# CHAPTER 2

THEOROTICAL BACKGROUND

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“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders.”

- Preamble to the OECD Principles of Corporate Governance, 2004

2.1: INTRODUCTION

Corporate Governance is a system that includes controlling, structuring, and operating a company with the central objective of achieving the company’s long-term aspirations. Accountability, Transparency and Disclosures are the main essentials of good Corporate Governance. Corporate Governance plays an important role in the economic health and welfare of organisations. The concept of corporate governance can be described in several ways because it embraces the entire array of activities that directly or indirectly shape the financial health of the corporate entities and hence countries, in general. In recent years, the global economy has experienced grave financial system volatility and turbulence in several parts of the world. As a result of these problems, certain decisive but previously overlooked unsteadiness of the financial system sustained by factors such as inefficient standards and inadequate legal and institutional infrastructures, non-transparency and lack of efficient supervisory and regulatory mechanisms.

2.2: CORPORATE GOVERNANCE: MEANING AND HISTORY

2.2.1 What is Corporate Governance?

The earliest definition of Corporate Governance has been given by the Economist and Noble laureate Milton Friedman, which says:

“Corporate Governance is to conduct the business in accordance with owner or shareholders’ desires, which generally will be to
make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs.”

The financial crisis that began in East Asia showed that systematic failure of investor protection mechanisms can lead to failures of confidence that spread from individual firms to entire countries. Insufficient financial disclosure and capital market regulation, lack of minority shareholder protection, and failure of board and controlling shareholder accountability all supported lending and investing practices based on relationships rather than on a prudent analysis of risk and reward. Economic theory holds that when a sole proprietor manages a firm, profits and value will tend to be maximized because they are directly linked to the owner-manager’s self interest (the value of the owner-manager’s investment and income). But when firm ownership is separated from control, the manager’s self interest may lead to the misuse of corporate assets.

The scope of Corporate Governance in an organisation is composed of the executive directors and the managers i.e. the board of directors of the company at one end and at the other end are the shareholders who are the owners of the company and who bring in the capital for the company. Both the shareholders and the board of directors of the company have mutual responsibilities towards each other. The Board of Directors of the company manages and directs the affairs of the company efficiently so as to earn maximum profits that may be distributed amongst the shareholders and stakeholders. It is the responsibility of the Shareholders of the company to appraise and keep an eye on the entire performance of the company as well as the Board of Directors to ensure that the company is being managed in their best interests.

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1 In.geocities.com, Personal website of R. Kannan, Indian Banking Today and Tomorrow
Ethics and Values of the directors of a company also constitute a major part of Corporate Governance. Thus, Corporate Governance ensures that the directors of a company act in the best interests of the company, continuing to be accountable and responsible for their actions and decisions. Following are the parameters that are set up for the evaluation of the best boards in any organization:

- Accountability to Shareholders.
- Transparency of Disclosures.
- Quality of Directors.

### 2.2.2 History of Corporate Governance:

The concept of Corporate Governance first came into practice in the USA in the late seventies due to the Watergate Scandal, which was instrumental in creating awareness about the need for sound corporate governance practices. Subsequent investigations followed and as a result, the US regulatory bodies were able to highlight control failures that had resulted in illegal political contributions and corruption. Consequently, the Foreign and Corrupt Practices Act of 1977 was passed in USA that contained specific provisions regarding the establishment, maintenance and review of systems of internal control in organizations. In 1979, The Securities and Exchange Commission of USA made proposals for mandatory reporting on internal financial controls. In 1985, the Treadway Commission was formed subsequent to a sequence of business failures in the USA. In 1987, the Commission presented its report in which it stressed the need for a proper control environment and an objective Internal Audit function. It also recommended published reports on the effectiveness of internal control in organizations.

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reaction to a progression of accounting irregularities in the United States was the signing of the Sarbanes-Oxley Act in July 2002. This Act acknowledges and emphasises timely and reliable public disclosure of financial statements and the independence of audit committees.

In the Nineties, the United Kingdom set up four committees for the purpose of Corporate Governance. They were the Cadbury Committee, the Rutteman Committee, the Hampel Committee and the Turnbull Committee, the most noteworthy being the Cadbury Committee, which was led by Sir Adrian Cadbury. The Cadbury Committee Report dealt with the financial issues of the listed companies in the London Stock Exchange. It also investigated the accountability of the Board of Directors to shareholders and to the society. It presented "Code of Best Practices" in December 1992 wherein the methods of governance needed to achieve a balance between the essential powers of the Board of Directors and their proper accountability was elucidated.

