Chapter – 4

Corporate Governance Practices followed in India and Abroad

4.1 Introduction

Amid all our good hopes for achieving corporate growth and prosperity, we are presently witnessing the morbid picture of global corporate governance practice leading to corporate failures that have sternly rocked investors’ confidence in particular and the stakeholders’ disgruntlement in general. Many of the world-class flourishing companies with their top priorities from the investors’ viewpoints have become the victims of corrupt practices and have burnt their faces because of the lack of good corporate governance practices. As a sequel to these corporate devastations, the share prices of those companies crashed overnight creating socio-economic deadlock whereby a large number of investors have become penniless all on a sudden and many innocent employees have to face the victims of economic crisis and have to forgo their gainful employment. In fact, the directors, CEOs and other top level officers of many companies have misused and fabricated their powers in bad connivance with executives of other companies to the detriments of the stakeholders of the companies. To prohibit this evil practice, the good corporate governance practice is considered the quintessential need and the cry of the day so as to protect the diversified interests of different stakeholders and to augment a flourishing corporate ambience to promote investors’ confidence and also to raise foreign funds across national frontier.

In commensurate with the pressing needs of the society demanding transparency, equity and justice in managing business activities in social spheres, good corporate governance practice has to be adopted and properly implemented to keep pace with the changing global scenario. The corporate entities are in urgent need to take recourse the venture of strict corporate governance practice to offer an excellent corporate ambience with the noble mission to protect the diversified interests of different stakeholders, to offer a profound base for global comparison of financial reporting and also to augment inflow of foreign capital on national frontier to flourish and prosper in achieving corporate strength and sustainability.
"The fundamental objective of Corporate Governance is the enhancement of long-term shareholder value while, at the same time, protecting the interests of other stakeholders."


Corporate governance has in recent years been a much-discussed topic in economics, management, business ethics, company law and other disciplines. Governance is a new buzzword in India as well as the world over. There is no well-accepted definition of what Governance means. As a result, different people have come up with different definitions that basically reflect their special interest in the field. Corporate Governance is the system by which business corporations are directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among different participants in the corporations, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring performances.

Corporate governance refers to the system through which the behavior of a company is monitored and controlled. It is the mechanism by which the principles, values, philosophy and practices of a Company manifest in the real world. Good transparent Corporate Governance ensures that the Company is managed and monitored in a responsible manner geared to value creation. Corporate Governance is concerned with both the internal aspects of the Company, such as internal controls, and the external aspects such as an organization's relationship with all its stakeholders. The Board of Directors represents the interests of the Company’s stakeholders, in optimising long-term value by providing the Company necessary guidance and strategic vision on stakeholders' behalf. The Board is also responsible for ensuring that the Company’s management and employees operate with the highest degree of ethical standards.

The World Bank has defined Governance as the manner in which power is exercised in the management of country’s economic and social resources.
OECD defines Corporate Governance as “the system by which business corporations are directed and controlled”

As defined by the Institute of Chartered Accountants of India (ICAI), Corporate Governance is the system by which companies are directed and controlled by the management in the best interest of the stakeholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors is responsible for governance of its companies.

The basic philosophy of corporate governance is to achieve business excellence and enhance shareholder value, while keeping in view the need to balance the interests of all stakeholders.

Thus, we can say that Corporate Governance is the framework of relationships, systems and process for making decisions on corporate affairs. It also provides the structure through which company objectives are set and also the means of attaining and monitoring the performance of those objectives.

A number of committees were set up to look into various aspects of corporate governance, which included Sir Adrian Cadbury Committee (1992), Greenbury Committee (1995), Hampel Committee (1998), Blue Ribbon Committee (1999), OECD Principles of Corporate Governance (1999) etc. across the globe. But apart from different rules, regulations and guidelines on Corporate Governance, numerous corporate scandals in recent times and past several years have created debate over proposals for government action. Some recent scandals are Satyam Computer Services in 2009 regarding fudging of accounts amounted to Rs. 3176 cr., Global Trust Bank in 2004 regarding Banking fraud amounted to Rs. 812 cr., GrowMore Research and Asset Management in 1992 regarding Bank securities misuse for stock amounted to Rs. 4,300 cr., WorldCom in 2002 regarding accounting frauds amounted to $9bn, Xerox in 2002 regarding accounting frauds amounted to $6bn, Enron in 2001 regarding accounting frauds amounted to $591m., and many more. Now these financial scandals have put a question mark on the credibility of the existing accounting framework and the various regulations governing the field of accounting. Now the crucial challenge for the government is to restore corporate integrity and
market confidence without overreacting and stifling the dynamism that is the basis of a strong economy.

The most stringent enactment passed in corporate governance developments across the globe is the Sarbanes Oxley Act in the US in July 2002 after the corporate collapses of Enron, Worldcom and Xerox to restore trust in the public securities market. Specifically, the US government enacted this law to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws.

In recent years, the issue of Corporate Governance has governed much debate. The term is used to describe the ways in which companies are directed and controlled. The issue of Corporate Governance is important because, in companies of any size, those who own the company (i.e., the shareholders) are usually divorced from the day to day control of the business. The directors are employed by the shareholders to manage the company on behalf of the shareholders. Given this position, it may be safe to assume that the directors’ decision will be guided by the interest of shareholders.

"Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society."


Corporate Governance also needs to care for promotion of corporate affairs, transparency, accountability, disclosures. Corporate Governance specifies distribution of rights and responsibilities on board, managers, shareholders and spells out the needs and procedures for making decisions on corporate affairs. Good Corporate Governance is the essence of modern corporate management and is viewed like a good mother. As mother is to the newborn baby, the good Corporate Governance is to the corporate management. A good mother takes care of the baby, trains her baby how to grow and live, how to interact with the outer world and to tackle the situations and finally teaches how to survive. A business enterprise in the similar way learns through
good governance practice. The essence of good corporate governance is to frame a system by which corporate bodies can be duly regulated and controlled.

