CHAPTER – 2

REVIEW OF LITERATURE

This chapter presents the studies on Corporate Governance conducted India and abroad. Some of the studies in abroad are explained briefly as follows:

Studies Abroad:

The apex Credit Rating Agency Standard and Poor focused on the concept of Corporate Governance defined “Corporate Governance is the way a company is organized and managed to ensure that all financial stakeholders receive a fair share of the company’s earnings and assets.”\(^1\) Corporate governance represents the relationship among stakeholders that is used to determine and control the strategic direction and performance of organizations.\(^2\)

Cadbury, Sir Adrian (1992)\(^3\) submitted a report on Corporate governance popularly known as Cadbury Committee’s report, which found a major corporate governance difference between countries is the board structure, which may be unitary or dual depending on the country. As in the UK, in the majority of EU Member States, the Unitary board structure is predominant (in five states, the dual structure is also available). However, in Austria, Germany, the Netherlands, and Denmark, the dual structure is predominant. In the dual structure, employees may have representation on the supervisory board (as in Germany) but this may vary from country to country.

Greenbury, Sir R (1995) popularly known as Greenbury’s report discussed about how much disclosure there should be of directors’

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\(^1\) Standard and Poor a certified rating agency’s definition on Corporate Governance
remuneration and how useful detailed disclosures might be. The Greenbury report, issued in the UK in 1995, was established on the initiative of the CBI because of public concern about directors’ remuneration.4

Donaldson, L. and Davis, J.H. (1919) advocated various theories of Corporate Governance. The development of Corporate Governance is a global occurrence and, as such, is a complex area including legal, cultural, ownership, and other structural differences. Therefore some theories may be more appropriate and relevant to some countries than others, or more relevant at different times depending on what stage an individual country, or group of countries, is at or may have.5

The agency relationship has been described as a “contract under which one or more persons (principal(s)) engage another person (agent) to perform some service on their behalf which involves delegating authority to the agent.6

Some of the clearest evidence on agency problems comes from acquisition announcements. Many studies show that bidder returns on the announcement of acquisitions are often negative (Roll7 surveys this evidence). Lewellen, Loderer, and Rosenfeld8 find that negative returns are most common for bidders in which their managers hold little equity, suggesting that agency problems can be ameliorated with incentives. Morck, Shleifer, and Vishny9 find that bidder returns tend to be the lowest when

bidders diversify or when they buy rapidly growing firms. Lang and Stulz\textsuperscript{10} find related evidence of adverse effects of diversification on company valuation. Diversification and growth are among the most commonly cited managerial, as opposed to shareholder, objectives.

Walkling and Long (1984)\textsuperscript{11} find that managerial resistance to value-increasing takeovers is less likely when top managers have a direct financial interest in the deal going through via share ownership or golden parachutes, or when top managers are more likely to keep their jobs. Another set of studies finds that, when managers take anti-takeover actions, shareholders lose. For example, DeAngelo and Rice\textsuperscript{12} and Jarrell and Poulsen\textsuperscript{13} find that public announcements of certain anti-takeover amendments to corporate charters, such as super-majority provisions requiring more than 50 per cent of the votes to change corporate boards, reduce shareholder wealth. Ryngaert and J. Netter\textsuperscript{14} and Malatesta and Walking\textsuperscript{15} find that, for firms who have experienced challenges to management control, the adoption of poison pills—which are devices to make takeovers extremely costly without target management’s consent—also reduce shareholder wealth. Comment and Schwert\textsuperscript{16} however, question the event study evidence given the higher frequency of takeovers among firms with poison pills in place. Taken as a whole, the evidence suggests that managers resist takeovers to protect their private benefits of control rather than to serve shareholders.

Corporate governance is often thought of as a remedy in aligning these two conflicting interests. It is defined as a set of processes, customs, policies, laws and institutions affecting the way in which a corporate body of business is directed, administered and controlled. Corporate governance is also conceived of as the relationship among the many players involved (stakeholders).17

Hampel, Sir Ronnie (1998)18, Committee on Corporate Governance in its final report witnessed corporate governance and its growth through various codes and guidelines issued by a variety of bodies ranging from committees, appointed by government departments and usually including prominent respected figures from business industry, representatives from the investment community, representatives from professional bodies, and academics, through stock exchange bodies, various investor representative groups, and professional bodies, such as those representing directors or company secretaries.

The Organization for Economic Co-operation and Development (OECD) published its principles of Corporate Governance in 1999, following a request from the OECD Council to develop corporate governance standards and guidelines. Prior to producing the Principles, the OECD consulted the national governments of member states, the private sector, and various international organizations including the World Bank.19

Generally, the OECD guideline demanded adequate disclosure on material issues revolving around, but not limited to those listed below.

- The financial and operating results of the company
- Company objectives
- Major share ownerships and voting rights

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• Remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board.

• Related party transactions such as entities that central or under the common control of the organization

• Foreseeable risk factors

• Issues regarding employees and other stakeholders

• Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.

