CORPORATE GOVERNANCE MAY NOT ENSURE MORE PROFIT COMPANY

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CORPORATE GOVERNANCE MAY NOT ENSURE MORE PROFIT COMPANY
BUT IF THERE IS NO CORPORATE GOVERNANCE THEN IT IS SURE THAT THE
COMPANY WILL NOT RUN SMOOTHLY

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# Table of Contents

LIST OF ABBREVIATIONS .......................................................................................................................... 3

CHAPTER I - INTRODUCTION ................................................................................................................. 4

CHAPTER II - CORPORATE GOVERNANCE IN INDIA ABACKGROUND ........................................... 7

CHAPTER III - NEED FOR CORPORATE GOVERNANCE ................................................................. 10

CHAPTER IV - ENFORCEMENT OF THE CODE OF CORPORATE GOVERNANCE .................................. 14

CHAPTER V - CORPORATE GOVERNANCE PRACTICE BY INFOSYS ............................................... 15

CHAPTER VI - ACHIEVEMENTS OF INFOSYS FOR ITS BEST CG PRACTICES .................................... 16

CHAPTER VII - CARROLL’S PYRAMID OF CORPORATE SOCIAL RESPONSIBILITY ............................. 17

CHAPTER VIII - THE OECD PRINCIPLES OF CORPORATE GOVERNANCE .................................... 18

CHAPTER IX - FEATURES THAT MAKE CORPORATE GOVERNANCE A PARTICULARLY IMPORTANT ISSUE IN INDIA ................................................................. 19

CHAPTER X - CONCLUSION ................................................................................................................. 22

BIBLIOGRAPHY .................................................................................................................................. 24
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIFR</td>
<td>Board for Industrial and Financial Reconstruction</td>
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<td>CII</td>
<td>Confederation of Indian Industries</td>
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<td>CLSA</td>
<td>Credit Lyonnais Securities Asia</td>
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<td>DFIs</td>
<td>Development Finance Institutions</td>
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<td>EBB</td>
<td>Ethical and Business Behavioral</td>
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<td>edn</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Practice</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>Page</td>
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<td>RBR</td>
<td>Rule Based Enforceable</td>
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<td>ROA</td>
<td>Return On Assets</td>
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<td>S</td>
<td>Section</td>
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<td>SEBI</td>
<td>Securities and Exchange Board OF India</td>
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<td>SICA</td>
<td>Sick Industrial Companies Act</td>
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<td>SO</td>
<td>Structure Oriented</td>
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BUT IF THERE IS NO CORPORATE GOVERNANCE THEN IT IS SURE THAT THE
COMPANY WILL NOT RUN SMOOTHLY

Chapter I

INTRODUCTION

Definition

The word company is defined in Companies Act, 1956.¹ The definition of company is subject to
the other definitions given in other provisions of the Act for the limited purposes stated
therein.² In order for a company to exist, it has to be set up and registered with the appropriate
company authority. Once registered; the company is regarded as a legal person, with legal rights
and obligations. A company’s existence and organization are continuously scrutinized through a
well-established set of rules, laws, and policies that govern the way in which the company is run
and controlled. This is known as corporate governance.

Companies can be private or public. Public companies, under certain circumstances, can choose
to list their shares on a stock exchange or alternative investment markets. The corporate
governance rules apply to every company, whether private or public. However, the larger and
more complex a company is, the more closely its decisions are scrutinized. For multinational
companies corporate governance has extended internationally, with rules and regulations that
cooperate at cross-border levels. Corporate governance exists to protect the shareholders of a
company. It also aims to preserve the reputation of a company and its business against any
fraudulent acts committed by its directors and officers.

The directors of a company must always make decisions objectively, in the best interests of the
company’s business and its shareholders. They have the responsibility to run the company

¹ S.3 (1) (i) “Company” means a company formed and registered under this Act.
² A Ramaiya-Guide to the Companies Act, 16th edn, Part I, P94
successfully and bring in profits for the shareholders. They have to do this ethically, within the framework of laws and regulations that govern the running of a company.

