Research Study

on

Corporate Governance Practices in Listed Central Public Sector Enterprises in India

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by

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Contents

List of Tables

List of Figures

Abbreviation

Code	Abbreviation
AC	Audit Committee
AY&CL	Andrew Yule & Company Limited
BEL	Bharat Electronics Ltd.
BEML	BEML Ltd.
BHEL	Bharat Heavy Electricals Ltd.
BI&BCL	Bharat Immunologicals & Biological Corp. Ltd.
BL&CL	Balmer Lawrie & Co. Ltd.
BLIL	Balmer Lawrie Investment Ltd.
BPCL	Bharat Petroleum Corporation Ltd.
CHENNPETRO	Chennai Petroleum Corporation Ltd.
CONCOR	Container Corporation of India Ltd.
CSR & SDC	CSR & Sustainability Committee
DREDGECORP	Dredging Corporation of India Ltd.
ENGINERSIN	Engineers India Ltd.
FACT	Fertilizers & Chemicals (Travancore) Ltd.
GAIL	GAIL (India) Ltd.
HCL	Hindustan Cables Ltd.
HFL	Hindustan Flurocarbons Limited
HINDCOPPER	Hindustan Copper Ltd
HINDPETRO	Hindustan Petroleum Corporation Ltd.
HMT	HMT Ltd.
HOCL	Hindustan Organic Chemicals Ltd
HPF	Hindustan Photo Films Manufacturing Co. Ltd.
HRC	Human Resources Management Committee
HS & EC	Health, Safety & Environment Committee
IOCL	Indian Oil Corporation Ltd.
IRCON	IRCON International Lt.
ITDC	India Tourism Development Corporation Ltd

ITI	I T I Ltd
KIOCL	KIOCL Ltd.
MADRASFERT	Madras Fertilizers Ltd.
MCC	Management Controls Committee(MCC)
MMTC	M M T C Ltd.
MRPL	Mangalore Refinery & Petrochemicals Ltd.
MTNL	Mahanagar Telephone Nigam Ltd.
NATIONALUM	National Aluminium Company Ltd.
NFL	National Fertilizers Ltd.
NLCINDIA	Neyveli Lignite Corporation Ltd.
NMDC	NMDC Ltd.
NRC	Nomination & Remuneration Committee
NTPC	NTPC
ONGC	Oil & Natural Gas Corporation Ltd.
PFC	Power Finance Corporation
POWERGRID	Power Grid Corporation of India Limited
PSC	Project Sub-Committee
RCF	Rashtriya Chemicals & Fertilizers Lt.
RECLTD	Rural Electrification Corporation Ltd.
RMC	Risk Management Committee
SAIL	Steel Authority of India Ltd.
SCIL	Shipping Corporation of India Ltd.
SIL	Scooters India Ltd.
SRC	Stakeholders Relationship Committee
STC	Share Transfer Committee
STCINDIA	State Trading Corporation of India Ltd.

Executive Summary

Corporate Governance (CG) refers to a system in which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders. CG has been defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers". CG is an umbrella term. In its narrower sense, it describes the formal system of accountability of corporate directors to the owners of companies. In its broader sense, the concept includes the entire network of formal and informal relationships involving the corporate sector and the consequences of these relationships on society in general.

Chapter one discusses broadly the structure, framework, objectives, methodology and variables. The center objective of the study the linkages between firm performance and governance practice in the listed CPSEs in India. Further, the study would focus on the CG practices in listed CPSEs in India and compare CG practices with the enterprises abroad wherever possible.

The chapter two deals with the review of literature of the various studies related to the CG and firm performance. The chapter is divided into two parts. Part I discusses the CG and firm performance whereas part II discusses the listing norms and CG practices. As per the literature review, CG variables relate to board size; presence of female board members; independent directors; number of meetings held and number of meeting attended.

The backdrop of CG, meaning, definition, importance and theories of CG are studied in chapter III. CG in Public Enterprises is a new phenomenon. In its ambit, the responsibilities of an enterprise to its customers, employees, society/government, suppliers and creditors are defined and a stocktaking is done at the end of a specified period to ensure whether such responsibilities have been fulfilled or not. The board of directors play critical role in improving the efficiency of the firm.

The essence of CG lies in promoting and maintaining integrity, transparency and accountability in the highest echelons of management. Chapter four studies the CGpractices, committees, role of regulator, Department of Public Enterprise in Indian perspective.