In an Article published by Ruth Aguilera & George YIP in Financial Times May 2007 on “Global strategy faces local constraints” argued that there are five major players who affect the company’s decisions about global strategy. They are employees, board of directors, top management, Government etc., excluding other stakeholders such as customers, suppliers and competitors.20

Petra21 summed up the potential need for independent director domination in the board room saying, “...it could be argued that outside independent directors do appear to strengthen corporate boards. However, the well publicized failures of corporate boards over the past three years is prima facie evidence that outside independent directors need to do more to protect shareholder interests. Public skepticism of the ability and / or willingness of outside independent directors to monitor and control the actions of top management is well founded. Such skepticism is indicated by empirical evidence that the stock market does not believe that outside independent directors improve the usefulness of published corporate earnings numbers...”

20 Ruth Aguilera & George YIP “Global strategy faces local constraints” Article published in Financial Times 27 May 2005
There is a view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions and are harder for a powerful CEO to dominate. Another obvious point of argument here is that larger boards are thought to convey a pool of energy and expertise accruing to the generally understood notion that the knowledge and experience more people is better than lower number of people. However, recent thinking has leaned towards smaller boards and there is an argument that large boards are less effective and are easier for the CEO to control. When a board gets too big, it becomes difficult to co-ordinate and often creates problems. Smaller boards also reduce the possibility of free riding by, and increase the accountability of individual directors. Here the idea seems to be in line with the old adage “small is beautiful”. Large board size which influences firm performance negatively is predominantly in businesses of larger sizes (see Mintzberg\textsuperscript{22}; Baysinger and Butler\textsuperscript{23}; Kosnik\textsuperscript{24}).

For SMEs, one of the most important transitions is that from a single/owner-manager to a wider board. Instituting a team approach permits clearer development and definition of the choices facing the business. It also permits a stronger development of a more open and less oppressive internal human relations structure (Drucker\textsuperscript{25}).

Belkir\textsuperscript{26} found a positive relationship between board size and performance as measured by market to book value ratio.

Carnicer, Sanches and Perez\textsuperscript{27} found a curvilinear relationship between the number of women in the board room and performance indicating that moderate number of employees is preferable.

\begin{itemize}
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Typically, analyses of CEO reward systems focus not on the probability of exit but rather on CEO dollar compensation (Ehrenberg and Milkovich\textsuperscript{28}). Such studies assume that compensation is endogenous, viewing it to be solely a function of the executive’s contribution to firm performance. What these studies fail to recognize is that there may be a labor market external to the firm in which demand and supply set an upper and lower bound on executive salaries (Fama\textsuperscript{29}).

According to Dalton et al\textsuperscript{30}, a very real threat to the exercise of independent judgment by the board of directors is the dual role of CEO as board chairperson. Here the top managerial officer of the corporation simultaneously serves as chairperson of the board which has the charter of monitoring and evaluating top management. This dual role would seem to suggest a certain conflict of interest. Further, he questioned if it is appropriate to get the person to be evaluated is the head of the evaluation team?

The works of Chen et al\textsuperscript{31}, Lei and Song\textsuperscript{32} empirically tests, Lam and Lee\textsuperscript{33} considered firms in Hong Kong found that CEO duality had a positive impact on performance on both family controlled and non family controlled firms. Accordingly, they said the potential benefits of CEO duality outweigh its potential costs.

\textsuperscript{27} Carnicer, Sanches and Perez Carnicer Pilar de Luis-, Martínez-Sáñchez A’ngel and Pe’rez-Pe’rez Manuela,(2008), Gender diversity in management: curvilinear relationships to reconcile findings, Gender in Management: An International Journal Vol. 23 No. 8, pp. 583 – 597
\textsuperscript{32} Lei, A.C.H. and Song, F.M. (2004), “Corporate governance and firm valuations: evidence from Hong Kong”, working paper, School of Economics and Finance, The University of Hong Kong, Hong Kong
\textsuperscript{33} Lam Tin Yan and Lee Shu Kam (2008), CEO duality and firm performance: Evidence from Hong Kong, Corporate Governance, Vol. 8 No. 3, pp. 299 – 316.
Opponents of duality, however, maintain that duality: (a) constrains board independence and reduces the possibility that the board can properly execute its oversight and governance role. Here we can observe Lorsch and MacIver\(^{34}\), Fizel and Louie\(^{35}\), Millstein\(^{36}\); (b) "signals the absence of separation of decision management and decision control... the organization suffers in the competition for survival; and (c) makes it difficult for insecure directors to be honest when evaluating firm performance which, in turn, leads to long term organizational drift\(^{37}\).

The benefit of encouraging team development through a widen board has been argued to be an important step in improved corporate governance in SMEs (Cadbury\(^{38}\)). Such widened board development for very small firms has been noted as directly improving firm performance (Wynarczyk et al.\(^{39}\); Goldstein et al.\(^{40}\)) especially where these are non-executive directors (Cowen and Osborne\(^{41}\)). However found a negative correlation between board size and profitability when using a sample of small and midsize Finnish firms.