Companies must file yearly accounts that are subject to public notice. Accounts and the auditing of accounts by independent auditors are important aspects of corporate governance. They ensure the smooth running of the business and its good reputation.

Advantages
A system of corporate governance gives the shareholders confidence that a company is well monitored and that its directors are acting in the best interests of the company and its shareholders.

Corporate governance guards against defrauding of shareholders and the company’s business.

Disadvantages
The bigger the company, the more it will be scrutinized. The need to comply with numerous corporate governance requirements is expensive and can deter the directors from their main priority, which should be running the business in the best interests of the shareholders.

Too much supervision could restrict the independence of a company in the way it runs its business.

Action Checklist
Be well informed about any corporate governance rules.
Be prepared to put in place a thorough system of auditing and risk management.

Dos and Don’ts

Do
Obtain advice from your legal advisers and accountants regarding the best system of auditing and risk management to put in place and the consequences of a breach of the rules.

Don’t
Don’t ignore compliance with the rules of corporate governance. The consequences could be not only financial penalties for the company but also criminal responsibility for the directors.
Don’t overlook the importance of setting up proper procedures to deal with the consequences of a breach. This checklist explains what the phrase“corporate governance”encompasses.3 Corporate governance is a multi-faceted subject.4

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3 www.qfinance.com- Defining Corporate Governance: Its Aims, Goals, and Responsibilities

4
**Definition of Corporate Governance from publication of Cadbury Report, 1992**

Corporate governance has been defined as “The manager which organization, particularly limited companies, are managed and the nature of accountability of the managers to the owners”.

The publication of the Cadbury Report in 1992, which has enhanced the interest describe Corporate Governance as;

“The systems by which the Companies are directed and controlled, board of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the director and auditors and to satisfy themselves that an appropriate governance structure is in place in the organization. The responsibilities of the board include setting the company’s strategic aims, providing leadership. The board’s actions are subject to laws, regulations and the shareholders in general meeting.”

The concept of Corporate Governance is essentially an old wine in a new bottle. What used to be referred to as ‘Social Responsibilities of Business’ has now been labeled as ‘Corporate Governance’?

Good Corporate Governance is essentially ensuring that the management meets its obligation towards – the owners (shareholders), creditors, employees, consumers, government and society at large.

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4 For a good overview of the different theoretical perspectives on corporate governance see Chapter 15 of Dignam, A and Lowry, J (2006) Company Law, Oxford University Press

5 Convergence of Corporate Governance Norms-Monograph-Signifying the approach of auditing in Corporate Governance-B.Abhay Rathore,p.58
Chapter II

CORPORATE GOVERNANCE IN INDIA – A BACKGROUND

The history of the development of Indian corporate laws has been marked by interesting contrasts. At independence, India inherited one of the world’s poorest economies but one which had a factory sector accounting for a tenth of the national product; four functioning stock markets (predating the Tokyo Stock Exchange) with clearly defined rules governing listing, trading and settlements; a well-developed equity culture if only among the urban rich; and a banking system replete with well-developed lending norms and recovery procedures.\(^6\) In terms of corporate laws and financial system, therefore, India emerged far better endowed than most other colonies. The 1956 Companies Act as well as other laws governing the functioning of joint-stock companies and protecting the investors’ rights built on this foundation. This section draws heavily from the history of Indian corporate governance in Goswami (2002). The beginning of corporate developments in India were marked by the managing agency system that contributed to the birth of dispersed equity ownership but also gave rise to the practice of management enjoying control rights disproportionately greater than their stock ownership. The turn towards socialism in the decades after independence marked by the 1951 Industries (Development and Regulation) Act as well as the 1956 Industrial Policy Resolution put in place a regime and culture of licensing, protection and widespread red-tape that bred corruption and stilted the growth of the corporate sector.