The CG framework promotes transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement. Effective CG requires a sound legal, regulatory institutional framework that market participants can rely on. Chapter five depicts the international perspective of CG and also makes comparison of the legal, regulatory framework, board controls, etc with USA, UK, Singapore, Malaysia and India.

The study explored the relationship between CG practices of listed CPSEs in India. The present study makes an attempt to compare the various CG variables of the listed CPSEs for a period of five years ie 2012-13 to 2016-17. A detailed analysis of the 42 listed CPSEs in terms of board size, board meetings, board committees, board composition, independent directors, firm age, gender diversity has been compared. The CPSEs are categorized as per the sectors. The study concludes as follows:

- **Board Size** : Crude oil sector has the highest number of board members in ONGC Ltd (16) followed by State Trading Corporation Ltd (15) and Steel Authority of India (15) during 2016-17. Balmer Lawrie Investment Ltd in Financial Services Sector has the least number of directors on Board (3).
- **Gender Diversity:** It is observed that the presence of women board members is less in core manufacturing sectors such as medium and light engineering, petroleum (R&M), power generation, transport services and telecommunication services
- **Board Composition:** All the listed CPSEs should have at least 1/3rd of the total number of directors as independent directors. It is observed that there are vacant positions on board with respect to nominee directors and independent directors in listed CPSEs.
- **Board Meetings:** GAIL, ONGC Ltd and IOCL are conducting meetings at a frequency of 18, 11 and 11 in a year. This means in a month they conduct atleast two meetings of the Boards.
- **Age of Board Members:** It is noted that the average age of board members declined to 45-60 in 2016-17as compared to 51-63 during 2012-13

- **Board Level Committees:** NTPC has 16 committees followed by ONGC with 15 committees and NLC with 12. Apart from mandatory committees there companies have Contracts Sub-Committee, Exchange Risk Management Committee, Invest/Contribution Committee, Management Controls Committee, Project Sub-Committee, Health, Safety & Environment Committee and Dispute Resolution Committee.
- The statistics reveals that the minimum board size is 3 indicating that in all the listed companies have atleast three board members. The maximum board size is 14.80. It is also observed that the majority of companies have at least nine directors as shown by median value
- The number of Independent directors varies from 0 to 5.6 with mean size of 2.88. It is revealed that independent directors positions are vacant in some listed CPSEs.
- The age of the firm is an important factor. The Balmer Lawrie Investment Ltd. having a minimum age of 13.69 years whereas, maximum age is 91 years of the Balmer Lawrie& Co. Ltd. The meetings of board vary from 3.6 to 14.40 in a year. On an average most of the listed companies are holding eight meeting per annum. Every listed CPSE has on an average six board committees. Most of the committees are SEBI mandated and include audit committee, remuneration committee and shareholder relationship committee.
- It is observed that the correlation between B_SIZE and IDs is .654** which means that as the size of board increases, the number of IDs also goes up.
- The correlations are significant and positive in terms performance measures as related to net profit with independent variables such as board size (B_SIZE) 0.343,

board meetings (MEET) 0.407, independent directors (IDs) 0.307, and board committees (Comts) 0.489.

- The performance of these independent variables with positive sign leads to enhance the dependent variable. The study reveals that r^2 is 0.403 and adjusted r^2 0.459. The values of the adjusted r^2 are an indication of a good relationship between the dependent and independent variables whereas, adjusted r^2 value is 0.459 means that there is only 45.90% variation due to all the independent variables used in the study. Thus it study concluded that there is no direct effect of CG variable on the firm performance of the companies.
- 24 CPSEs have been graded as 'Excellent' on the basis of compliance of Guidelines on CG by Department of Public Enterprises for the year 2016-17.

The vision 2022 document called for a transformative change in the function of CPSEs meeting the futuristic challenges and align them with national priorities. CPSEs could perform better by superior inter-PEs collaboration, regulation, improved CG, linking with capital markets, improved resource use, upgraded labour efficiency, innovation and R&D, honing their competitiveness through building up enterprise specific ethos and cultures. CPSEs has to pay attention to improve service delivery mechanisms, customer satisfaction, pricing, reforms and restructuring, stressed assets in CPSEs, reducing accumulated losses and increasing the number of profit making enterprise, improving the economic returns for stakeholders, etc. Start-up India is an important scheme wherein CPSEs could collaborate by setting up incubators cells.