Corporate governance is a key element in improving the economic efficiency of a firm. Good corporate governance also helps ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate. Further, it ensures that their Boards are accountable to the shareholders. This, in turn, helps assure that corporations operate for the benefit of society as a whole. While large profits can be made taking advantage of the asymmetry between stakeholders in the short run, balancing the interests of all stakeholders alone will ensure survival and growth in the long run. This includes, for instance, taking into account societal concerns about labor and the environment (Narayan Murthy Committee 2003). Thus we can say that good Corporate Governance and a disciplined approach to financial controls reduce the amount of frauds and help in arresting corporate disasters. In US, the introduction of SOX Act has played a significant role in administering good corporate governance practice. In India, along with the several enactments like The Companies Act, 1956 etc., the SEBI has taken a leading role to look after and maintain a state of good corporate governance practice in the country.

4.2 The SOX Act

The Sarbanes Oxley Act (SOX Act) 2002 is the US Act enacted in the wake of the devastating corporate failures that rocked the investors’ confidence worldwide and ushered wide criticisms on the role of the company executives, directors and the auditors for their gross negligence in safeguarding the interests of the different stakeholders. The world witnessed the appalling debacle of many prosperous US companies which were at the top of the list of investors’ choices (like Enron, WorldCom, Xerox etc.). The latest corporate scandal is with us --- the notorious Satyam Computers Ltd. in connection with its Rs. 7800 crore accounting fraud committed in bad connivance with the globally reputed audit firm Pricewaterhouse-Coopers. Despite having prosperities, these companies became the victim of corrupt practices because of bad corporate governance practice, lack of stewardship, extreme
greed, hedonism, misuse of power by company Directors and CEOs that led to corporate disasters.

The SOX Act was incorporated with much fervor and zeal in the USA coupled with a lot of regulatory measures as a part of the defense mechanism with the following objectives:

- to attain good corporate governance practice for controlling and regulating the activities of the corporate enterprises;
- to ensure judicious sharing of responsibilities among the different parties - Board, promoters, shareholders etc. for managing business in a fair and transparent manner;
- to introduce transparency in financial reporting and disclosure practices by observing corporate accountability in a socially responsive manner;
- to induce ethical and moral practice in discharging managerial functions for protecting and safeguarding the diversified interests of the stakeholders;
- to achieve corporate excellence so as to offer a platform for raising resources across national frontier within a broad framework for accelerating investors’ protection and retaining their confidence.

4.3 OECD Principles of Corporate Governance

The Organization for Economic Co-operation and Development (OECD) is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalization, in close co-operation with many other economies. One of these challenges is Corporate Governance; a topic on which the OECD has developed internationally agreed Principles of Corporate Governance. Now following are the OECD countries –
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These countries meet annually to discuss on Corporate Governance organized by the OECD in partnership with the IFC/World Bank Group and with the support of the Global Corporate Governance Forum. The International Finance Corporation (IFC) is part of the World Bank Group and was established in 1956 to encourage private sector-led growth in developing countries. IFC helps companies and financial institutions in emerging markets create jobs, generate tax revenues, improve corporate
governance and environmental performance, and contribute to their local communities. And the Global Corporate Governance Forum is an International Finance Corporation (IFC) multi-donor trust fund facility located within IFC Advisory Services. The Forum was co-founded by the World Bank and the Organization for Economic Co-operation and Development (OECD) in 1999. Through its activities the Forum aims to promote the private sector as an engine of growth, reduce the vulnerability of developing and transition economies to financial crisis, and provide incentives for corporations to invest and perform efficiently in a socially responsible manner.

In this way, the OECD provides a setting where governments and other stakeholders can compare experience, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

Work on corporate governance has been going on at the OECD for a number of years. The OECD is an ideal forum for such discussions, as it brings together representatives of 30 OECD member countries as well as numerous other countries that participate in the Organization's work. Together, these countries account for more than 90 percent of world stock market capitalization. Their governments have a vested interest in working on behalf of their citizens to ensure good practice in corporate governance, as an essential element in the promotion of prosperity and economic growth.

In 1999, the OECD published its Principles of Corporate Governance, the first international code of good corporate governance approved by governments. These Principles focus on publicly traded companies and are intended to assist governments in improving the legal, institutional and regulatory framework that underpins corporate governance. They also provide practical guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance.

Since the Principles were first published, however, a spate of corporate scandals has undermined the confidence of investors in financial markets and company boards. In 2002, OECD governments called for a review of the Principles to take account of these developments. On April 22 2004, OECD governments approved a revised version of the OECD principles of Corporate Governance adding a series of
new recommendations and modifying others. The revised text is the product of a consultation process involving OECD members and representatives from the OECD and non-OECD areas including businesses and professional bodies, trade unions, civil society organizations and international standard-setting bodies. They are designed to assist policy makers in both developed and emerging markets in improving corporate governance in their jurisdictions, as a vital step in rebuilding public trust in companies and financial markets. Now the summary of OECD principles of Corporate Governance (1999, REVISED 2004) can be stated as follows -

The OECD Principles, adopted in 1999 and expanded in 2004, describe the basic elements of an effective Corporate Governance framework for corporations that seek to attract capital from equity investors:

- Promoting transparent and efficient markets, which are consistent with the rule of law and which clearly articulate the division of responsibilities among supervisory, regulatory and enforcement authorities;
- Protecting and facilitating the exercise of shareholders’ rights;
- Ensuring the equitable treatment of all shareholders, who should also have the opportunity to obtain effective redress for violation of their rights;
- Recognizing the rights of stakeholders established by law or through mutual agreements and encouraging active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises;
- Ensuring that timely and accurate disclosure is made on all material matters regarding the corporation, including its financial situation, performance, ownership and governance; and
- Ensuring the strategic guidance of the company, the effective monitoring of management by the board and the board’s accountability to the company and the shareholders.

The new Principles call for a stronger role for shareholders in a number of important areas, including executive remuneration and the appointment of board members. The revised Principles emphasize the important role that institutional investors can play in monitoring company performance and in conveying their
concerns to the board of a company. They can challenge or support the board through voting at the general meetings of shareholders and they are well placed to take their concerns directly to the board and to propose a course of action. An increasing number of institutional investors are actively exercising their ownership roles in this way. The revised Principles also need for effective regulatory system that can protect the interest of minority shareholders. Effective implementation and enforcement require that laws and regulations are designed in a way that makes them possible to implement and enforce them in an efficient manner.

