timely and effective decision on the invested company matters.
The committee on line with global convergence agreed that the fundamental objective of the corporate governance is the enhancement of long term shareholders value without sacrificing the interests of other stakeholders. It observed that the ultimate responsibility of putting the code into practice is directly on the board of directors.

This committee's recommendations are more or less on par with the Cadbury Committee. The glaring features of this report with the Cadbury Committee reports are recommendations to publish a separate report on the management discussion and analyses shareholders protection information in the published annual reports and omission of statutory auditors role from the terms of reference by the SEBI. The KMBC Report considered three constituents of corporate governance as the shareholders, the board and the management, whereas the Cadbury Committee considered the board, the management and external auditors as responsible players in corporate governance.

The KMBC report not only defined the word independence as regards board members but also underlined the necessity of major presence of more number of independent directors on the composition of the board to ensure the well functioning of the board. The independent directors are not supposed to compromise their independence of judgment by involving financial or otherwise transactions with the company and its related parties. The non-executive directors being independent must be persons of high caliber with financial literacy, leadership qualities, high rate of commitment and readiness to devotee more time to the affairs of the company in the board meetings.

The committee stated that well functioning board with independent non-executive directors would be a key to good corporate governance. The disclosure of directors' interest and directors' shareholding must be given top priority as that would enable an accessibility of information by the shareholders. The committee observed that the shareholders must show a
greater degree of interest and involvement in the appointment of directors and auditors

The committee recommended to set up a remuneration committee to determine on board's behalf and on behalf of shareholders the company's policy on specific remuneration packages for executive directors including pension rights and compensation payments. The committee also recommends that the entire board should decide the remuneration of the non-executive directors.

The KMBC Report made a humble beginning in bringing the change in the mind-setting of corporate leaders on the matters of accountability, transparency, and independence.

Commercial banks constitute an important segment of the corporate sector and play a key role in economic development of a Nation. Therefore, a set of committees was constituted to streamline their governance in the banking sector. A private sector bank, Centurion Bank of India, constituted a GOVERNANCE COMMITTEE (2000) to practice good governance in banking business during the reform regime in India. It observed that good corporate governance of banks is the sine qua non of a sound banking system. Best practices of corporate governance in banks are of great value to a number of stakeholders, namely depositors, creditors, customers, shareholders, employees, and society at large.

Corporate Governance is about commitment to values, ethical business conduct, and high degree of transparency. A fine line distinguishes the function of governance from that of management. Management is clearly responsible for day-to-day operations, and the board should avoid micro-management. The management led by the CEO is accountable to the board.

The code suggested for constitution of various committees relevant to banking business with minimum one representative of every large stakeholder and proper redressal mechanism for stakeholders complaints. The board must
be broad based with minimum 50% of the members being independent and from the background of exposure in banking industry economics law accounts and other industries

The Corporate Governance Service Report (2000)\textsuperscript{30} provided detailed information of about 800 companies. The report contains clear and detailed analyses on the full range of issues including compliance with codes of best practice director's remuneration structure meeting resolutions and environmental reporting. The report also contains main corporate governance indicators including the ratio of executive to non-executive directors analyses of independence of Non-Executives separation of the responsibilities on the board and existence and membership of board committees.

2.17 EMERGING CONSENSUS IN CORPORATE GOVERNANCE

The consensus arrived among the findings of various committees indicates that the board of directors, executive management, shareholders, and auditors have a key role to play in ensuring good corporate governance. The quality of good governance is directly linked with well functioning of the board, its composition, independence of members, knowledge base, and their keen interest in monitoring control systems in the company functioning. The shareholders' activism does create a positive impact on the dynamism of board functioning in the overall interest of the company. Some committees recommended greater involvement of the shareholders as the owners of the company to improve the governance standards. Well-functioning audit committee followed by a vigilant external audit function in the environment of sound internal control system would put the corporate functioning on right track. Time and again various committee reports highlighted the significance of disclosure of accurate, timely information to the stakeholders so as to enable them to have a better insight of company affairs. Almost all the committee reports contained universal objective of good governance as maximization of long-term shareholders' value without compromising the balanced interest of other stakeholders' interests. Good corporate
performance has been viewed as the first step to ensure value maximization of the company. In this regard, various committees concluded that the committee structure of governance would go a long way in giving consistent performance of a company with checks and balances in organization structure and organization process.
2.18 RESEARCH GAP

The subject of corporate governance is too vast, intricate, and dynamic. There are certain gaps in the subject of study as regards stakeholders' role, relationship, and suitability of the governance module, etc., and therefore, a ubiquitous solution cannot be advocated. Since these research gaps exist in the reviewed literature, this study has attempted to address some of these gaps. However, in the scenario reviewed, expectations of the stakeholders, impact of statute-based governance and voluntarily enforced governance system on the company's functioning, possibility of linking between corporate governance and corporate performance, and relevance of corporate governance model for corporate sector in developing economies like India have been considered in this study.
End Notes and References


4 Ibid, p 34


6 Institute of Directors (2002) *The report of King Committee – II*. South Africa


10 CII (1997) *Report on Desirable Corporate Governance in India – A code based on findings of National Task Force on corporate governance*. Mumbai, pp 2-4


17 GAAP – Generally Accepted Accounting Principles in US – which focuses on disclosure accounting principles independent audit report classification schemes in financial reporting. IGAAP Indian Generally Accepted Accounting Practices announced under the
Companies Act of 1956 and the Institute of Chartered Accountants of India through accounting standards board established in 1977

18 NYSE – New York Stock Exchange Ltd NASSDAQ – National Association of Securities Dealers Automated Quotations An information system which gives price quotations on securities traded over the counter to brokers and dealers The system is automated

19 The SEBI (2000) SEBI Committee Report Mumbai The Committee defined independent director means A Director who apart from receiving director remuneration does not have any other material pecuniary relationship of transaction with a company its promoters its management or its subsidiaries which in judgment of the board may affect independence of judgment of the directors


26 Securities Exchange Board Of India (2000) Report of the Kumar Mangalam Birla Committee on Corporate Governance Ministry Of Finance Government Of India New Delhi pp 373 385