The Basel Committee on Banking Supervision (BCBS) has been instrumental in issuing several papers on specific topics related to Corporate Governance. They are:

i. Principles for the management of interest rate risk-- (September 1997).

ii. Framework for internal control systems in banking organizations (September 1998).

iii. Enhancing bank transparency-- (September 1998)

iv. Principles for the management of credit risk-- (July 1999).

Developments taking place globally have had tremendous influence on India as well. Globalisation and Liberalisation of the Indian Economy has necessitated a sharp focus on efficient corporate governance practices. Developments taking place around the globe have also been instrumental in triggering the thinking process related to sound corporate governance practices in our country. In 1996, CII (Confederation of Indian Industries) designed a project on Corporate Governance – the first institutional
initiative in Indian industry. This Code was based on the Anglo-Saxon Model of Corporate Governance. The CII was the first to come out with its version of an Audit Committee. The SEBI, as the custodian of investor interests, did not lag behind. On May 7, 1999, it constituted an 18-member committee on Corporate Governance chaired by Mr. Kumar Mangalam Birla mainly with a view to protecting the investors’ interests. The Committee made 25 recommendations, 19 of them were mandatory in the sense that these were enforceable. The listed companies were obliged to comply with these on account of the contractual obligation arising out of the listing agreement with Stock Exchanges. The SEBI had already implemented through the amendment of the listing agreement of the stock exchanges (listing agreement's clause 49). The recommendations applicable first to all the listed companies

2.3 **HYPOTHETICAL BASIS OF CORPORATE GOVERNANCE:**

Corporate Governance can be explained with the help of the following four theories.

1. **Agency Theory:**

   It was Adam Smith who first wrote about managerial laxity and gross misconduct of managers in the joint stock companies. The basis of this theory was agency costs associated with the running of the organization. Agency costs can be termed as the costs imposed by the conflict of objectives between the shareholders of the organization and the management of the organization. The modern company is characterized by separation of ownership and control. Agency costs arise due to the divergence of interest between owners and the managers. The agency costs are the aggregate of bonding costs, monitoring costs and residual loss.
The shareholders elect the management of the organization. Hence, they are the agents of the organization appointed by the owners of the organization, which are the shareholders or principals. The shareholders believe that the management would act in the best interests of the shareholders. But many a times, the managers have other objectives. This is where a clash of objectives takes place and the agency problem arises. The Agency Theory proposes procedures to avoid and reduce agency loss that include proper executive compensation and incentive schemes for managers.

2. **Stakeholder Theory:**
   This theory of corporate governance is based on the stakeholders of the organization, both internal and external. Stakeholders are those components of the organization that are directly or indirectly connected with the working of the organization. The Stakeholder Theory considers the organization as an input-output model consisting of employees, vendors, dealers, government and the general public. It is based on the amalgamation of various faculties such as business ethics, economics and psychology. It says that all stakeholders are responsible for the organization and the attainment of all its objectives.

3. **Sociological Theory:**
   This theory is based on the insinuation of wealth distribution in the society. It talks about the key challenges to social progress if wealth and directorship of organisations is concentrated in the hands of a few privileged people. This theory states that financial reporting, auditing, internal controls and disclosures are essential means to promote justice in society.
4. **Stewardship Theory:**

The Stewardship Theory of corporate governance overlooks the presumption that a conflict of objectives might arise between the management and the shareholders. It believes that managers act in the best interests of the stakeholders and have sound character that helps in controlling behavior. They act as ‘stewards’ of the shareholders and their objectives are aligned with the objectives of the shareholders. Hence, achievement of the goals of the organisation and the shareholders will be the primary aim of the managers.

2.4 **DEFINITIONS OF CORPORATE GOVERNANCE:**

- The earliest definition of Corporate Governance has been given by the Economist and Noble laureate Milton Friedman which says:

  > “Corporate Governance is to conduct the business in accordance with owner or shareholders’ desires, which generally will be to make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs.”