By agreeing on these Principles, OECD governments have set the broad foundations for high standards of corporate governance. The legislation needed to enforce these standards is the responsibility of individual governments, and in enacting it, governments and policy makers need to find a balance between rules and regulations on one hand and flexibility on the other.

4.4 Clause 49 of the Listing Agreement on Corporate Governance

"Corporate governance is about working ethically and finding a balance between economic and social goals. It includes the ability to function profitably while obeying laws, rules and regulations."


The Securities and Exchange Board of India (SEBI) monitors and regulates Corporate Governance of listed companies in India through Clause 49. This clause is incorporated in the listing agreement of stock exchanges with companies and it is compulsory for them to comply with its provisions. SEBI had constituted a Committee on May 7, 1999 under the chairmanship of Shri Kumarmangalam Birla, then Member of the SEBI Board “to promote and raise the standards of corporate governance”. Based on the recommendations of this Committee, a new clause 49 was incorporated in the Stock Exchange Listing Agreements (“Listing Agreements”).

Finally SEBI issued Clause 49 in the financial year 2000-01 based on recommendations of Kumar Mangalam Birla committee. After these recommendations were in place for about two years, SEBI, in order to evaluate the
adequacy of the existing practices and to further improve the existing practices set up a committee under the Chairmanship of Mr. Narayana Murthy during 2002-03. The Murthy committee, after holding three meetings, had submitted the draft recommendations on corporate governance norms. After deliberations, SEBI accepted the recommendations in August 2003 and asked the Stock Exchanges to revise Clause 49 of the Listing Agreement based on Murthy committee recommendations. This led to widespread protests and representations from the Industry thereby forcing the Murthy committee to meet again to consider the objections. The committee, thereafter, considerably revised the earlier recommendations and the same was put up on SEBI website on 15th December 2003 for public comments. It was only on 29th October, 2004 that SEBI finally announced revised Clause 49, (SEBI/CFD/DIL/CG/1/2004/12/10) which will have to be implemented by the end of financial year 2004-05.

The major new provisions included in the new Clause 49 are:

✓ The board will lay down a code of conduct for all board members and senior management of the company to compulsorily follow.

✓ The CEO and CFO will certify the financial statements and cash flow statements of the company.

✓ At least one independent director of the holding company will be a member of the board of a material non-listed subsidiary.

✓ The audit committee of the listed company shall review the financial statements of the unlisted subsidiary, in particular its investments.

✓ If while preparing financial statements, the company follows a treatment that is different from that prescribed in the accounting standards, it must disclose this in the financial statements and the management should also provide an explanation for doing so in the corporate governance report of the annual report.

✓ The company will have to lay down procedures for informing the board members about the risk management and minimisation procedures.
✓ Where money is raised through public issues, rights issues etc., the company will have to disclose the uses/applications of funds according to major categories (capital expenditure, working capital, marketing costs etc) as part of quarterly disclosure of financial statements. Further, on an annual basis, the company will prepare a statement of funds utilised for purposes other than those specified in the offer document/prospectus and place it before the audit committee.

✓ The company will have to publish its criteria for making its payments to non-executive directors in its annual report.

If we go through the SEBI guidelines, issue to protect the shareholders interest, then Annexure – I of clause 49 of the listing agreement, the company agrees to comply with the following points –

- Board Composition
- Audit Committee
- Subsidiary Companies
- Disclosures
- CEO/CFO certification
- Report on Corporate Governance
- Compliance

Now the question is whether all the companies which is listed under Bombay Stock Exchange or National Stock Exchange or other stock exchanges followed SEBI guidelines’ revised clause 49 of the listing agreement to protect the interest the stakeholders or not?

4.4-1 Board composition

"Directors and managements must take upon themselves to improve accountability by setting a tone at the top", honoring the responsibilities that arise from the trust placed in them by investors. All directors and managements should implement their own best practices for corporate governance that promote integrity, transparency and accountability."


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Corporate Governance is a system by which companies are directed and controlled. Boards of directors are responsible for the governance of their enterprises. The Board of directors is a representative of all shareholders and not merely to one or two dominant sections of shareholders. The Board of directors should act on behalf of the shareholders and nobody else. There should be Executive and Non-Executive director in governance. Directors will and can never be Independent, unless they are recruited and paid by an outside agency.

The minimum board size of all listed companies, as well as unlisted public limited companies with a paid-up share capital and free reserves of Rs.10 crore and above, or turnover of Rs.50 crore and above should be seven — of which at least four should be independent directors. However, this will not apply to: (1) unlisted public companies, which have no more than 50 shareholders and which are without debt of any kind from the public, banks, or financial institutions, as long as they do not change their character, (2) unlisted subsidiaries of listed companies. *(Report of the Committee on Corporate Audit and Governance -Naresh Chandra Committee, January, 2003, Para 4.3)*

JJ Irani Committee has suggested a minimum of one third of the total number of directors as independent directors should be adequate for a company having significant public interest, irrespective of whether the Chairman is executive or non-executive, independent or not. In the first instance this requirement should be extended to public listed companies and companies accepting public deposits. The requirements for other types of companies may be considered in due course. In this context, nominee directors should not be deemed to be independent directors. *(JJ Irani Committee Report 31st May, 2005, Part-3, Chapter –IV, Para 8.1)*

The Board of Directors, which acts as the brain of an organization, requires the right balance between shareholders, directors, auditors and other stakeholders. The Kumar Mangalam Birla Committee has recommended that the composition of the board is important in as much as it determines the ability of the board to collectively provide the leadership and ensures that no one individual or a group is able to dominate the board. The executive directors (like director-finance, director-personnel)
are involved in the day to day management of the companies; the non-executive directors bring external and wider perspective and independence to the decision making. Till recently, it has been the practice of most of the companies in India to fill the board with representatives of the promoters of the company, and independent directors if chosen were also handpicked thereby ceasing to be independent. This has undergone a change and increasingly the boards comprise of following groups of directors - promoter director, executive and non-executive directors, a part of whom are independent. A conscious distinction has been made by the Committee between two classes of non-executive directors, namely, those who are independent and those who are not. Finally the committee has recommended a board containing at least 50% Independent directors if the chairman is an executive director, and alternatively, a board with at least $1/3^{rd}$ Independent director, if the chairman is a non-executive director (Kumar Mangalam Birla Committee Report on Corporate Governance, Para 6.3)