The situation grew from bad to worse in the following decades and corruption, nepotism and inefficiency became the hallmarks of the Indian corporate sector. Exorbitant tax rates encouraged creative accounting practices and complicated emolument structures to beat the system. In the absence of a developed stock market, the three all-India development finance institutions (DFIs)
the Industrial Finance Corporation of India, the Industrial Development Bank of India and the Industrial Credit and Investment Corporation of India — together with the state financial Corporations became the main providers of long-term credit to companies. Along with the government owned mutual fund, the Unit Trust of India, they also held large blocks of shares in the companies they lent to and invariably had representations in their boards. In this respect, the corporate governance system resembled the bank-based German model where these institutions could have played a big role in keeping their clients on the right track. Unfortunately, they were themselves evaluated on the quantity rather than quality of their lending and thus had little incentive for either proper credit appraisal or effective follow-up and monitoring. Their nominee directors routinely served as rubber-stamps of the management of the day. With their 16 support, promoters of businesses in India could actually enjoy managerial control with very little equity investment of their own. Borrowers therefore routinely recouped their investment in a short period and then had little incentive to either repay the loans or run the business. Frequently they bled the company with impunity, siphoning off funds with the DFI nominee directors mute spectators in their boards. This sordid but increasingly familiar process usually continued till the company’s net worth was completely eroded. This stage would come after the company has defaulted on its loan obligations for a while, but this would be the stage where India’s bankruptcy reorganization system driven by the 1985 Sick Industrial Companies Act (SICA) would consider it “sick” and refer it to the Board for Industrial and Financial Reconstruction (BIFR). As soon as a company is registered with the BIFR it wins immediate protection from the creditors’ claims for at least four years. Between 1987 and 1992 BIFR took well over two years on an average to reach a decision, after which period the delay has roughly doubled. Very few companies have emerged successfully from the BIFR and even for those that needed to be liquidated, the legal process takes over 10 years on average, by which time the assets of the company are practically worthless. Protection of creditors’ rights has therefore existed only on paper in India. Given this situation, it is hardly surprising that banks, flush with depositors’ funds routinely decide to lend only to blue chip companies and park their funds in government securities. Financial disclosure norms in India have traditionally been superior to most Asian countries though fell short of those in the USA and other advanced countries. Noncompliance with disclosure norms and even the failure of auditor’s reports to 17 conform to the law attract
nominal fines with hardly any punitive action. The Institute of Chartered Accountants in India has not been known to take action against erring auditors. While the Companies Act provides clear instructions for maintaining and updating share registers, in reality minority shareholders have often suffered from irregularities in share transfers and registrations – deliberate or unintentional. Sometimes non-voting preferential shares have been used by promoters to channel funds and deprive minority shareholders of their dues. Minority shareholders have sometimes been defrauded by the management undertaking clandestine side deals with the acquirers in the relatively scarce event of corporate takeovers and mergers. Boards of directors have been largely ineffective in India in monitoring the actions of management. They are routinely packed with friends and allies of the promoters and managers, in flagrant violation of the spirit of corporate law. The nominee directors from the DFIs, who could and should have played a particularly important role, have usually been incompetent or unwilling to step up to the act. Consequently, the boards of directors have largely functioned as rubber stamps of the management.

For most of the post-Independence era the Indian equity markets were not liquid or sophisticated enough to exert effective control over the companies. Listing requirements of exchanges enforced some transparency, but non-compliance was neither rare nor acted upon. All in all therefore, minority shareholders and creditors in India remained effectively unprotected in spite of a plethora of laws in the books.
Chapter III

NEED FOR CORPORATE GOVERNANCE

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.\(^7\)

The failure to implement good governance can have a heavy cost beyond regulatory problems. Evidence suggests that companies that do not employ meaningful governance procedures can pay a significant risk premium when competing for scarce capital in the public markets. In fact, recently, stock market analysts have acquired an increased appreciation for the correlation between governance and returns. In this regard, an increasing number of reports not only discuss governance in general terms, but also have explicitly altered investment recommendations based on the strength or weakness of a company's corporate governance infrastructure.\(^8\)

Corporations are a product and part of society.\(^9\) The need for Corporate Governance arises because of –

i) The separation of management from the ownership;

ii) The anonymity between the producer and the ultimate consumers;

iii) Realization that business being part of the society owes certain responsibilities towards the society.