According to Coles et al, ownership structure (whether board members have ownership right or not) is one kind of monitoring mechanism. The firm can implement this monitoring mechanism by increasing the incentive for board members to monitor firm managers. With increasing proportion of firm ownership, board members will have a personal wealth


\(^{38}\) Cadbury, A. (Sir) (2000), Family Firms and Their Governance: Creating Tomorrow’s Company from Today’s, Eyon Zehnder International, London


incentive to monitor managers, in addition to their fiduciary responsibility as members of board of directors. This view has also been strongly supported by Newquist and Russel in their seminal book Corporate Governance a Financial perspective. Further, the CEO compensation plans that closely link the manager’s wealth to the performance of the firm should align CEO interests of shareholders. The alignment should induce managers, particularly the CEO, to take actions that create firm value\textsuperscript{42}.

Incentive contracts can take a variety of forms, including share ownership, stock options, or a threat of dismissal if income is low (Jensen and Meckling\textsuperscript{43}, Fama\textsuperscript{44}. The optimal incentive contract is determined by the manager’s risk aversion, the importance of his decisions, and his ability to pay for the cash flow ownership up front (Ross\textsuperscript{45}, Stiglitz (1975), Mirrlees\textsuperscript{46}, Holmstrom\textsuperscript{47}).

Yermack\textsuperscript{48} finds that managers receive stock option grants shortly before good news announcements and delay such grants until after bad news announcements. His results suggest that options are often not so much an incentive device as a somewhat covert mechanism of self-dealing. Given the self-dealing opportunities in high powered incentive contracts, it is not surprising that courts and regulators have looked at them with suspicion. After all, the business judgment rule that governs the attitude of American courts toward agency problems keeps the courts out of corporate decisions except in the matters of executive pay and self-dealing. These legal and political factors, which appear to be common in other countries as well as in the United States, have probably played an important role in keeping

\textsuperscript{43} Snell/Bohlander, 2007, Human Resource Management, Cengage Learning Products
\textsuperscript{44} NIPM (National Institute of Personnel Management) works on Personnel Management
down the sensitivity of executive pay to performance (Shleifer and Vishny\textsuperscript{49}, Jensen and Murphy\textsuperscript{50}). While it is a mistake to jump from this evidence to the conclusion that managers do not care about performance at all, it is equally problematic to argue that incentive contracts completely solve the agency problem.

In their book Corporate Governance: a Financial Perspective, Newquist and Russel\textsuperscript{51} strongly demonstrated concern that contingent pay system may have more disadvantages than benefits if used incorrectly. Frauds relating to deferring or avoiding taxes, shifting earnings to other periods, minimizing the perception of risk, and manufacturing earnings are all but some of the few examples bad governance practice strongly associated to incentive system contingent to performance.

Berle and Means\textsuperscript{52}, the accounting and finance literatures have examined the role of ownership distributions in mitigating the potential conflict of interest between managers and dispersed shareholders.

Other researchers advance hypotheses that the relation between inside ownership and firm value is not monotonic. For example, Stulz\textsuperscript{53} formulates a takeover model in which at low levels of management ownership, the takeover premium increases as the target’s inside ownership increases. This reasoning suggests that increased inside holdings enhance firm value at low levels of Corporate Ownership & Control / Volume 1, Issue 2, Winter 2004 16 ownership. But at higher levels of inside ownership, managerial entrenchment impedes takeovers, which, in turn, decreases firm value. As inside ownership approaches 50 per cent, the probability of a


\textsuperscript{51} Newquist and Russel Newquist Scott C. and Russel Max B, (2007), Corporate Governance: A Financial Perspective


\textsuperscript{53} Stulz Stulz, R.M. (1988), Managerial control of voting rights: financing policies and the market for
hostile takeover goes to zero. Thus, the value of the firm increases, and then decreases to a minimum when inside ownership reaches 50 per cent. The appreciation or depreciation in firm value due to potential takeover premium is what this study attempts to capture in the second stage regression, because such will not be evident in accounting-based measures of operating performance.

Morck, Shleifer and Vishny\(^54\) observe that there are two opposing effects of inside ownership – incentive alignment and entrenchment. Their reasoning suggests that managers have a natural tendency to indulge their preferences for non-value maximizing activities. When managers’ ownership increases, their interests are better aligned with those of other shareholders, and thus, deviations from value maximization decline. However, larger management shareholdings also increase their bargaining power, which, in turn, cause management to pursue self-interest at the expense of other shareholders. For this reason, it is impossible to predict which force dominates at various levels of inside ownership and other researchers consider the role of large shareholders on firm value. Further, he suggested that the potential takeover threats from large outside block holders serve as effective monitoring devices, and this reduces the firm’s agency cost and improves operating performance. On the other hand, large shareholders have incentives to redistribute wealth to themselves, by indulging their private interests to the detriment of others. Evidence of wealth effects from large shareholders is mixed at best.

Boards use different committees to gain focus and effectiveness on handling issues under their prerogatives. Where ad hoc committees are used to deal with nonrecurring problems the permanent committees are directed toward handling issues that have repetitive pattern of occurrence but with a relative high level of challenge. The audit committee, remuneration committee, nomination committee, committee of outside directors, executive

committees and the risk management committee are only some of the most common ones to be established in a board.

Kula\textsuperscript{55} asserted the positive relationship between company performance and such board process variables as access to information, effectiveness of board, observance of fiduciary responsibility and performance evaluation.