Kumar Mangalam Birla Committee recommends that the board of a company have an optimum combination of executive and non-executive directors with not less than fifty percent of the board comprising the non-executive directors. The number of independent directors (independence being as defined in the foregoing paragraph) would depend on the nature of the chairman of the board. In case a company has a non-executive chairman, at least one-third of board should comprise of independent directors and in case a company has an executive chairman, at least half of board should be independent. (Kumar Mangalam Birla Committee Report on Corporate Governance, Para 6.9)

The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors (SEBI 2004). Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director at least half of the Board should comprise of independent directors. None of the Directors on the Board is a Member of more than 10 Committee or a Chairman of more than 5 Committee (as specified in Clause 49), across all the Company in which he/she is a Director. All the Directors have intimated periodically about their Directorship and Membership in the
various Board Committees of other companies, which are within permissible limits of the Companies Act, 1956 and Corporate Governance Code. The board shall meet at least four times a year, with a maximum time gap of three months between any two meetings. The minimum information to be made available to the board is given in Annexure-I A.

According to Clause 49 of the Listing Agreement with Indian stock exchanges, an independent director means a person other than an officer or employee of the Company or its subsidiaries or any other individual having a material pecuniary relationship or transactions with the Company which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. According to the NASDAQ listing rules and the Sarbanes-Oxley Act, U.S., Independent director means a non-executive director of the company who:

- apart from receiving director’s remuneration does not have close relationships or transaction with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;
- is not related to promoters or persons occupying management positions at the board level or at one level below the board;
- has not been an executive of the company in the immediately preceding three financial years;
- is not a partner or an executive or was not partner or an executive during the preceding three years of any of the following:
  - the statutory audit firm or the internal audit firm that is associated with the company, and
  - the legal firm(s) and consulting firm(s) that have a material association with the company.
- Is not a material supplier, service provider or customer or a lesser or lessee of the company, which may affect independence of the directors.

Clause 49 of the Listing Agreement as amended in April 2008 requires that if the Non-Executive Chairman of a Company is the promoter then at least half of the Board of Directors of such Company should consist of Independent Directors.
Executive Director’s service contracts should not exceed three years without shareholders approval. Executive Director’s pay should be subject to the recommendations of remunerations committee made up wholly or mainly of non-executive directors.

4.4-2 Independent Directors

“Independent directors are those who apart from receiving director’s remuneration do not have any material pecuniary relationship or transactions with the company, its promoters, its management or its subsidiaries, which in the judgment of the board may affect their independence of judgment.” [Kumar Mangalam Birla Committee Report, Para 6.5]

“Independent Director means a person who should be able to exercise his or her reasoned judgment without being constrained or unduly influenced by pressures either from management or any dominant shareholder or stakeholder.” [Naresh Chandra Committee Report Para 4.04]

As per JJ Irani Committee Report (issued in May 2005, Part-3, Chapter-IV, Para 9.1), the expression ‘independent director’ should mean a non-executive director of the company who:-

- apart from receiving director’s remuneration, does not have, and none of his relatives or firms/companies controlled by him have, any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associate companies which may affect independence of the director. For this purpose “control” should be defined in law.

- is not, and none of his relatives is, related to promoters or persons occupying management positions at the board level or at one level below the board;

- is not affiliated to any non-profit organisation that receives significant funding from the company, its promoters, its directors, its senior management or its holding or subsidiary company;

- has not been, and none of his relatives has been, employee of the company in the immediately preceding year;
is not, and none of his relatives is, a partner or part of senior management (or has not been a partner or part of senior management) during the preceding one year, of any of the following:-

I. the statutory audit firm or the internal audit firm that is associated with the company, its holding and subsidiary companies;

II. the legal firm(s) and consulting firm(s) that have a material association with the company, its holding and subsidiary companies;

is not, and none of his relatives is, a material supplier, service provider or customer or a lessee or lessor of the company, which may affect independence of the director;

is not, and none of his relatives is, a substantial shareholder of the company i.e. owning two percent or more of voting power.

4.4-2.a Role of Independent Directors

The presence of Independent directors on the Board of a Company would improve corporate governance. This is particularly important for public companies or companies with a significant public interest. Independent directors would be able to bring an element of objectivity to Board process in the general interests of the company and thereby to the benefit of minority interests and smaller shareholders. Now the Independent Directors plays the following significant role –

a) Independent directors bring in independent thinking and rich experience in their respective fields. They represent different viewpoints on the different issues brought to them.

b) They are capable of justifying their decisions and take full responsibility of their decisions.

c) They can provide independent judgment on the issues like strategy, performance and resources. They also ensure that a proper, efficient and effective monitoring system exists in the company and the company follows the appropriate code of conduct and standards in the financial disclosure policies.
4.4-3 Audit Committee

Audit Committees are now becoming mandatory for public companies. In response to recent corporate scandals the Audit Committee has taken on new levels of importance as the regulators of the external audit, internal controls, and disclosure activities. The Sarbanes Oxley Act defines Audit Committee as “a committee (or equivalent body) established by an amongst the Board of Directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer.” If no such committee exists the Act states that the whole Board is to be considered as an Audit Committee.

The primary objective of the audit committee is to monitor and provide effective supervision of the Management's financial reporting process with a view to ensure accurate, timely and proper disclosures, and transparency, integrity and quality of financial reporting. The committee should also look-after the financial reporting process by the Management, the internal auditors and the independent auditor, and notes the processes and safeguards employed by each.

The Audit committee members should be “financially literate” and at least one member should have accounting or related financial management expertise and all audit committee members should be able to read and understand financial statements at the time of their appointment rather than within a reasonable period (Narayan Murthy Committee Report, 2003).

4.4-3.a Composition of Audit Committee [Clause 49 (IIA) of the listing agreement]

According to Kumar Mangalam Birla Committee Report on Corporate Governance the composition of the audit committee is based on the fundamental premise of independence and expertise. The Committee therefore recommends that

- the audit committee should have minimum three members, all being non executive directors, with the majority being independent, and with at least one director having financial and accounting knowledge;
- the chairman of the committee should be an independent director;
- the chairman should be present at Annual General Meeting to answer shareholder queries;
the audit committee should invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the Committee but on occasions it may also meet without the presence of any executives of the company. Finance director and head of internal audit and when required, a representative of the external auditor should be present as invitees for the meetings of the audit committee;

the Company Secretary should act as the secretary to the committee.