This definition lays a strong thrust on Shareholder’s participation in the efficient management of the organisation. In other words, the active participation of the shareholders (that is, the owners) in the running of the company in order to provide them with maximum dividend (that is, profit), with due respect being given to social and legal responsibilities of the organisation has been termed as Corporate Governance.

- Sir Adrian Cadbury, (‘Global Corporate Governance Forum’, World Bank, 2000) has defined Corporate Governance as:
"Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate 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"

The above definition emphasizes on the well-organized use of monetary resources and also lays stress on accountability to those who provide these resources. It also talks about striking the right balance between economic, social and individual goals in order to provide attention to all equally.

- Mathiesen has defined Corporate Governance as
  “Corporate governance is a field in economics that investigates how to secure/motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/motivate that the corporate managers will deliver a competitive rate of return.”
  The above definition highlights the ways in which the owners of the organisation (that is, shareholders) can ensure that the managers of the organisation run the company in the most efficient manner, thereby producing positive results.

- The BCBS (Basle Committee on Banking Supervision) has defined corporate governance, from a banking industry perspective, as involving:
“The manner in which the business and affairs of individual institutions are governed by their boards of directors and senior management, affecting how banks:
- Set up corporate objectives (including generating economic returns to owners);
- Run the day-to-day operations of the business;
- Consider the interests of recognized stakeholders;
- Align corporate activities and behaviors with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations; and
- Protect the interests of the depositors;

This definition looks at Corporate Governance purely from the Banking perspective, where the main responsibility of running the company lies in the hands of the Board of Directors and also the Senior Management of the Bank. Therefore, the system adopted by the Board as well as the Senior Management for the efficient management of the bank has been termed as Corporate Governance. It also takes into account the interest of all internal and external stakeholders. It includes the bank’s business objectives, compliance with legal norms, efficient day-to-day operations and protection of the interests of all internal and external stakeholders.

- The OECD has defined Corporate Governance as involving:

  “A set of relationships between a company’s management, its board, its shareholders, and other stakeholders. Corporate Governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the
"interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources efficiently"

This definition describes Corporate Governance as a relationship between the management and internal and external stakeholders of the organisation. It identifies the objectives of the company and the means of achieving those objectives. It emphasizes on Incentives as an important means of Motivation that encourage the management to achieve the pre-decided objectives. It also talks about an effective monitoring system that should be set up to maintain effective control over all operations of the organisation.

- J. Wolfensohn, President, World Bank defines Corporate Governance as:
  
  "Corporate Governance is about promoting corporate fairness, transparency and accountability"
  
  This definition encompasses the modern elements of Corporate Governance which are Transparency and Accountability. It talks about promoting corporate fairness and accountability in the organizations, which will ultimately lead to transparent functioning of the organization.

- The Cardon Report (December 1998) of Belgium defines Corporate Governance as:
  
  “Corporate governance’ refers to the set of rules applicable to the direction and control of a company.”
  
  This definition of Corporate Governance concentrates on the set of rules and procedures that are laid down for the effective direction and running of the organisation.
The Preamble to the Berlin Initiative Code (June 2000) defines Corporate governance as:

“Corporate governance describes the legal and factual regulatory framework for managing and supervising a company.”

This definition identifies Corporate Governance as a legal framework designed for the management of the organisation. It talks about the legal aspects related to the management of the organisation where corporate governance is concerned.

2.5 NEED FOR CORPORATE GOVERNANCE:

The increasing importance of corporate governance in the developed and developing economies is a result of the recognition of the need for good corporate governance practices to achieve the main objective for which corporate are formed. The main areas that form an inherent part of good corporate governance practices in an organization are:

- **Accountability and Composition of the Board of Directors:**
  
  The Board of Directors of the company manages and directs the affairs of the company efficiently so as to earn maximum profits that may be distributed amongst the shareholders and stakeholders. Corporate Governance ensures that the directors of a company act in the best interests of the company, continuing to be accountable and responsible for their actions and decisions. Board should consist of Directors who meet the criteria for independence required by applicable listing standards. The Corporate Governance and Nominating Committee are responsible for nominating individuals as candidates for Board membership to fill Board vacancies. The Board of Directors should be chosen on the basis of their integrity, judgment, background and experience of particular relevance to the Company and its future prospects. Directors should represent the
balanced, best interest of the stockholders as a whole rather than special interest groups or constituencies.