Chapter 1
Introduction

1.1 Background

Corporate Governance (CG) refers to the system in which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders. CG has been defined as “a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers”. CG is an umbrella term. In its narrower sense, it describes the formal system of accountability of corporate directors to the owners of companies. In its broader sense, the concept includes the entire network of formal and informal relationships involving the corporate sector and the consequences of these relationships on society in general.

It is important to define the concept of CG before delving further on the subject. The vast amount of literature available on the subject ensures that there exist innumerable definitions of CG. To get a fair view on the subject, it would be prudent to give a narrow as well as a broad definition of CG. In a narrow sense, CG involves a set of relationships amongst company’s management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as monitoring performance are determined. Thus, the key aspects of good CG include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders.

While CG essentially lays down the framework for creating long-term trust between companies and the external providers of capital, it would be wrong to think that the importance of CG lies solely in better access of finance. Companies around the world are realizing that better CG adds considerable value to their operational performances:

- It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience, and a host of new ideas
- It rationalizes the management and monitoring of risk that a firm faces globally
- It limits the liability of top management and directors, by carefully articulating the decision making process
- It assures the integrity of financial reports
- It has long term reputational effects among key stakeholders, both internally and externally

In a broader sense, however, good CG- the extents to which companies are run in an open and honest manner- is important for overall market confidence, the efficiency of capital allocation, the growth and development of countries' industrial bases, and ultimately the nations' overall wealth and welfare.

It is important to note that in both the narrow as well as in the broad definitions, the concepts of disclosure and transparency occupy centre-stage. In the first instance, they create trust at the firm level among the suppliers of finance. In the second instance, they create overall confidence at the aggregate economy level. In both cases, they result in efficient allocation of capital.

Having committed to the above definitions, it is important to note that ever since the first writings on the subject appeared in the academic domain, there have been many debates on the true scope and nature of CG mechanisms around the world. More specifically on the question 'Who should CG really represent?' This issue of whether a company should be run solely in the interest of the shareholders or whether it should take account the interest of all constituents1 has been widely discussed and debated for a long time now. Two definitions of CG highlight the variation in the points of view:

'CG is concerned with ways of bringing the interests of investors and manager into line and ensuring that firms are run for the benefit of investors'.

'CG includes 'the structures, processes, cultures and systems that engender the successful operation of organizations'

The issue raised here is whether the recognition of claims of a wider set of stakeholders, than those of shareholders alone, is the legitimate concern of CG. If it can be established that there are groups other than shareholders with legitimate claims on companies, and that their involvement in corporate decision making is both a right and is also economically beneficial, then the task of policymakers is to consider: 'How should the company be regulated so as to enhance its effectiveness as a mechanism for enhancing the overall wealth or well-being of all stakeholders?'

The belief that the purpose of the modern corporation is to maximize shareholder value, along with typical capital market and ownership features has been associated with the 'Anglo-Saxon' agency model of the corporation. This contrasts the 'German (and Japanese) conception of the company as a social institution'. In making this distinction, commentators have mostly focused on the extent and nature of the separation of ownership and control. The Anglo-Saxon model is said to be characterized by a clear separation between management control and shareholder ownership, and hence is described as an 'outsider' system of CG. It is contrasted with the 'insider' system, thought to be more descriptive of continental European and Japanese corporate firms.

Shareholder primacy is embodied in the finance view of CG, which is a special instance of the principal-agent framework in economic theory. In terms of the finance view, the primary justification for the existence of the corporation is to maximize shareholder wealth. Since ownership and control are separate (for purposes of liquidity, risk sharing and specialization), the central CG issue from this perspective is aligning the objectives of management with the objective of shareholder wealth maximization.

While companies are encouraged to foster long-term relationships with stakeholders by taking their interests into account, there is no concomitant pressure to build into CG, structures and processes that would ensure companies accountability towards stakeholder groups. It is frequently argued that attempts to mediate stakeholder claims may obscure performance evaluation and therefore facilitate discretionary behaviour by management.

1.1.1 Agency Theory

According to agency theory, shareholders who are the owners of the corporation appoint managers or directors and delegate to them the authority to run the business for the corporation's shareholders (Clarke, 2004). The agency relationship between two parties is defined as the contract between the owners (principals) and the managers or directors (agents). On the basis of the agency theory, shareholders expect the managers or directors to act and make decisions in the owners' interests.

The separation of ownership and control is one of the key features of modern corporations, and CG has become necessary to mitigate the principal– agent problem (Berle& Means, 1932).