"An Audit Committee, comprising of at least three non-executive’s, should be established" - (Cadbury Committee Report)

According to Clause 49 of the Listing Agreement with Indian stock exchanges issues in 2004, an Audit Committee should -

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

I. The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.

II. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

III. The Chairman of the Audit Committee shall be an independent director;

IV. The Chairman of the Audit Committee shall be present at Annual General Meeting to answer shareholder queries;

V. The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee;

VI. The Company Secretary shall act as the secretary to the committee.
According to Section 292A of the Companies Act, 1956, “Audit Committee” should consist of a minimum of three directors and such other directors as the Board may determine.

4.4-3.b Meeting of Audit Committee [Clause 49 (IIB) of the listing agreement]

The committee will meet separately with the CEO and the CFO of the company at such times as are appropriate to review the financial affairs of the company. The audit committee will meet separately with the independent auditors and internal auditor of the Company, at such times as it deems appropriate (but not less than quarterly) to fulfill the responsibilities of the audit committee.

The audit committee should meet at least four times in a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present. (Annexure – I of Clause 49)

4.4-3.c Powers of Audit Committee [Clause 49 (IIC) of the listing agreement]

Being a committee of the board, the audit committee derives its powers from the authorization of the board. The audit committee shall have powers, which should include the following:

- To investigate any activity within its terms of reference.
- To seek information from any employee.
- To obtain outside legal or other professional advice.
- To secure attendance of outsiders with relevant expertise, if it considers necessary.
- To review the risk management and mitigation plans.

4.4-3.d Role of Audit Committee [Clause 49 II (D) of the listing agreement]

The role of the audit committee shall include the following:

I. Oversight of the company’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
II. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.

III. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

IV. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:

- Matters required to be included in the Director’s Responsibility Statement to be included in the Board’s report in terms of clause (2AA) of section 217 of the Companies Act, 1956
- Changes, if any, in accounting policies and practices and reasons for the same
- Major accounting entries involving estimates based on the exercise of judgment by management
- Significant adjustments made in the financial statements arising out of audit findings
- Compliance with listing and other legal requirements relating to financial statements
- Disclosure of any related party transactions
- Qualifications in the draft audit report.

V. Reviewing, with the management, the quarterly financial statements before submission to the board for approval

VI. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.

VII. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
VIII. Discussion with internal auditors any significant findings and follow up there on. Page 7 of 18

IX. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

X. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

XI. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.

XII. To review the functioning of the Whistle Blower mechanism, in case the same is existing.

XIII. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

4.4-3.e Review of information by Audit Committee [Clause 49 (II-E) of the listing agreement]

The Audit Committee shall mandatorily review the following information:

I. Management discussion and analysis of financial condition and results of operations;

II. Statement of significant related party transactions (as defined by the audit committee), submitted by management;

III. Management letters / letters of internal control weaknesses issued by the statutory auditors;

IV. Internal audit reports relating to internal control weaknesses; and

V. The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.
On the basis of above discussion it can be concluded that the Audit Committee, as a whole, play a vital role in the corporate reporting practices. The Audit Committee is no doubt covered with the different types of responsibilities which can be arises during the financial year. The management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's financial statements in accordance with the generally accepted auditing standards, and for issuing a report thereon. The committee's responsibility is to monitor these processes. The committee is also responsible for overseeing the processes related to the financial reporting to ensure that the financial statements are true, fair, sufficient and credible. In addition, the committee recommends to the Board the appointment of the Company's internal and independent auditors. In this context, the committee should discuss with the Company's auditors, about the overall scope and plans for the independent audit. The Management represented to the committee that the Company's financial statements were prepared in accordance with GAAP. The committee also discussed with the auditors other matters required by the management on the financial reporting practices. Relying on the review and discussions conducted with the Management and the independent auditors, the audit committee must report that the Company's financial statements are fairly presented in conformity with GAAP in all material aspects. The committee should also review the internal controls put in place to ensure that the accounts of the Company are properly maintained and that the accounting transactions are in accordance with prevailing laws and regulations. The committee should also review the financial and risk management policies of the Company and expressed his opinion on it. Finally the audit committee should recommend the following to the Board of Directors that:

➢ The audited financial statements are prepared as per Indian GAAP and accepted by the Board as a true and fair statement of the financial status of the Company.

➢ The audited consolidated financial statements are prepared as per Indian GAAP and accepted by the Board as a true and fair statement of the financial status of the group, and
The financial statements prepared as per International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) for the year ended and accepted, and included in the Company's Annual Report on Form 20-F, to be filed with the U.S. Securities and Exchange Commission.

4.5 Recommendations of various committees on Corporate Governance

"The primary purpose of corporate leadership is to create wealth legally and ethically. This translates to bringing a high level of satisfaction to five constituencies – customers, employees, investors, vendors and the society at large."

-NR Narayan Murthy, Chairman and Chief Mentor, Infosys Technologies Ltd.

At present there are so many models of Corporate Governance and these models are also improving from time to time to improve the corporate reporting practices prevail in different countries based on its historical, political, cultural and social background. It is true that the basic concepts of Corporate Governance in all over world are the same. However the different committees on this vital issue give the following recommendations:

4.5-1 The UK Experience

Over the years the UK has initiated a series of investigations into ways to improve the corporate governance of UK listed companies. These investigations have been high profile, lead by an experienced individual who has given his name to the final report. These are the Cadbury Report (1992), Greenbury Report (1995), Hampel Report (1998) and Turnbull Report (1999). Out of them the Cadbury Report and the Greenbury Report affected too much the corporate governance practices in UK. These reports are highlighted below –
4.5-1.a The Sir Adrian Cadbury Committee Report

Sir George Adrian Hayhurst Cadbury (born 1929) is a member of the well-known Cadbury family. Having been born in 1929, he was educated at Eton College and King's College, Cambridge. He joined the Cadbury business in 1952 and became Chairman of Cadbury Ltd in 1965. He retired as Chairman of Cadbury Schweppes in 1989. He was member of the OECD Business Sector Advisory Group on Corporate Governance. His publications include: Ethical Managers Make Their Own Rules; The Company Chairman; Corporate Governance and Chairmanship: A Personal View. Sir Adrian Cadbury was a pioneer in raising the awareness and stimulating the debate on Corporate Governance. He is most noted for the Cadbury Code, a code of best practice which served as a basis for reform of corporate governance around the world. He was a Director of the Bank of England from 1970-1994 and of IBM from 1975-1994. He was Chairman of the UK Committee on the Financial Aspects of Corporate Governance which published its Report and Code of Best Practice ("Cadbury Report and Code") in December 1992.