As per the board membership process whether or not the capability of board members is affected when they come to the board room through election by the shareholders or by sheer nomination by the owner. In this regard there are two seemingly contrasting theories. The first argues that directors who come to the board room are highly likely to be more competent since judgment of people in group (in this case the shareholders) is mostly better than individuals. The second argument states that, given the individual decision maker (in this case the nominator) is competent, board members that come to the board room through nomination are relatively reliable and competent. The premise of the second argument is obvious: the best selection will not be sub optimized due to compromise, group think and group shift (Garrdner 1965)\textsuperscript{56}.

On top of this the second argument presumes that shareholders, especially when they are large in number, may not have detailed knowledge regarding what it takes to do the job in the board room resulting in the possible election of wrong people.

Monitoring mechanisms using the tools discussed above must be carefully instituted so as to insure their effectiveness. But on top of such mechanisms the governance mechanism of a firm needs to exact a

\textsuperscript{55} Kula Veysel and Tatoglu Ekrem, (2006), Board process attributes and company performance of family-owned businesses in Turkey, Corporate Governance, Vol. 6 No. 5, pp. 624 – 63

\textsuperscript{56} Gardner John W (1961), Excellence: Can we be Equal and Equal and Excellent too? Harper and Row. Publisher, New York, USA
mechanism whereby CEOs will work hard to enhance the performance of the firm which they are supposed to run. This is done by designing the managerial incentive system in such a way their benefits are tied to the performance of the organization.

Britain’s combined code, 2006, insists that the remuneration committee consist exclusively of independent directors and comprise at least three, or in the case of smaller companies, two such directors. The code puts the responsibility of the remuneration committee as follows.

... the remuneration committee should determine and agree with the board the framework or broad policy for the remuneration of the chief executive officer, the chairman of the company and such other members of the executive management as it is designed to consider. At a minimum, the committee should have delegated responsibility, for setting remuneration for all executive directors, the chairman, and executive members of the board. No director or manager should be involved in any decisions as to their own remuneration.57

The Higgs report on corporate governance, as incorporated by the combined code, 2006, defines the nomination committee as one that leads the process for board appointments and makes recommendations to the board. As a requisite for best governance practice, a majority of members of the committee need to be independent non-executive directors. The board chairman or an independent director should chair the committee with two exceptions to the chairman. One is when there is duality and the other is when the job is to nominate a director to replace the chairman.58

Furthermore, Yermack (1997) documents that managers can time stock options to their advantage as he finds that stock options are granted just before the announcement of good news and tend to be delayed until after bad announcements59.

57 Britain’s Combined Code, 2006
58 Higgs Report on Corporate Governance
Masahiko Aoki and Gregory Jackson (2007) in their research paper on Diversity of Corporate Governance explored relationship between Corporate Governance (CG) mechanisms and institutions by departing from the traditional agency theory relationship. They made a linkage with two kinds of human assets: Manager (MHA) and workers (WHA), as well as physical (financial) assets (PA) of corporations.\(^6\)

McNabb and Martin (1998), on the other hand, examine the efficiency of internal governance mechanisms in the case of highly entrenched managers (the founder CEOs). They find that the existence of such entrenchment is a deterrent to an improvement in performance and that shareholders typically receive substantial wealth gains when the founder leaves both the firm and the board.\(^6\)

Another potential instrument for managerial entrenchment is that of Employee Stock Ownership Plans (ESOPs), through which managers can have voting rights without the corresponding cash-flow rights. Consistent with the use of ESOPs by management as an entrenchment tool, Gordon and Pound (1990) find that ESOPs established during takeover activity reduce share values by an average of approximately 4%. They also report that ESOPs reduce share values if they are structured to transfer control away from outside shareholders by creating a new ownership block with veto power over takeover bids. However, when ESOPs are established with nonvoting stock, so as to preclude any immediate control transfers, the consequence is a significant increase in share values. Chang and Mayers (1992) also examine the value impact of ESOP announcements and observe that shareholders benefit the most when insiders initially control between 10% and 20% of the outstanding votes. When, however, directors and officers control 40% or more of the outstanding shares, a negative

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association is found between announcement abnormal returns and the fraction of shares contributed to the ESOP\textsuperscript{62}.

In a sample of thrift institutions converting from mutual to stock ownership, Cole and Mehran (1998) find that improvements in performance are negatively associated with changes in ownership by ESOPs, “consistent with the view that ESOPs are often used to impede takeovers (p. 293)”\textsuperscript{63}.

ESOPs are different potential tool for entrenchment is that of dual-class recapitalisations. These are plans that restructure the equity of a firm into two types of shares with different voting rights. Similar to the use of ESOPs, dual-class shares provide management (or family owners) with a voting power that is disproportionately greater than that under a “one-share, one vote” rule. In theory, dual-class recapitalisations can be beneficial if these allow management to extract a higher bid in a takeover (the optimal contracting hypothesis), or harmful if these insulate managers from the external market for corporate control (the management entrenchment hypothesis). Therefore, once again, the issue is an empirical one. In this regard, the evidence is mixed. Partch (1987) reports nonnegative price effects around the announcement of dual-class recapitalisations for 44 firms\textsuperscript{64}.