The agency problem was first highlighted by Adam Smith in the eighteenth century and explored by Ross (1973), with the first detailed description of the theory presented by Jensen and Meckling in 1976. The agency theory evolved from the economic literature and has developed into two separate streams: the positivist agent and the principal agent. Both streams concern the contracting problem of self-interest as a motivator of both the principal and the agent, and they share common assumptions regarding people, organisations and information.

1.2 Need for CG

The global business need to access, attract and retain global capital, and hence need to collaborate with global corporate communities. To achieve this, they need to demonstrate ethical codes in the business in-terms of values, principles, code of conduct, transparency, reporting mechanisms, regularizing core operations, leadership, stakeholder involvement, etc. Corporate entities need to recognize that their growth requires the cooperation of all the stakeholders to enhance the best CG practices. In this regard the management needs to act as a trustee of the shareholders at large and prevent asymmetry of benefits between various sections of the shareholders, especially between the owners – managers – shareholders. CG is a key element in improving the economic efficiency of a firm. Good CG helps to ensure the stakeholders interest, in general, and shareholders, interest in particular.

1.3 Why is Good CG Important?

Policy makers, practitioners and theorists have adopted the general stance that CG reform is worth pursuing by supporting such initiatives as splitting the role of chairman/ chief executive, introducing non-executive directors to boards, curbing excessive executive performance-related remuneration, improving institutional investor relations, increasing the quality and quantity of corporate disclosure, inter alia. However, is there really an evidence to support these initiatives? Do they really improve the effectiveness of corporations and their accountability? There are certainly those who are opposed to the ongoing process of CG reform. Many company directors oppose the loss of individual decision-making power, which comes from the presence of non-executive directors and independent directors on their boards. They refute the growing pressure to communicate their strategies and policies to their primary institutional investors. They consider that many initiatives aimed at 'improving' CG in UK have simply slowed down decision-making and added an unnecessary level of the bureaucracy and red tapism. The Cadbury Report emphasized the importance of avoiding excessive control and recognized that no system of control can completely eliminate the risk of fraud (as in the case of Maxwell) without hindering companies' ability to compete in a free market (Cadbury Report, 1992).This is an important point, because human nature cannot be altered through regulation, checks and balances. Nevertheless, there is growing perception in the financial markets that good CG is associated with prosperous companies. The research by Solomon & Solomon (1999) showed some evidence to support the agenda for CG reform. The findings indicated that the institutional investment community considered both company directors and institutional investors to undertake reforms rather than creating hindrance.

1.4 Overview of Central Public Sector Enterprises in India

Central Public Sector Enterprises (CPSEs) were set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low and stable prices besides meeting certain socio-economic obligations[1]. There are 298 Central Public Sector Enterprises (CPSEs) with an investment of Rs 10,96,057crore and turnover of Rs 19, 95,902 crore . Out of the 298 CPSEs, 157 enterprises are profit making with a profit of Rs 1,30,363crore. The CPSEs traded on stock exchanges of India are 42. The market capitalization of 42 CPSEs stood at Rs 13,27,127crore. The government policy on disinvestment envisages public ownership of Central Public Sector Enterprises to share in their wealth and prosperity while ensuring that the Government equity does not fall below 51%. Thus the government could retain management control of the enterprise. The new disinvestment policy of the government identified profitable CPSEs to be made compliant by ‘Offer for Sale’ by Government or by the CPSEs through issue of fresh shares or a combination of both.

[1] Public Enterprise Survey 2014-15, Volume 1, Department of Public Enterprise, Government of India, p.1

The major advantage of the listing of profitable CPSEs on the stock exchanges as it would trigger multi-layered oversight mechanism to enhance CG as well as provides for level playing field to CPSEs vis-á-vis private companies in regard to accessing the resources through the capital market[2]. This process of listing would enhance shareholder value. Table 1.1 depicts top ten listed CPSEs along with market capitalization as on 31 January 2017**:**

Table 1.1: Top Ten Listed CPSEs and Market Capitalization

Name of the company	**Market Capitalization (Rs in crore)**
Oil & Natural Gas Corp. Ltd.	2,59,937.17
Coal India Ltd.	1,91,933.09
NTPC Ltd.	1,42,110.57
Power Grid Corp. of India Ltd.	1,08,398.54
Bharat Petroleum Corp. Ltd.	98,578.04
Indian Oil Corp. Ltd.	1,77,920.36
Gail (India) Ltd.	59,383.75
NMDC Ltd.	45,512.56
Hindustan Petroleum Corp. Ltd.	52,963.01
Power Finance Corp. Ltd.	34,360.65