In May 1991, Sir George Adrian Cadbury was asked to chair the Committee on the Financial Aspects of Corporate Governance. It was set up by the Financial Reporting Council which in Britain is responsible for accounting standards, the London Stock Exchange and the accounting profession. The subsequent collapse of
the BCCI Bank, the Maxwell affairs in UK resulted in the Cadbury Committee in UK. In December 1992, the Cadbury Committee published their Code of Best Practice. The recommendations, which largely reflected perceived best practice at the time, included separating the roles of CEO and chairman, having a minimum of three non-executive directors on the board and the formulation of audit committees. The Code also advocated that a more active role be taken by institutional investors in the promotion of good practice in corporate governance.

It was set up with a view to improve the standards of the financial reporting and the role of the board of directors. The committee submitted its report and the code of best practices. In December, 1992 it was realized that there was a need for a process of challenge within the leadership and management of a company with adequate system of control. The committee also expressed the need for effective communication through creditors, employees, local community, customers, the regulators, the taxman, supplier etc. Thus, the Cadbury Committee has deviated from the old concept of corporate governance, which believed that corporate governance was directed towards the maximisation of shareholders wealth.

4.5-1.b The Greenbury Committee Report
Since Cadbury, The Greenbury committee on Directors’ Remuneration was set up in January 1995 at the request of the then Prime Minister, John Major, amid political controversy over the rapid rise in boardroom salaries and severance awards, particularly in the public utilities. Centered on directors’ remuneration, the terms of reference of the committee were to identify good practice in determining Directors’ remuneration and prepare a Code of such practice for use by UK PLCs.

The Greenbury Committee report issued its report in 1995 covering the best practice recommendations in the realm of executive and directors remunerations. Its main recommendations are as follows:-

- The compensation committee should be composed exclusively of independent directors.

- Companies should annually outline their compliance with the Greenbury code, including explanations if they do not comply.
The annual compensation committee report should disclose pay details for all executive directors.

Executive pay should be reasonable.

Employment contracts should not be far more than one year.

New long incentive plan should replace, non-supplement the existing option plans.

Performance related pay should “align the interest of directors and the shareholders.”

Upper limits should always be considered.

Executive stock option awards should be phased rather than given all at once, and option should never be awarded at a discount.

The Greenbury Report’s recommendations became effective for firms reporting after 31st December 1995. The report has drawn for more criticism than those drafted by Sir Cadbury, but institutional investors in Britain have accepted the main points as valuable. Hampel Committee Report (1998) and Turnbull Committee Report (1999) generally focused on Directors’ Role and Responsibility and Internal Control System respectively.

4.5-2 The Indian Experience
Over the years India has also initiated a series of investigations into ways to improve the corporate governance practices in Indian enterprises. The Securities and Exchange Board of India (SEBI), the chief corporate regulatory body in India, is entrusted with the task of overhauling the process of corporate governance practice in India. Over the last decade, SEBI has performed well and has formed various committees to look into the ways and means to regulate the corporate governance practice in India, at par with the above mentioned international practices. These are Kumar Mangalam Birla Committee (1999), Naresh Chandra Committee (2002), Narayan Murthy Committee (2003) and JJ Irani Committee (2005). The main objectives behind these committees are to promote corporate fairness, transparency and accountability in corporate governance and financial reporting practices. These reports are highlighted below –
Fig. 4.2 Indian Recommendations of various committees on Corporate Governance Practices

4.5-2.a Kumar Mangalam Birla Committee Report

A number of reports and codes on the subject have already been published internationally – notable among them are the Report of the Cadbury Committee, the Report of the Greenbury Committee, the Combined Code of the London Stock Exchange, and the OECD Code on Corporate Governance and The Blue Ribbon Committee on Corporate Governance in the US. In India, the CII has published a Code of Corporate Governance. Finally SEBI appointed the Committee on Corporate Governance on May 7, 1999, under the chairmanship of Shri Kumar Mangalam Birla, member of the SEBI Board, to promote and raise the standards of corporate governance (Kumar Mangalam Birla Committee Report, 1999, Para 2.5). In preparing this report, the primary objective of the Committee was to view corporate governance from the perspective of the investors and shareholders and to prepare a Code to suit the Indian corporate environment, as corporate governance frameworks are not exportable (Para 2.6). The main objectives of the report are –

- to suggest suitable amendments to the listing agreement executed by the stock exchanges with the companies and any other measures to improve the standards of corporate governance in the listed companies, in areas such as continuous disclosure of material information, both financial and non-
financial, manner and frequency of such disclosures, 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.

The SEBI Board considered and adopted the recommendations of the committee in its meeting held on January 25, 2000. In accordance with the guidelines provided by SEBI, the market regulator, the stock exchanges had modified the listing requirements by incorporating in the listing agreement a new Clause 49, so that proper disclosure for corporate governance is made by companies in the following areas: Board of directors, Audit committee, Remuneration committee, Board procedure, Management discussion and analysis, Shareholder Information, and Corporate governance report in the annual report. This Report is the first formal and comprehensive attempt to evolve a Code of Corporate Governance, in the context of prevailing conditions of governance in Indian companies, as well as the state of capital markets. While making the recommendations the Committee has been mindful that any code of Corporate Governance must be dynamic, evolving and should change with changing context and times. It would therefore be necessary that this code also is reviewed from time to time, keeping pace with the changing expectations of the investors, shareholders, and other stakeholders and with increasing sophistication achieved in capital markets (Para 3.1).