\(^7\) [http://www.sebi.gov.in/commreport/corpgov.pdf](http://www.sebi.gov.in/commreport/corpgov.pdf) The need for Corporate Governance, p1

\(^8\) [http://www.sebi.gov.in/commreport/corpgov.pdf](http://www.sebi.gov.in/commreport/corpgov.pdf) The need for Corporate Governance, p2

\(^9\) Dine-The Governance of Corporate Groups-Cambridge, p1
The Management of any corporation should begin with fundamental reality that their company necessarily produces two products: one, the economic goods and services of the firm; and two, the social effects on the people involved production, distribution, and consumption of those goods and services inside the company as well as in the community in which the company operates.

A responsible management has to therefore, ensure that the sub serves various groups effectively and efficiently.

Management is responsible towards the shareholders by way of ensuring the fair return on their investment; treating them as business partners, ensuring capital appreciation of their stocks, redressal of their grievances with respect to matters such as delay in transfer of shares, delay in dispatch of share certificates and dividend warrants and non-receipt of dividend warrants.

**Responsibilities toward employees** include payment of fair wages and salaries, sympathetic treatment by the supervisors, absent of favoritism, provision for leave, communication network between management and employees, setting up of norms, and disputes resolution mechanism, concern for safety and provision of healthy and satisfactory working conditions.

**Responsibilities toward consumers** include offering variety of dependable quality goods and services at reasonable prices, creation of good distribution network.

**Responsibilities towards the community** include not to corrupt public servants, to sell goods and services without adulteration, to follow fair trade practices.

**Responsibilities toward government** require the management to be law abiding, to pay the taxes and other dues fully and honestly, not to purchase political support by unfavorable means, to contribute to stable and balanced development of the economy.\(^\text{10}\)

Corporate Governance’ as concept was conceptualized in early nineteenth century and incidentally coincided with the great depression in America. The thinkers and theorists propagated and promoted Corporate Governance as a tool of sustainable business development and strong instrument of corporates are the vehicles of economic development. But, corporate governance as a business practice is quite young and possibly only two decades old.

So, the transition from concept to practice is yet to be tested fully. In this process, different model have been adopted in different countries. These models may be classified as ‘Ethical & Business Behavioral Model of Corporate Governance’ [EBB], ‘Structure Oriented Model of Corporate Governance ‘[SO] and ‘Rule Based Enforceable Model of Corporate Governance’ [RBE]. Reasons for adopting different model have been indigenous business practices,

\(^\text{10}\) Taxman’s Corporate Laws-Dr.R.G.Kapoor:p-401-402
influences of culture and polity over business practices, economic and trade structure or simple to follow and adopt a business practice.

The EBB model of corporate governance has mostly developed in those countries where influence of common law company structure is minimal or not existent like Scandinavian Countries, Russia and South Africa etc. In many of these countries, the joint stock company was unknown until very recently and most of the big corporation are state owned or state sponsored. Participation from larger community as investors are nonexistent. In these countries, corporate structure is designed more on rigid framework of state control. The business executive are expected to demonstrate high ethical values in business practice, be it in the protection of the right of the stakeholder, corporate social responsibility and demonstration of business prudence. Therefore, the practice of corporate governance is a high value-oriented voluntary business practice within this model. This model strongly believes in the adoption of ethics in business practice as sine qua non for successful implementation of corporate governance.

The SO model of corporate governance mainly developed with the appointment of Cadbury Committee by the London Stock Exchange. The committee prescribes that sustainable business practice can be through proper structural orientation of corporate board. It and subsequent committees which followed the ‘Cadbury philosophy’ propose that development of internal structure within board of directors will lead to corporate reorientation and will ultimately promote sustainable business practice. Constitution of different committees within board will be represented professional independent director. The model further advocate that the market regulator will facilitate and act as a watch dog in the process by prescribing binding guidelines or soft regulations to ensure adoption of the same through timely discloser. This model has stressed upon induction of professional independent director to promote good corporate governance.