Baysinger and Butler, using a causality test, find that, for 266 NYSE firms, board independence measured in 1970 had a positive and significant correlation with the return on equity measured in 1980; however, the opposite result did not hold, i.e. the return on equity measured in 1970 did not have a significant correlation with the board independence measured in 1980. Thus, a substantial body of empirical evidence indicates a significant and jointly endogenous relationship exists between firm performance,
ownership structure and board composition. However, the exact functional form of the relationship is an empirical question65.

Peter Wallace and John Zinkin (2006) discussed Board of Directors assessment and seek to provide some practical guidance as to how to undertake such an exercise in practice. Further they provided the concept of Total Shareholder Return as a way of assessing company performance66.

**Studies India:**

The apex body in India’s Corporate Governance, Institute of Company Secretaries of India (ICSI) defined Corporate Governance as “Corporate Governance is the application of best management Practices, Compliance of Laws in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.”67

Kumar Mangalam Birla (2000) committee constituted in May 1999 to study corporate Governance in India submitted its report. The committee was chaired by Shri Kumar Mangalam Birla. The Report of the Kumar Mangalam Birla Committee on Corporate Governance was published in 200068.

Satish Modh (2005) studied Ethical issues in Indian business and classified into five basic groups: equity, rights, honesty, use of corporate power and corporate governance69.

In its report (2002) submitted by Confederation of Indian Industry (CII), constituted a code of corporate governance; and it consciously goes

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67 Institute of Company Secretaries of India (ICSI): Corporate Governance Guidelines and best practices (2008), Taxmann Publications
68 Kumara Managalam, Birla Committee Report on Corporate Governance
beyond the duty of boards and non-executive directors. It is a fairly substantive and radical code; it will have its detractors; and putting it into effect will be a long haul. Nevertheless, it is vital for the corporate well-being of India.\(^{70}\)

George Skaria (1996), opined that the post-liberalisation competition and globalization brought changes including transforming organizational practices and process.\(^{71}\)

N. Vittal suggested a code of corporate governance for Indian Public Sector Undertakings (PSUs). As the Chairman of the Committee on Guidelines in 1997, he had suggested to the Government a code of conduct to be observed by both administrative ministries and the Public Sector Enterprises (PSEs).\(^{72}\)

The professional body on HR in India, NIPM opined that there are three important dimensions of Personnel Management. They are 1) personnel aspect 2) welfare aspect 3) industrial relations aspect. However, it does not regulate the profession of personal management. It has devised a code of conduct for its members.\(^{73}\)

VSP Rao (2005) in his book on Human Resource Management studied that “The basic objective of personnel/HR audit is to know how the various units are functioning and how they have been able to meet the policies and guidelines which were agreed upon; and to assist the rest of the organization by identifying the gaps between objectives and results, for the end-product


\(^{71}\) George Skaria (1996), The New People Management Business Today, January 7–21, pp. 28–33


\(^{73}\) NIPM, India: Code of Ethics, Kolkata
of an evaluation should be to formulate plans for corrections of adjustments”74

Snell and Bohlander (2007), in their book on HRM suggested that the degree to which interviews, tests, and other selection procedures yield comparable data over a period of time is known as reliability. In addition to having reliable information pertaining to a person’s suitability for a job, the information must be as valid as possible75.

R. C. Majumdar (1918) in his book discussed various corporate activities in economic, political, religious and social lifes in ancient India76.


Dr. Madan Lal Bhasin (2010) given a detailed description of Dhrama, Corporate Governance and Transparency with a overview on Asian Markets78.

Agrawal and Knoebel (1998) observe that takeover threat has two opposing effects on compensation. The first is a competition effect in the market for managers, which results in less capability for managers to extract higher wages. The second is a risk effect, which leads, in contrast, to increased compensation as higher takeover threat is likely to result in an increased probability of firm-specific human capital loss or implicitly deferred compensation. This in turn makes managers demand higher pay to counterbalance the increased risk. Using a sample of 450 firms, and splitting it into two sets (one where managers face both risk and competition

77 Sudarsana Reddy, G., Mohana Reddy, P., Sivarami Reddy, C.,
effects and one where only the competition effect is present), Agrawal and Knoeber (1998) find evidence that, as hypothesised, these two effects are significant. This means that, ceteris paribus, a lower takeover threat leads, through the competition effect, to higher pay, which is in accordance with the perspective of misalignment of interests between shareholders and managers79.

Katija Schumaher and Jayant Sathage (1999) discussed about India’s Pulp and Paper Industry’s productivity and energy efficiency80.

Anil Shivdasani81 Best Practice on Corporate Governance: What Two Decades of Research Reveals, has gone so far as to conclude that independent directors should constitute the majority of the sits in the board room to insure good performance. The idea here is that boards constituting independent outsiders are less likely to be manipulated by CEOs and more likely to protect the interests of shareholders.

Despite its perceived importance, assertions made regarding the desirability or undesirability of duality are invariably grounded in anecdotal data. Empirical studies examining the link between duality and firm performance are few and their findings mixed (e.g., Chaganti, Mahajan, and Sharma)82.

Kosnik83 finds that greater diversity in outside directors’ principal occupations increases the tendency of corporations to use greenmail, suggesting that diversity fragments the board and provides insiders with greater degree of control.