4.5-2.b Naresh Chandra Committee Report

In June 2002, less than a year from the date when Enron filed for bankruptcy, the US Congress introduced in record time the Sarbanes-Oxley Bill. This piece of legislation (popularly called SOX) brought with it fundamental changes in virtually every area of corporate governance — and particularly in auditor independence, conflicts of interest, corporate responsibility and enhanced financial disclosures. The SOX Act was signed into law by the US President on 30 July 2002 (Naresh Chandra Committee Report 2002, Para 1.06). Although India has been fortunate in not having to go through the pains of massive corporate failures such as Enron and WorldCom, it has not been found wanting in its desire to further improve corporate governance
standards. On 21 August 2002, the Department of Company Affairs (DCA) under the Ministry of Finance and Company Affairs appointed this Committee to examine various corporate governance issues. Among others, this Committee has been entrusted to analyse and recommend changes, if necessary, in diverse areas such as:

- the statutory auditor-company relationship, so as to further strengthen the professional nature of this interface;
- the need, if any, for rotation of statutory audit firms or partners;
- the procedure for appointment of auditors and determination of audit fees;
- restrictions, if necessary, on non-audit fees;
- independence of auditing functions;
- measures required to ensure that the management and companies actually present ‘true and fair’ statement of the financial affairs of companies;
- the need to consider measures such as certification of accounts and financial statements by the management and directors;
- the necessity of having a transparent system of random scrutiny of audited accounts;
- adequacy of regulation of chartered accountants, company secretaries, and cost accountants, and other similar statutory oversight functionaries;
- advantages, if any, of setting up an independent regulator similar to the Public Company Accounting Oversight Board in the SOX Act, and if so, its constitution; and
- the role of independent directors, and how their independence and effectiveness can be ensured. (Para 1.07)

The above committee under the chairmanship of Naresh Chandra examines the auditor-company relationship and to regulate the role of auditors. The trigger was instances of scams in the U.S. and certain instances in India involving auditors. The Naresh Chandra Committee report contains five chapters. Chapters 2, 3 and 4 which deal with the auditor-company relationship, auditing the auditors’ and independent directors’ role, remuneration and training are relevant to us. Chapter 1 is an introductory section and Chapter 5 relates to regulatory changes. Taking corporate
governance to a greater height, some of the recommendations the Naresh Chandra Committee has made are given below:

- All listed and unlisted companies with a paid-up capital or a turnover beyond a cut-off point should have certain minimum number of directors with half as independent director.

- The unlisted companies, having up to 50 shareholders and carrying no debt on their books from the public, banks and financial institutions, and also the unlisted subsidiaries of the listed companies act, Negotiable Instrument act, etc.

- An Audit firm should not derive more than 25% of its business from a single corporate client, partners, and at least 50% of the audit team, working on the accounts of a company must be rotated every five years.

- The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) will have to certify the accounts of a company whose paid-up capital and free reserves exceeds Rs. 10Cr. or which had a turnover of at least Rs. 50 Cr.

Thus, the recommendations of the committee are in the right direction in the preparation and reporting of financial statements and it has to take shape while drafting it into the companies act. Finally the Department invites and welcomes suggestions on the recommendations of the Naresh Chandra Committee on 7th January, 2003.

4.5-2.c N. R. Narayana Murthy Committee Report

On February 08, 2003 N. R Narayana Murthy, Chairman, Committee on Corporate Governance, SEBI issued a report of the SEBI Committee on Corporate Governance. It was the belief of the Securities and Exchange Board of India ("SEBI") that efforts to improve corporate governance standards in India must continue. Accordingly, the Committee on Corporate Governance was constituted by SEBI, to evaluate the adequacy of existing corporate governance practices and further improve these practices. The Committee comprised of members from various walks of public and professional life. This includes captains of industry, academicians, public accountants and people from financial press and from industry forums. The issues discussed by the
Committee primarily related to audit committees, audit reports, independent directors, related parties, risk management, directorships and director compensation, codes of conduct and financial disclosures.

The key mandatory recommendations focus on strengthening the responsibilities of audit committees; improving the quality of financial disclosures, including those related to related party transactions and proceeds from initial public offerings; requiring corporate executive boards to assess and disclose business risks in the annual reports of companies; introducing responsibilities on boards to adopt formal codes of conduct; the position of nominee directors; and stock holder approval and improved disclosures relating to compensation paid to non-executive directors. Non-mandatory recommendations include moving to a regime where corporate financial statements are not qualified; instituting a system of training of board members; and the evaluation of performance of board members.

**4.5-2.d JJ Irani Committee Report**

On 31st May, 2005, Dr. Jamshed J. Irani, Chairman, Expert Committee on Company Law, Govt. of India issued a report on Company law. JJ Irani Committee report highlighted the role of Independent directors as conscious keepers of the board of directors. The committee has made a significant recommendations to keep the number of independent directors at one- third of total size of the board one - third of total directors as Independent directors should be adequate for the company having significant public interest, irrespective whether the chairman is executive or non-executive, independent or not. To avoid conflict with clause 49, the committee has recommended that the directors of other regulators for companies within their domain may prevail, if they are at variance with its recommendations on the subject.

As far as the mode of appointment of independent director is concerned, the committee has suggested that appointment should be made by the company from persons who are of integrity and having relevant expertise and experience and satisfy the criteria of independence.

According to the committee ‘Independent Directors’ means a non-executive director of the company who apart from receiving the director’s remuneration, should
have not any material pecuniary relationship or transaction with company, its promoters, directors, senior management or holding, subsidiaries and associate companies, which may affect his independence. Moreover, an Independent director or his relative should not have served or been linked with the company in the immediate preceding year.

The committee has suggested that the nominees of financial institutions and banks on the board of their assisted companies should not be deemed to be independent directors. The committee states that “Nominee directors appointed by an institution or in pursuance of any agreement or government appointees representing government shareholding should not be deemed to be independent directors.” Such nominee’s directors represent specific interest and therefore, could not be called independent. The suggestion is particularly significant for companies with a high level of debt-equity ratio.

The committee has also suggested that independent directors should not be held responsible for any default made by their company, if they are not aware of it.