The RBE Model of corporate governance emphasizes on the role of hard law [Public Law] in enforcement of good governance within private domain. The objective behind this approach lies in Influences Corporation in present day’s public life. Ninety percent of activities in today’s life depend of corporate functioning. For example, basic life necessities like water, electricity, transport, medical facility and employment all are facilitated by companies. So any misdeed on the part of a corporation will affect the civil society. According to this model, responsibility of corporation is not only to protect the interest of shareholders but stakeholders at large. Therefore, corporate as the member of the civil society is responsible to follow every law prescribed to regular its activities. In recent years, the United States has adopted this model.11

Good Corporate Governance makes for good business sense. It increases confidence of shareholders in the company. This leads to better stock price. Research has shown that the good

11 Convergence of Corporate Governance Norms-Monograph-Prelude-Dr.Indrajit Dube,p.vii-viii
Corporate Governance brings down the cost of capital for the company. Good disclosure practices lead to a more liquid market for the company. This lower cost of debt for the company Thus the CEOs of today; there is a clear business case for complying with principle of good Corporate Governance.

In the era of Globalization & Liberalization market forces plays a crucial role. We know that liberalization in emerging economy has made access to foreign funds easier. Availability of foreign funds will lower the cost of capital. It is quit understood. All companies will like this happen, but the international lenders will be careful. They will expect that the companies they lend to follow good Corporate Governance. These lenders will demand transparency. These factors force the companies to modify their behavior and values to meet the norms of Corporate Governance.

Companies these days reward employees for meeting sales targets, achieving profits, presiding over takeovers. Somewhere down the line we have neglected ethical conducts and transparency. Reward for people with excellent conduct and ethical behavior should be there. Those who achieve excellent result but by the doubtful way should face negative consequences not reward. This may not sound profitable but long time reward for good Corporate Governance will be much higher. There is also need of proper succession planning for the employees in the organization.
Chapter IV

ENFORCEMENT OF THE CODE OF CORPORATE GOVERNANCE

In the late 1990s, the Confederation of Indian Industries (CII) published a code of corporate governance. In 1999, the securities & Exchange Board Of India (SEBI) appointed a committee under the chairmanship of Kumar Mangalam Birla to recommend a code of corporate governance.
Chapter V

CORPORATE GOVERNANCE PRACTICE BY INFOSYS

Infosys is the priest of corporate governance. Infosys had accepted the recommendations of both the CII and Kumar Manglam Birla committee. This part of the paper provides an overview of corporate governance practices followed by Infosys.

Infosys has an executive chairman and chief executive officer (CEO) and a managing director, president and chief operating officer (COO). The COO is responsible for all day to day operational issue and achievement of annual targets in client satisfaction, sales, profits, qualities, productivity, employee empowerment and employee retention.

The CEO, COO, executive directors and the senior management made periodic presentation to the board on their targets, responsibilities and performance.

Infosys adopted the tough US Generally Accepted Accounting Practice (GAAP) many years before other companies in India did. To maintain transparency, Infosys provided detail on high or low monthly average of share price in all the stock exchanges on which the companies share were listed.

Narayan Murthy believed in commitment to values, ethical conduct of business. He said, "Investor, Customer, Employees and Vendors have all become sharp, and are demanding greater transparency and fairness in all dealings." He also made a clear distinction between personal and corporate funds. Founding members took only salaries and dividend and did not have other benefits from the company.
Chapter VI

ACHIEVEMENTS OF INFOSYS FOR ITS BEST CG PRACTICES

By the late 1990s, Infosys Technology Ltd had clearly emerged one of the best managed companies in India. Its corporate governance practice seemed to be better than those of many others companies in India.

Because of good corporate governance practices, Infosys was the recipient of many awards. In 2001, Infosys was rated India’s most respected company by Business Word. Infosys was also ranked second in corporate governance among 495 emerging companies in a survey conducted by Credit Lyonnais Securities Asia (CLSA) Emerging Markets. It was voted India’s best managed company five years in a row (1996-2000) by the Asia money poll.

In 2000, Infosys had been awarded the “National Award for Excellence in Corporate Governance “by the Government of India. In 1999, Infosys had been selected as one of Asia’s leading companies in the far Eastern Economic Revenue’s REVIEW 2000 survey and voted India’s most admired company by the Economics Times.  