(Source: http://dipam.gov.in/market-capitalisation-cpses)

1.5 Objectives of the study

A detailed study of various governance practices of listed CPSEs is proposed to be undertaken. This would help us to understand the various governance practices, issues and challenges faced by these enterprises. The main objective is to study the linkages between firm performance and governance practice in the listed CPSEs in India. Further, the study would focus on the CG practices in listed CPSEs in India and also would compare the sector-wise practices of listed enterprises abroad wherever relevant.

The main objectives are:

- To study the CG practices listed CPSEs in India

[2]Public Enterprise Survey 2014-15, Volume 1, Department of Public Enterprise, Government of India, p.191

- To study the linkage between the financial performance and CG practices in the listed CPSEs in India
- To study the international CG practices in listed public sector enterprises

As per the literature review CG variables are selected for the study. They include board size; presence of female board member; independent directors; number of meetings held, number of meeting attended, etc.

1.6 Scope and Limitations

1.6.1 Scope of the study

The government policy on disinvestment of government ownership reveals that states that the ownership fall below 51%. The Government has about Rs. 2 lakh crore locked up in CPSEs. Disinvestment of the Government stake is, thus, far too significant. The importance of disinvestment lies in utilization of funds for:

- financing the increasing fiscal deficit
- financing large-scale infrastructure development
- for investing in the economy to encourage spending
- for retiring Government debt- Almost 40-45% of the Centre's revenue receipts go towards repaying public debt/interest and
- for social programs like health and education

This study would be useful for researchers who are investigating the implications of CG principles and CG mechanisms in improving firm performance, as this study is one of the few that have examined CG practices in listed CPSEs. In general, this study provides a comprehensive representation of CG to practitioners with a clear view of the relationship between CG principles, CG mechanisms and firm performance. All outcomes for better governance would translate into higher cash flows and hence would reflect in better operating performance.

1.6.2 Limitation of the Study

The present study has a few shortcomings. Due to limitations on data collection, sample for the study was limited to listed CPSEs in India for a period of 5 years. The study could be extended to a large sample and to a longer time period to strengthen the findings. The study has examined only few variables of CG due to limitations of data availability. Other dimensions such as number of women directors on board, CEO duality, disclosures, body meetings, codes of conduct and performance variable such as net profit margin, book to market ratio, non-performing assets, return on equity, return on capital employed of the Indian listed CPSEs are included in future studies. As the study includes panel data, the various statistical software such as R, STATA, E-VIEWS and have been used to arrive at the various findings.

1.7 Research Methodology

It is proposed to cover all the listed companies in India. Primary and secondary sources have been employed to collect relevant data on various governance parameters and firm performance metrics. Scheduled interviews and questionnaires will also be used to unravel the manifold aspects of CG practices. Descriptive statistics has been used to arrive at various statistical findings and conclusions. These include mean, median and standard deviation on basic information of the CG variables. SPSS 17 has been used to understand the impact of CG practices on performance.

1.7.1Sources and Collection of Data

The present study is based exclusively on secondary data drawn from financial statements and report on CG, information from various websites of Indian Boards - Prime database, BSE and NSE, PROWESS, etc. Relevant information has been drawn from various journal and publication.

1.7.2 Time period the Study

The study analysed the financial statement of select CPSEs and obtained information from company's report on CG for a five year period ie 2012-13 to 2016-17.