4.6 Whistle Blower Policy in Corporate Governance

The Code of Conduct requires directors, officers and employees to observe high standards of business and personal ethics in conduct of their duties and responsibilities. As employees and representatives of the company, they must practice honesty and integrity in fulfilling their responsibilities and comply with all applicable laws and regulations. The purpose of the Whistleblower Policy is to enable a person who observes an unethical practice (whether or not a violation of law), to approach a Whistleblower Committee without necessarily informing their supervisors and without revealing their identity, if they choose to do so. This policy governs reporting and investigation of allegations of suspected improper activities. Employees and others are encouraged to use guidance provided by this policy for reporting all allegations of suspected improper activities.
4.6-1 Whistleblower

A person or entity making a disclosure of any unethical activity that they have observed. Whistleblowers could be employees, contractors, contractor’s employees, clients, vendors, exchange students, internal or external auditors, law enforcement/regulatory agencies or other third parties.

This policy is formulated to provide opportunity to employees to access in good faith, to the Audit Committee in case they observe unethical and improper practices or any other alleged wrongful conduct in the Company and to prohibit managerial personnel action against those employees.

This policy applies to all permanent employees of the Company.

4.6-2 SEBI on Whistle-Blower Policy

In a country like ours where millions of investors lost their hard-earned money in various corporate and market scandals, the corporate sector has virtually torpedoed the whistle-blower policy and many other corporate governance norms proposed by market regulator Securities and Exchange Board of India (Sebi).

The corporate governance committee of the Sebi, headed by N.R. Narayana Murthy, is being forced to review several corporate governance norms, including whistle-blower policy. The government was forced to withdraw the Companies (amendment) Bill, 2003, as corporate honchos objected many of the corporate governance norms suggested by the government. Simultaneously, the Sebi was told to review Clause 49 of the Listing Agreement of Stock Exchanges as many of the provisions were part of the proposed Companies Bill.

4.7 Corporate Governance in Asia – The ACGA Survey

Corporate governance is the enhancement of corporate performance through supervision, monitoring of management performance and ensuring the accountability of management to shareholders and stakeholders. “Corporate Governance Watch,” an annual collaborative study of the Asian markets undertaken by the Asian Corporate Governance Association (ACGA), an independent, non-profit organization based in Hong-Kong and working on behalf of all investors and other interested parties to improve corporate governance practices in Asia and offers the most comprehensive
assessment of Corporate Governance Standards. The CG Watch 2007 survey score is based on seven key categories: Discipline, Transparency, Independence, Accountability, Responsibility, Fairness, and Clean & Green. Under each of these categories, The Association assess the companies on issues that are key to constituting good corporate practices under these aspects. The key determinants behind assessing Corporate Governance standards [such as, rules and regulations 15%, enforcement 25%, political and regularity environment 20%, Corporate Governance culture 20%, adoption of international accounting standards 20%]. Now on the basis of these determinants the CG Watch-2007 and the CG scores for the Asian markets from 2003 to 2007 (no survey in 2006) in the Table-4.10 gives the following results of the individual countries –

<table>
<thead>
<tr>
<th>Rank</th>
<th>Markets</th>
<th>Rules and Practices (%)</th>
<th>Enforcements (%)</th>
<th>Political &amp; Regulatory Environment (%)</th>
<th>IGAAP (%)</th>
<th>Culture (%)</th>
<th>Total Score 2007 (%)</th>
<th>Total Score 2005 (%)</th>
<th>Total Score 2004 (%)</th>
<th>Total Score 2003 (%)</th>
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[Source: CLSA Asia Pacific Market, Asian Corporate Governance Association, CG watch 2007 page-15]
In all the four years India remain third in all the CG scores but the top position is, however, maintained by Hong Kong. Regarding fulfillment of international GAAP all the Asian companies’ shows good improvement. The above table shows that the aggregate scores are lower than before due to various factors. In the above table the country corporate governance score for India for 2003, 2004, 2005 and 2007 are 66%, 62%, 61% and 56% respectively, or third in the region after Singapore and Hong-Kong as market ranked by corporate governance in Asia. While India scores over most other Asian markets in areas of rules and regulations, and their enforcements, it scores lower than most on adoption of International auditing standards. Malaysia improve its ranking by two places as a result of improved accounting standards, better enforcements and a higher score for its political and regulatory environment, while the China marginally moved ahead of Philippines due to its higher score for Enforcement and Political & Regulatory environment. Indonesia remains firmly rooted at the foot of the table.

Conclusion
Corporate Governance today is ineffective primarily because of the concentration of corporate power in the hands of management. A revolutionary approach to Corporate Governance is needed to rebalance or equalize this power, stop management fraud, promote accurate financial reporting, and thus regain the shaken confidence of the financial markets. This approach can be accomplished by recognizing the employees as key participants in the corporate process.

Corporate governance is about the way in which boards oversee the running of a company by its managers, and how board members are in turn accountable to shareholders and the company. This has implications for company behavior towards employees, shareholders, customers and banks. Good corporate governance plays a vital role in increasing the efficiency of financial markets. Poor corporate governance weakens a company’s potential and at worst can pave the way for financial difficulties and even fraud. If companies are well governed, they will usually outperform other companies and will be able to attract investors whose support can help to finance further growth.
Thus the ultimate goal of corporate governance is to monitor the behavior of the board in making management decisions that are in alignment with general shareholder interests. Studies have suggested that there is a demand for good governance practice. Good corporate governance will contribute to the stability of the local equity market. For good governance practices it is too much necessary to allow investors access to timely and accurate information on the financial and non-financial aspects of the corporations. So, the Companies Act and other regulatory bodies should review the different guidelines and clause and format in which financial information is disclosed and the efforts should be made on a country-by-country basis.

The stock exchange is usually the primary regulatory institution concerning the quantity and quality of information disclosed by listed companies. The stock exchange and the other regulatory bodies can work to review and impose whether the information disclosure is sufficient and make changes when necessary.

The external auditors should also take a more active role to reinforce the auditing profession and stress the areas in which investors should take note.

A significant element in promoting good governance practices is that corporate board members need to voluntarily participate in the process. Therefore, local Governments and regulators need to establish education programs so that good governance becomes a common practice in the investment community.

Good governance practices also required a high-level support from the Government, regulatory bodies and stock exchanges. Organizing high level Conferences on corporate governance will act as a major component in building awareness in the investment community.


13. Dr. Jamshed J. Irani Committee Report on Corporate Governance,(31st May, 2005), New Delhi, India.


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