- **Protection of Shareholders and shareholder’s rights:**
  Most organisations are formed on the basis of the money that is invested by individuals. This money forms the share capital of the organization and the individuals become the shareholders. Corporate Governance ensures that maintaining high standards of accountability, transparency and disclosures protects the rights of the shareholders.

- **Effective Risk Management:**
  Risk management is the process, by which management of the organisation assesses the nature of risks applicable to a company, develops appropriate controls to minimize those risks and monitors the internal controls set up in the organisation to ensure that they are working effectively. Good Corporate Governance practices ensure that shareholders’ interests are protected to a large extent as directors and managers assess risk effectively and honestly, as they remain accountable to the shareholders.

- **Effective Internal Controls:**
  Internal control and Risk Management are inter-related. The system of internal control set up in the organisation plays an important role in the risk management significant its business objectives. The Board of directors are called on to regularly review reports on the effectiveness of the system of internal control in managing key risks, and to undertake an annual assessment for the purpose of making their statements on internal control in the annual report.
2.6 MODELS OF CORPORATE GOVERNANCE:

Diverse methods of Corporate Governance being followed by various countries have led to the emergence of three patterns of Corporate Governance, which can be said to the three basic models of Corporate Governance.

The basic models of Corporate Governance are as follows:

1. **The Outsider Model / The Principal-Agent Model:**
   The ‘Outsider Model’ of Corporate Governance has evolved primarily in the United States and the U.K. The key feature of this model is that there is a separation of ownership and control. In other words, the company is managed by the managers (i.e. Principals) who are entrusted the responsibility of managing the company by the owners of the company i.e. the Shareholders (i.e. Agents)

2. **The Insider Models:**
   1) **The East-Asian Insider Model:**
      In this model of Corporate Governance, which is widely practiced in East-Asian countries, the control of the company rests with the ‘Founding Families’ i.e. the families that have founded the company. In other words, only the family manages the company. Outsiders do not figure anywhere in the management of the company.

   2) **The European Insider Model:**
      The prime feature of the European Insider model is that a small group of shareholders of the company come together and exercise control over the working of the company. The shareholders have to enter into numerous intricate agreements before they take over the management of
the company. The main difference between the East-Asian Insider Model and the European Insider Model is that in the former model, it is the family that manages the company, while in the latter model; the shareholders manage the company.

3. **The German Model:**
This model is also called the Continental European Approach. It is widely practiced in Germany, Holland and France. It is widely known as the Two-Tier model as under this model, corporate governance is implemented through two boards. The working of the executive board is supervised by the upper board. The shareholders elect the upper board members. The upper board members then appoint and monitor the executive board.

4. **The Japanese Model:**
In this model, the shareholders and the major bank with the highest stake in the organization appoint the board of directors. The bank plays a growing role in the corporate governance of the organization, due to which the increasing importance of the bank is emphasized. This model is also known as the business-network model. This is a type of ‘stakeholder’ model that is also practiced in Germany.

2.7 **CORPORATE GOVERNANCE: THE INDIAN EXPERIENCE**

1) **Historical Background**
Corporate Governance is quite an old concept, in light of the fact that small-scale traders in India practiced it in the olden days. It revealed a need for appropriate management functions, accountability, suitable administration of commercial transactions and responsibility in handling money efficiently. The first managing company in India was established in 1809 and was
British. Carr, Tagore & Company (1834) is known as the first equal partnership between Indian and European Businessman initiating the managing agency system in India. In 1850, the act was passed for the registration of the companies with limited liabilities. Thus, the year 1850 marked a point of departure in the history of Indian business. Indian companies since then have achieved many milestones.

When India gained independence in 1947, she inherited one of the world’s poorest economies. However, in terms of corporate laws and financial system India was better gifted than most other nations during that era. The Companies Act 1956 and other laws governing the functioning of joint-stock companies and protecting the investors’ rights were created. In spite of this, a system and culture of licensing, protection and widespread red-tapism that bred corruption and in turn stifled the growth of the corporate sector grew due to growing socialism in the decades after independence. The situation grew from bad to worse in the subsequent decades and favoritism, discrimination and inefficiency became the trademark of the Indian corporate sector. Exorbitant tax rates encouraged ingenious accounting malpractices and India became a victim of rampant corruption.