80 Katija Schumaher and Jayant Sathaye (1999), Ernest Orlando Lawrence Berkely National Laboratory (LBNL – 41843)
81 Anil Shivdasani Shivdasani Anil (2005) How to Choose a Capital Structure: Navigating the Debt-Equity Decision Journal of Applied Corporate Finance Volume 17 No.1
Cochran et al.\textsuperscript{84} reports that firms adopting golden parachutes have a higher proportion of outside directors than those that do not, indicating that the protection afforded by a golden parachute more closely aligns management and shareholder interests. Weisbach\textsuperscript{82} finds that CEO turnover is more highly correlated with firm performance in corporations having a majority of outside directors than in those with insiders.

Fernando A.C. (2006) given a detailed description of Corporate Governance Principles, policies and Practices in theoretical and with case study orientation\textsuperscript{85}.

Bansal C. L. (2005) incorporated the mechanism for measurement of corporate governance and developed a scoring pattern, which was initially adopted by Institute of Company Secretaries of India\textsuperscript{86}. Chaudhari K.K. (1979) discussed the “Idea and Reality of Workers Participation on Management in India”.\textsuperscript{87} Institute of Company Secretaries of India (2008) developed some best practices of Corporate Governance\textsuperscript{88}. Singh S. (2005) briefed certain global concepts and practices of Corporate Governance\textsuperscript{89}. Subramanian Alka (1987) discussed in a contrasting view that “Small is not Beautiful” he aligned the theme to Indian Paper Industry\textsuperscript{90}. Rao Y.A (1989) studied the Status and Prospects of Indian Paper Industry\textsuperscript{91}. Ray P.R. (1999)
examined the demand calculation for Paper in India\textsuperscript{92}. Sohan Raj Mohnot (2002) given “Intecos-Cier’s” market forecasts of Indian Paper Industry.\textsuperscript{93} 


\textbf{Studies on Corporate Social Responsibilities:} 

The concept of social responsibilities was formally coined in 1953 by Howard Bowen\textsuperscript{100} in his publication “Social Responsibilities of Businessmen” (Corporate Watch Report, 2006). Bowen also provided a preliminary definition of CSR: “it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society”.

During the same period, Morrell Heald’s (1957)\textsuperscript{101}, \textit{“Management’s Responsibility to Society: The Growth of an Idea”;} and Eell’s (1956),

\textsuperscript{93} Sohan Raj Mohnot, “Intecos-Cier’s market forecasts and indicator, 2002-12, the explosive decade”, Centre for Industrial & Economic Research, 2002  
\textsuperscript{94} Mall, I.D., (1998) “Emerging Scenario in Indian Paper Industry: Responding to the Challenges of Globalization” Indian Pulp and Paper Technical Association (IPPTA), Convention Issue, December  
\textsuperscript{98} Ahuja, S.P. (1992), Paper Industry in India, New Delhi: The Institute of Economic and Marketing Research  
\textsuperscript{100} Howard Bowen (1953), Social responsibility of the businessman, New York, pages 6, 45  
“Corporate Giving in a Free Society” were published. The literature expanded the definition during the 1960s with Keith Davis’ definition of CSR as referring to “businessmen’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest” (David K, 1960). Davis established the so-called “Iron Law of Responsibility”, which held that “social responsibilities of businessmen need to be commensurate with their social power”.

The concept received academic attention in 80’s and 90’s and became an issue of debate and discussion among academic circles. The first company to implement CSR was Shell in 1998. Although, the literature on CSR has been developed in all countries, it practical application is more profuse in the developed countries, mainly the US and some European nations.

The concept of social responsibility has been interpreted by different authors from different corporate perspectives. A number of concepts and issues are subsumed under the heading of CSR, including human rights, environmental perspective, diversity management, environmental sustainability and philanthropy (Amaeshi and Adi, 2006)\textsuperscript{102}. Thus, it can be said that the concept of CSR is complex in nature.

CSR is generally agreed to be as a voluntary action on the part of the large corporations to take stock of social, economic and environmental impact of their operations. The European Commission defined CSR as – "A concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis." (European Multistakeholder Forum on CSR, 2004: 3)\textsuperscript{103}.


\textsuperscript{103} http://forum.europa.eu.int/irc/empl/csr_eu_multi_stakholder_forum/
Assocham’s “Eco Pulse Study”\textsuperscript{104} on CSR, released in June 2009, says some 300 corporate houses, on an aggregate, have identified 26 different themes for their CSR initiatives. Of these 26 schemes, community welfare tops the list, followed by education, the environment, health as well as rural development.

Edenkamp (2002)\textsuperscript{105} remarked that the importance of all forms of global corporate social responsibility (CSR) is evident with the increasingly widespread adoption of ISO9000 and ISO 14000 management systems by global corporations. As more consumers demand that marketers follow socially responsible practices, corporations are given an opportunity to further exploit the newer, verifiable social accountability system, SA 8000, to enhance their reputation, differentiate their products, and build competitive advantage. The adoption of SA 8000 may be perceived as a very rational, cost effective, and strategic approach to managing the corporation’s social reputation with its stakeholders.