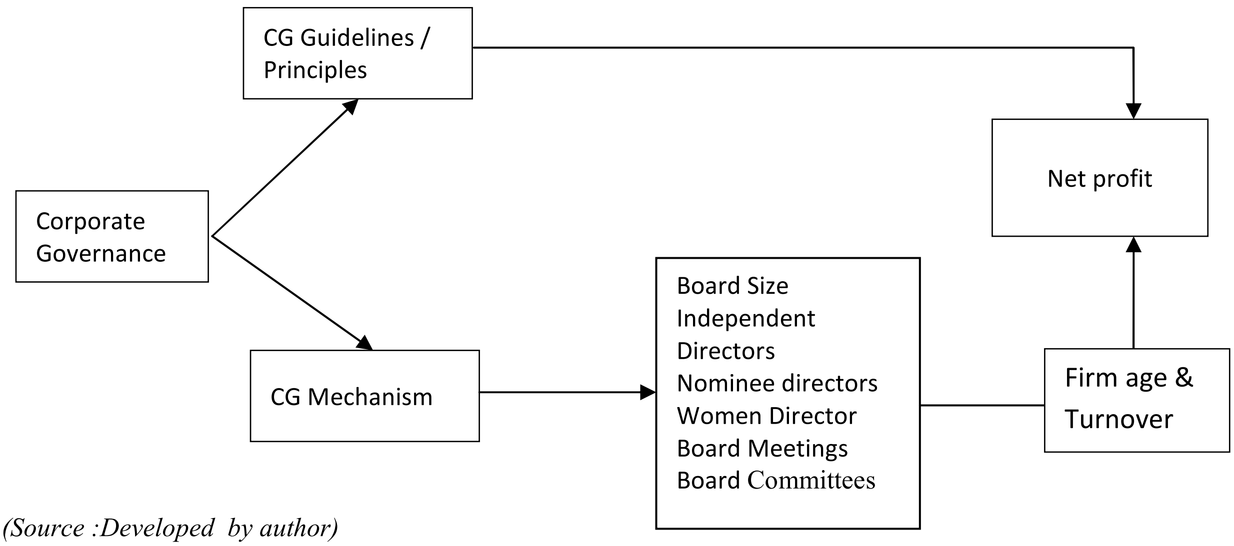
1.7.3 Tools used in the study

The present study used multiple regression analysis method is used to know the impact of variables on financial performance of listed enterprises. Net profit is dependent variable whereas other CG variables are treated as independent variables. Turnover and firm age are treated a control variable to have robustness of the sample information.

1.7.4 Conceptual Framework:

The conceptual model designed for the study to achieve the objectives is depicted in the following figure 1:

Figure 1.1 : Conceptual Framework of the Study



(Source :Developed by author)

The present study employed multiple regression analysis to know the impact of variables on financial performance of listed enterprises. The variables that would support to make the analysis to measure firm performance are depicted in Table 1.2.

Table 1.2: Variables of the study

Code	Variable name	Operationalization
Independent Variables – CG Measures		
B_SIZE	Board Size	Number of directors on the board.
MEET	Board Meetings Conducted	The number of Board Meetings Conducted annually
Comts	Board Committee	Number of Board Committees
W_D	Women on Boards	Total number of Women directors
N_D	Nominee Directors	Total number of Nominee directors on Board
IDs	Independent Directors	Number of Independent Directors on board
Dependent Variables – Firm Performance		
NP	Firms net profit	Annual Profit of the company
Control Variables		
F_AGE	Age of the firm	Difference between inception date and current date
Turnover	Total turnover	Net sales is treated as turnover

1.8 Chapterization

This study is arranged in the following chapters:

Chapter 1	Introduction
Chapter 2	Review of Literature
Chapter 3	CG: A Theoretical Perspective
Chapter 4	CG in Indian : Issues and Challenges
Chapter 5	CG: International Scenario
Chapter 6	Discussion and Implication of the results
Chapter 7	Findings, Conclusions and Futuristic Approach

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Chapter 2
Review of Literature

2.1 Introduction

Corporate governance has assumed a great deal of attention in need of its importance for business enterprises. The literature survey is presented in two main sections in detailed. Section focuses on the firm performance and corporate governance and secondly, listing of enterprises and governance practices. The present chapter deals with the review of literature on the various studies related to corporate governance and firm performance.

2.2 Theories of Corporate Governance

Corporate governance is central to the management and operation of modern companies, and there is an ongoing debate about which theoretical models are appropriate.

Cadbury Report (1992) identifies the board of directors' responsibilities as; setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of business and reporting to shareholders on their stewardship. Jensen (1993) remarks board has an effect internal control mechanism, and further he establishes that problem with the corporate internal control system start with the board of directors, where the board at the apex of the internal control system has the final responsibility for functioning of the firm. Board size may affect corporate performance directly and various explanations presented by many scholars. According to Sanders and Carpenter (1998), board size would reflect the complexity of firm's environment. However, a lack of consensus in the definition of corporate governance has resulted in researchers from different backgrounds (finance, economics, sociology and psychology) proposing different theoretical views that are all aimed at understanding the complex nature of the concept was discussed by Lawal(2012). A number of diverse fundamental theories underline corporate governance, including the original agency theory, stewardship theory, stakeholder theory, resource dependency theory, transaction cost theory and political theory were studied by Abdullah & Valentine (2009).