2) Corporate Governance- The Significance

Corporate governance has been a central issue in developing countries for long due to globalisation of the world economy as corporate governance and economic development are intrinsically linked to each other. Effective corporate governance systems promote the development of strong financial systems, which, in turn, have an unmistakably positive effect on economic growth and poverty reduction. Effective corporate governance enhances access to external financing by firms, which leads to greater investment and higher growth and employment. Good corporate governance also lowers of the cost of capital by reducing risk and creates higher firm valuation. Good corporate governance practices can significantly reduce the risk of nationwide financial crises. There is an intense converse relationship between the
quality of corporate governance practices followed by a country and currency depreciation of that country. The East-Asian crisis of 1997 is the best example of this situation. In addition to all this, poor corporate governance practices can also hamper the creation and development of new firms in the economy.

3) Corporate Governance and the Indian Legal System

Four distinctive legal systems exist in the global scenario in the present day. They are the English common law, French civil law, German civil law and Scandinavian civil law. The Indian legal system is built on the English common law system. Most Asian economies in the region share specific common features that affect the nature of corporate governance in the region. The majority of Asian countries are characterized by concentrated stock ownership and a prevalence of family-controlled businesses while state-controlled enterprises form an important segment of the corporate sector in many of these countries in spite of their substantial variation in economic conditions and politico-legal backgrounds. Corporate governance issues have been of critical importance in Asian countries particularly since the Asian crisis which is believed to have been partly caused by lack of transparency and poor corporate governance in East Asian countries.

Enforcement of corporate laws of the legal and corporate governance system is quite weak in India. The World Bank prepares the Reports on the Observance of Standards and Codes (ROSC) which is a country-by-country analysis of the observance of OECD’s corporate governance codes. In its 2004 report on India, the ROSC found that India had by and large observed most of the principles mentioned therein. However, it concluded that India could do better in certain areas. Corporate governance affects the interests of a large section of stakeholders and hence has implications for financial stability at macro level. It is one of the main factors that determine the health of the economic system of the country and its ability to survive
economic shocks. The reaction of, World Bank President, James Wolfensohn immediately after East Asia financial crisis was that World Bank will not extend any credit facilities to those countries which who do not comply with international corporate governance norms, as corporate governance brings financial and economic stability.

4) Indian Initiatives in Corporate Governance
Globalisation and Liberisation of the Indian Economy has necessitated a sharp focus on efficient corporate governance practices. In recent years, the Indian economy has undergone a number of reforms, resulting in a more market-oriented economy. Developments taking place around the globe have also been instrumental in triggering the thinking process related to sound corporate governance practices in our country.

In 1996, CII was assigned the task of formulating a Corporate Governance Code. This code was based on the Anglo-Saxon Model. The objective was to develop and promote a code for Corporate Governance to be adopted and followed by Indian companies, be these in the Private Sector, the Public Sector, Banks or Financial Institutions, all of which are corporate entities. On May 7, 1999, The Securities Exchange Board of India (SEBI), which is the central protector of investor rights, constituted an 18-member committee, which was headed by Mr. Kumar Mangalam Birla. The Committee made recommendations, of which some were mandatory, which compelled the listed companies to comply with these recommendations on account of the contractual obligation arising with the introduction of Clause-49 in the Listing Agreement of companies with the respective stock exchanges from January 2000. The mandatory recommendations of the Kumar Mangalam committee include the constitution of Audit Committee and Remuneration Committee in all listed companies, appointment of one or more independent Directors in them, recognition of the leadership role of the Chairman of a company, enforcement of Accounting Standards, the
obligation to make more disclosures in annual financial reports, effective use of the power and influence of institutional shareholders, and so on. This was instrumental in substantially improving the standard of corporate governance in India. The Department of Company Affairs (DCA) appointed the Naresh Chandra Committee in 2002 to look into several corporate governance issues. This committee submitted its report in December 2002.

In any country, the awareness and competitiveness among the corporates would be strengthened when they understand each other and compare their performance with each other. Adequate disclosures and transparency are important instruments which help in doing this. The main objective of disclosure would be fulfilled and the utility of the disclosure towards good Corporate Governance would be improved when the disclosure is done on the basis of uniform and consistent accounting standards. Thus, the development and the practice of uniform accounting standards is a vital core of Corporate Governance. Various bodies have taken initiatives to strengthen the standards with the intention of making the Corporate Governance standards more effective.