Chapter VII

CARROLL’S PYRAMID OF CORPORATE SOCIAL RESPONSIBILITY

Building on ‘Sethi’s model’ Carroll. (1979) 8 proposed a model that contains the following four categories of corporate responsibility

(a) Economic - be profitable;

(b) Legal – obey the law;

(c) Ethical – do what is right and fair and avoid harm;

(d) Discretional / philanthropic – be a good corporate citizen\(^\text{13}\)

\(^{13}\) Convergence of Corporate Governance Norms-Monograph-Moving from ‘Corporate Social Responsibility’ to corporate stake holder’s responsibility-Sumona Ghosh.p.27
Chapter VIII

THE OECD PRINCIPLES OF CORPORATE GOVERNANCE

The Organization for Economic Co-operation and Development (OECD1999) developed its principal of corporate governance along the line of the Cadbury Report (1992). The OECD principal defined corporate governance as; that structure of relationship and corresponding responsibilities among a core group consisting of shareholders, board members designed to best foster the competitive performance required to achieve the corporation’s primary objective (IMF, 2001).

The principle of corporate governance is concerned with both the internal aspect of the company such as internal controls and the external aspect such as an organization’s relationship with its shareholders and other stakeholders. Therefore, modern corporate governance goes beyond the traditional financial report for the shareholders, and now starts with defining the objectives of the company before moving on to consider the wider implications for management. Many countries have now introduce corporate governance codes; complying with the OECD’s (1999) principles, including emerging markets and developing economics.

The OECD’s principles cover five areas and are generally viewed as encapsulating the key aspect of corporate governance:

. The rights of the shareholders;

. The equitable treatment of shareholders;

. The role of outside stakeholders in corporate governance;

. Adequate disclosure and transparency;

. The responsibilities of the board\textsuperscript{14}

\textsuperscript{14} Suppra2
Chapter IX

FEATURES THAT MAKE CORPORATE GOVERNANCE A PARTICULARLY IMPORTANT ISSUE IN INDIA

The subject of corporate governance leapt to global business limelight from relative obscurity after a string of collapses of high profile companies. Enron, the Houston, Texas based energy giant, and WorldCom, the telecom behemoth, shocked the business world with both the scale and age of their unethical and illegal operations. Worse, they seemed to indicate only the tip of a dangerous iceberg. While corporate practices in the US companies came under attack, it appeared that the problem was far more widespread. Large and trusted companies from Parmalat in Italy to the multinational newspaper group Hollinger Inc., revealed significant and deep-rooted problems in their corporate governance. Even the prestigious New York Stock Exchange had to remove its director, Dick Grasso, amidst public outcry over excessive compensation. It was clear that something was amiss in the area of corporate governance all over the world.

Corporate governance has, of course, been an important field of query within the finance discipline for decades. Researchers in finance have actively investigated the topic for at least a quarter century and the father of modern economics, Adam Smith, himself had recognized the problem over two centuries ago. There have been debates about whether the Anglo-Saxon market-model of corporate governance is better than the bank based models of Germany and Japan. However, the differences in the quality of corporate governance in these developed countries fade in comparison to the chasm that exists between corporate governance standards and practices in these countries as a group and those in the developing world. Corporate governance has been a central issue in developing countries long before the recent spate of corporate scandals in advanced economies made headlines. Indeed corporate governance and

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15 Starting from the seminal “agency problem” paper of Jensen and Meckling (1976).
economic development are intrinsically linked. Effective corporate governance systems promote the development of strong financial systems –irrespective of whether they are largely bank-based or market-based – which, in turn, have an unmistakably positive effect on economic growth and poverty reduction.\textsuperscript{17} There are several channels through which the causality works. Effective corporate governance enhances access to external financing by firms, leading to greater investment, as well as higher growth and employment. The proportion of private credit to GDP in countries in the highest quartile of creditor right enactment and enforcement is more than double that in the countries in the lowest quartile.\textsuperscript{18} As for equity financing, the ratio of stock market capitalization to GDP in the countries in the highest quartile of shareholder right enactment and enforcement is about \textit{four} times as large as that for countries in the lowest quartile. Poor corporate governance also hinders the creation and development of new firms.