Sengin (2003)\textsuperscript{106} has identified a number of variables that influence employee job satisfaction as: (1) demographic variables – education, experience, and position in the hierarchy; (2) Job characteristics – autonomy, tasks repetitiveness, and salaries; and (3) organizational environment factors degree of professionalization and type of unit. Mrayyan (2005)\textsuperscript{107} says that the variables of encouragement, feedback, a widening pay scale and clear job description, career development opportunity, supportive leadership style, easy communication with colleagues and social interaction positively affect job satisfaction, whereas role stress has a negative influence on it. Similarly, the research made by Chu and his friends

\begin{itemize}
  \item \textsuperscript{104} www.assocham.org/arb/aep/AEP-CSR-report-June2009.pdf
  \item \textsuperscript{105} Edenkamp, P (2002). Insights into how consumers are thinking, how they are acting and why, Brandweek, Vol. 43, Issue 36, pp 16 – 20.
\end{itemize}
demonstrates that satisfaction is positively related to involvement, positive affectivity, autonomy, distributive justice, procedural justice, promotional chances, supervisor support, co-worker support, but it is negatively related to negative affectivity, role ambiguity, work-load, resource inadequacy and routinization.

Vijaya Murthy (2003-2004) undertook an analytical study of the corporate social disclosure practices of the top 16 software firms in India by analysing their annual reports using content analysis to examine the attributes reported relating to human resource, community development activities, products and services activities and environmental activities. It was revealed that the human resources category was the most frequently reported followed by community development activities and the environmental activities was the least reported. Most of the information was qualitative. Some firms had separate sections for each category while many others disclosed their social practices in the introductory pages of the annual report.

Jackson, I. A. and Nelson, J. (2004) in their books provide a comprehensive description of the global trends, competitive pressures, and changing expectations of society that are reshaping the rules for running a profitable and principled business. It also offers companies a framework for mastering the new rules of the game by realigning their business practices in ways that restore trust. Information is presented on the crisis of trust, the crisis of inequality, and the crisis of sustainability. The book presents the following seven principles that serve as a framework:

1. Harness innovation for public good.
2. Put people at the center.

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The seven principles can be used as a compass to help executives and managers navigate new terrain and apply the strategies and terminology most appropriate for each company. The book focuses on companies and business people who are delivering both private profits and public benefits. It profiles real companies delivering measurable performance and concrete solutions for stakeholders.

A relevant point raised in some literature has to do with the effectiveness of strategies undertaken by communities to demand corporate accountability (Garvy & Newell, 2005). This literature argues that the success of community-based strategies for corporate accountability is conditional upon the right combination of state, civil, societal, and corporate factors.

McGaw (2005) considers the biggest challenge in the field of CSR implementation to be the development of leaders for a sustainable global society, asking what kind of leader is needed for building a sustainable global society and how we can best develop individuals with these leadership capabilities. According to this author, the task and challenge will be to develop leaders for a sustainable global society by encouraging imagination and the accomplishment of a positive change.

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Berkhout, T. (2005) critically examines corporate gains as the strategic engine for long-term corporate profits and responsible social development. He highlights corporate green-washing, the voluntary adoption of a token social or environmental initiative intended to enhance a company’s corporate image. He points out that CSR provides the starting point that businesses need to begin moving toward sustainability. For CSR to achieve its potential, companies must push to seek something other than the lowest short-term cost for the highest short-term gain. The author identifies the following challenges facing a company that wants to operate under the principles of CSR:

- How to balance its social and environmental responsibilities with its clearly defined economic responsibility to earn a profit?
- How evolving norms and rules determine what constitutes acceptable corporate behaviour?
- How CSR’s glass ceiling is merely a reflection of society’s expectations?
- How corporations are beginning to see a strategic value in CSR beyond improved public relations or the short-term bottom line?

Graafland (2006) has used a sample of 111 Dutch companies to test the hypothesis that a positive strategic and moral view of CSR stimulates small and medium enterprises to undertake CSR efforts. For the purpose of the study, managers’ strategic views of CSR (the extrinsic motive), as well as their moral views (the intrinsic motive), have been measured through a single-item approach and with reference to five stakeholder groups: employees, customers, competitors, suppliers, and society at large. The extrinsic motive is constructed as a company’s moral duty, while the intrinsic motive sees CSR for its contribution to the long-term financial success of the company. Results show that a vast majority of respondents

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had a positive view of CSR in both dimensions. Nevertheless, there is a weak correlation between strategic CSR and actual CSR efforts.

Malini M. (2006)\textsuperscript{115} in her article emphasises on the adoption of CSR in emerging economies and on some milestones that have been already placed. The first argument raised is that a smart approach, considering universal norms and values, is needed to lead the transformative potential of CSR as a movement. This approach would also control and avoid the environmental and social consequences of rapid growth. Furthermore, it is necessary to have energetic national corporate leadership along with solid home grown constituencies demanding higher corporate standards. Social and political contests are then the fundamental part of the journey of negotiating the balance between society, state, and market. Thoughts for companies who embrace CSR:

Stay critical.
Do not believe the hype.
Recognize the success but retain perspective and a critical mind.
Demand accountability from the top.
Seek consistency: design mechanisms to ensure consistency between different departmental aims and objectives.
Own and share CSR as a living practice and culture.
Focus on the local: find practical local expression to stand a chance of implementing global norms and standards.