5) Corporate Governance and Disclosure Norms in India

In India, the financial disclosure norms in India have traditionally been superior to most Asian countries in the region. Nevertheless, these standards have fallen short of the standards in the USA and other advanced economies. Non-compliance with disclosure norms attracts only nominal fines and there is hardly any disciplinary action against erring organisations. Accounting standards are inadequate in our country and consequently the level of disclosure becomes ineffective. The Institute of Chartered Accountants of India (ICAI) is the main regulatory authority for the development of accountancy in India. It has been working for the adoption and improvement of accounting standards to conform to international regulations. Corporate Governance revolves around the proper practices of
Accounting Standards. Effective application of Accounting Standards helps the organisations in a positive manner. Accounting Standards are being viewed as an important and relevant issue of Good Corporate Governance in the present global environment. Accounting Standards help in providing guidelines to companies for measurement and disclosure of various profit and loss, and balance sheet items. During the last few years, Indian Accounting Standards are being benchmarked against the International Accounting Standards and the US GAAP. This is because of liberalization where many Indian companies have accessed foreign capital markets. In these circumstances, disclosure practices of these companies should match international standards in case they wish to remain in the international scene. According to the OECD principles of Corporate Governance, Accounting Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure.

The level of financial disclosure in India was very less prior to the 1990 before the Indian economy opened its doors to the global market. The companies during this period were owned by large business groups whose main source of funds was from their own group companies and from development financial institutions. Very few companies raised their funds from the stock market. Hence, even the minimal required financial disclosures were not made to the general investors. Until globalization, the Controller of Capital Issues was responsible for the efficient functioning of stock markets. However, due to economic restructuring, the CCI was taken over by the Securities and Exchange Board of India, SEBI which was formed in 1992 to protect investors’ interest.

In spite of the efforts taken by the SEBI there was not much improvement in the disclosure practices of the country until the late 1990s. So far, the
disclosure requirement was regulated by the Companies Act, 1956, the Accounting Standards formulated by the ICAI and the listing agreement issued by SEBI which is applicable only to the listed companies. The main drawback was that non-listed companies were not required to disclose information. The East-Asian crisis and the stock market crashes that have rocked the Indian economy have forced the regulatory authorities to reframe the financial disclosures being made by the Indian companies.

In sharp contrast to the Indian scenario, it can be observed that the requirement for voluntary disclosure is high in those countries where there is high dependence on the capital markets to raise the funds. However in India, the dependence of the companies on capital markets for funds is limited. Organisations that attach importance to Corporate Governance Standards always command a high premium in the economy due to the transparency of their transactions. Transparency of transactions and a high degree of disclosures mean that the stakeholders, internal and external, shall always have all the information that they need easily available at hand. This will result in organisations gaining the confidence of their stakeholders, which will evidently have positive effects for them in return. The implementation of corporate governance practices also proves to be advantageous because it helps in evaluation of risk and well-timed remedial action against failure. Therefore, numerous elements like adoption of international benchmarks and strengthening of prudential norms will help to make the economic system in India stronger and more efficient.
2.8 CORPORATE GOVERNANCE AND THE INDIAN BANKING SECTOR- EVOLUTION AND APPLICATION

The unique character of financial sector and the added intricacy of governance problems among financial institutions play a major role in realizing the importance of effective regulation in this area. The role of effective corporate governance is of immense significance the financial sector in particular and for the society as whole. High standards of Corporate Governance will definitely help Indian Public Sector Banks to carve a place in the international arena for themselves. The Reserve Bank of India (RBI) as well as the Securities and Exchange Board of India (SEBI) have taken initiatives in this regard. The developments of new technologies, globalization and deregulation have changed the face of the Indian banking industry in a significant manner. This has been discussed in detail in Chapter 6.

2.9 CONCLUSION:

Good corporate governance integrates an elevated degree of disclosures and transparency of the system, clear division of responsibility of the management, vertical as well as horizontal and appropriate checks and balances which are possible through external and internal audits and accounting. Therefore, numerous elements like adoption of international benchmarks and strengthening of prudential norms will help to make the banking system in India stronger and more efficient.