Good corporate governance also lowers the cost of capital by reducing risk and creates higher firm valuation once again boosting real investments.\textsuperscript{19} There is a variation of a factor of 8 in the “control premium” (transaction price of shares in block transfers signifying control transfer less the ordinary share price) between countries with the highest level of equity rights protection and those with the lowest.\textsuperscript{20} Effective corporate governance mechanisms ensure better resource allocation and management raising the return to capital. The return on assets (ROA) is about twice as high in the countries with the highest level of equity rights protection as in countries with the lowest protection.\textsuperscript{21} Good corporate governance can significantly reduce the risk of nation-wide financial crises. There is a strong inverse relationship between the quality of corporate governance and currency depreciation.\textsuperscript{22} Indeed poor transparency and corporate governance norms are believed to be the key reasons behind the Asian Crisis of 1997. Such financial crises have massive economic and social costs and can set a country several years back in its path to development. Finally, good corporate governance can remove mistrust between

\begin{flushleft}
\textsuperscript{17} See Claessens (2003)
\textsuperscript{18} La Porta \textit{et al} (1997)
\textsuperscript{19} La Porta \textit{et al} (2000)
\textsuperscript{20} Dyck and Zingales (2000)
\textsuperscript{21} Claessens (2003)
\textsuperscript{22} Johnson \textit{et al} (2000)
\end{flushleft}
different stakeholders, reduce legal costs and improve social and labor relationships and external economies like environmental protection.

Making sure that the managers actually act on behalf of the owners of the company – the stockholders – and pass on the profits to them are the key issues in corporate governance. Limited liability and dispersed ownership – essential features that the joint-stock company form of organization thrives on inevitably lead to a distance and inefficient monitoring of management by the actual owners of the business. Managers enjoy actual control of business and may not serve in the best interests of the shareholders. These potential problems of corporate governance are universal. In addition, the Indian financial sector is marked with a relatively unsophisticated equity market vulnerable to manipulation and with rudimentary analyst activity; a dominance of family firms; a history of managing agency system; and a generally high level of corruption. All these features make corporate governance a particularly important issue in India.
Chapter X

CONCLUSION

With the recent spate of corporate scandals and the subsequent interest in corporate governance, a plethora of corporate governance norms and standards have sprouted around the globe. The Sarbanes-Oxley legislation in the USA, the Cadbury Committee recommendations for European companies and the OECD principles of corporate governance are perhaps the best known among these. But developing countries have not fallen behind either. Well over a hundred different codes and norms have been identified in recent surveys$^{23}$ and their number is steadily increasing. India has been no exception to the rule. Several committees and groups have looked into this issue that undoubtedly deserves all the attention it can get.

In the last few years the thinking on the topic in India has gradually crystallized into the development of norms for listed companies. The problem for private companies, that form a vast majority of Indian corporate entities, remains largely unaddressed. The agency problem is likely to be less marked there as ownership and control are generally not separated. Minority shareholder exploitation, however, can very well be an important issue in many cases. Development of norms and guidelines are an important first step in a serious effort to improve corporate governance. To run company smoothly, the bigger challenge in India, however, lies in the proper implementation of those rules at the ground level. Even the most prudent norms can be hoodwinked in a system plagued with widespread corruption. Nevertheless, with industry organizations and chambers of commerce themselves pushing for an improved corporate governance system, the future of corporate governance in India promises to be distinctly better than the past.

Also there is a heightened awareness worldwide that effective corporate governance as manifested by transparency, accountability as well as the just and equitable treatment of

$^{23}$ Gregory (2000) and (2001)
shareholders is now a pre-requisite towards efforts to promote sustainable development. Towards this end, there is a need for both public (as represented by governments) and private sector partnership to raise the awareness of the importance of corporate governance improvements and to assist in implementing corporate governance reform.

However such efforts must be mindful of the fact that each country has its own culture as well as differing social and economic priorities. Similarly every corporation has its own corporate culture and business goals.
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