Venu Srinivasan (2007)\textsuperscript{116} highlighted that Corporate Social Responsibility is more than philanthropy and must not mean “giving and receiving”. An effective CSR initiative must engage the less privileged on a partnership basis. “CSR means sustainable development of the community by being partners in their progress. The government has been evolving a large number of welfare schemes for the people but experience shows that in most cases the benefits do not reach the most deserving. Industries have

\textsuperscript{116} Venu Srinivasan (2007), Corporate Social Responsibility, The Financial Express, 15 June
expertise in man management, financial management and business planning. They can easily provide the missing ingredients of leadership and organization and establish the “last mile connectivity” to reach the benefits to the deserving people. Therefore the focus of CSR could be “unlocking” the last mile connectivity. Industry must be a catalyst for social development. They must provide the leadership, know-how, training, etc.

Heugens, P. & Dentchev, N. (2007)\textsuperscript{117} have identified the risks that companies are exposed to when integrating CSR by presenting two studies they conducted. One study was exploratory, and the other was corroborative. The first study employed the grounded theory method (Glaser & Strauss, 1967) to uncover various CSR risks. Seven risks associated with CSR investment were identified. They ranged from failing strategies implementation to legitimacy destruction. A set of managerial mitigation strategies that have the potential to realign companies’ CSR activities with their strategic objectives were discussed. The purpose of the second study was to investigate whether the CSR risk identified in the first study had any relevance in a business setting. An analysis of the data revealed modest to strong corroborative support for them. In conclusion, the findings suggest that CSR involvement is not an innocent activity and that experimenting with it can be dangerous for the competitiveness of business organizations.

Bendixen M. and Abratt, R. (2007)\textsuperscript{118} highlight in their article how multinational corporations (MNCs) have been criticized for not behaving ethically in some situations that could have a negative effect on their reputation.

The authors examine the ethics of a large MNC in its relationship with its suppliers. The views and perceptions of the buying staff and the suppliers to the large South African MNC are discussed. The results indicate

that this MNC has a good corporate reputation among both suppliers and its own buying department. The existence and implementation of formal codes of ethics were found to be a necessary but not sufficient condition for good ethical practice. Elements that may lead to good relationships include speedy resolution of problems; respect for the partner; and transparency in its dealings, which include information sharing, clear communication, and fair but firm negotiations.

There are a number of factors that hinder the development of CSR in Indian corporate world. According to Indu Jain (2008), a lack of understanding, inadequately trained personnel, non-availability of authentic data and specific information on the kinds of CSR activities, coverage, policy etc. contribute to poor reach and effectiveness of CSR programmes in India. But the situation is changing – CSR is coming out of the purview of „doing social good“ and is fast becoming a “business necessity”. The “business case” for CSR is gaining ground and corporate houses are realizing that “what is good for workers – their community, health, and environment is also good for the business”.

Debabrata Chatterjee (2010) in his research articles “Corporate Governance and Corporate Social Responsibility: The Case of Three Indian Companies” analysed the corporate governance (CG) practices of three prominent Indian firms, namely ITC Ltd., Reliance Industries ltd, and Infosys Technologies Ltd., based on four parameters namely, “Approach to Corporate Governance”, “Governance Structure and Practices”, “Board Committees” and Corporate Social Responsibility Activities. It was concluded that all the three companies are doing well both on the CG and the CSR fronts although Infosys seems to be doing much better than the other two; that all three companies are also adding “long-term shareholder value” and

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almost equating it with “long-term stakeholder value” is an indication of the passing away of the “dog eats dog” policy of yester years.

Oana Branzei (2010)\textsuperscript{121} stated in his case study analysis that the Tata Group, an India-based indigenous multinational enterprise with a unique 140-year old commitment to the community, is the pioneer in India for CSR activities. Despite the 2008-2009 global recession, the Tata Group topped the economic value creation charts. In 2008-2009, the Group had grossed US$70.8 billion in revenues. 64.7 per cent of the Groups revenues were now coming from outside India. It explores value-creation, leadership, ethics and sustainable development on the backdrop of rapid internationalizations and shifting stakeholders' expectations for corporate social responsibility.

Jorge A. Arevalo and Deepa Aravind (2011)\textsuperscript{122} concluded in their article “Corporate Social Responsibility Practices in India: Approach, Drivers, and Barriers” that the CSR approach that is most favored by Indian firms is the stakeholder approach and that the caring or the moral motive, followed by the strategic or profit motive, are important drivers for Indian firms to pursue CSR. Further, the results indicate that the most significant obstacles to CSR implementation are those related to lack of resources, followed by those related to the complexity and difficulty of implementing CSR.

Milton Friedman (1970)\textsuperscript{123} is one of the strongest opponents of imposition of social responsibilities on business corporations. He strongly criticized CSR initiatives as – “The businessmen believe that they are defending free enterprise when they declaim that business is not concerned 'merely' with profit but also with promoting desirable 'social' ends; that business has a 'social conscience' and takes seriously its responsibilities for

\textsuperscript{121} Oana Branzei (2010), “Tata: Leadership with Trust, Richard Ivey School of Business Case Collection” London.
providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers...Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades” (Friedman, 1970)