Letza, Sun &Kirkbride's(2004) discussions on corporate governance theories have focused on the shareholder and the stakeholder perspective. The purpose of the corporation and its associated structure of governance and arrangements are determined by two paradigms that each offer a different way of understanding governance mechanisms.

According to Lefort and Urzua (2008), board of directors are the central institution in the internal Governance of a company and further concludes that board of directors, in addition to strategic direction, they provide a key monitoring function in dealing with agency problems in the firm.

The agency relationship between two parties is defined as the contract between the owners (principals) and the managers or directors (agents). On the basis of the agency theory, shareholders expect the managers or directors to act and make decisions in the owners' interests. However, managers or directors may not necessarily always make decisions in the best interests of the shareholders was addressed by Padilla (2002). This conflict of interest can also be exacerbated by ineffective management monitoring on the part of shareholders as a result of shareholders being dispersed and therefore unable, or lacking the incentive, to carry out necessary monitoring functions. Consequently, the managers of a company might be able to pursue their own objectives at the cost of shareholders was studied by Hart (1995).

2.3 Reviews on Corporate Governance and Firm Performance

A number of research studies have been conducted to understand empirically the best practices of corporate governance in the world. Arun& Turner (2004) have discussed the practices of corporate governance in developing countries and emerging markets in many parts of the world. Further, investigations by Kapardis&Psaros(2006) also highlighted on the emerging markets Many country studies such as Cyprus, Kenya, Taiwan, Nigeria has also been discussed by researchers in their research papers stating that in developing countries the corporate governance practice are weak, and they have suggested that better firm performance could be achieved by better governance. Research studies have been conducted to find the relationship between good corporate governance and firm performance.

Keong (2002) in his research found that there is significant contribution of corporate governance in enhancing firm's performance leading to better management and resource allocation.

Erkens, Hung and Matos (2012) investigate the impact CG on financial firms' performance during the financial crisis of 2007-2008 and examined the relation between the firm performance and CG by regressing stock returns the crisis on measure of CG and control variables. The study found that firms with more independent members and high institutional investors' ownership posted worse stock returns during the crisis period.

2.3.1 Issues of Board Failures

Jensen (1993) stated that though causes for board failures cannot be clearly understood, he identifies board culture, information problems, lack of management and board member equity as causes for board failures and also key points of he points out oversized boards as major cause for board failures. According to him small boards can help to improve the performance. He further concludes that board gets beyond seven or eight members they are less likely to function effectively and are easier for CEO to control. Similar view of thought has been produced by Yermack(1996) where he examined the relationship between performance as measured by Tobin's Q and the board size on a sample of large US corporations and found inverse relationship between the board size and the firm value, where financial ratios related to profitability and operating efficiency appear to decline as board size grows.

Eisenberg, Sundgren, and Wells (1998) present evidence that a negative correlation between board size and profitability. This finding was in line with Yermack (1996) and Jensen (2012), which supports the hypothesis, even in smaller firms, when board size grows problems in communication and coordination could occur.

Large board would lead to higher amount of agency problems and would lead to ineffective management of the company was discussed by Lipton and Lorsch (1992) and Jensen (1993). However, contrary to these views, Kathuria and Dash (1999) finds that performance improves if the board size increases, but the contribution of an additional board member decreases as the size of the corporation increases.

2.3.2 Board Composition

Sahu and Manna (2013) studied as to whether the corporate board composition and number of meetings affect the performance of selected four Indian manufacturing companies. The study period was taken from April 2006 to March 2011 for 52 manufacturing companies. They measured the corporate performance through the measure like ROA, ROCE, RONW, Tobin's Q and EVA, MVA. The results showed that board size and board meetings have a positive impact on corporate performance whereas independence of the board and presence of non-executive chairman in the board has negative impact. Also found that there is no significant relationship between the proportion of executive directors in the board and the performance of the companies.

Arora and Sharma (2015) studied the impact of firm performance on board characteristics in Indian manufacturing firms for a period of 2001- 2010. They measured firm performance as related to ROA, ROE, NPM, adjusted Tobin's Q, stock returns and board characteristics such as board size, independence and meetings. Their study revealed that firm performance has negative impact on both characteristics. Their findings indicated that larger board, outside membership and more meetings are considered as expensive affairs forthe firm.

Temesgen. et.al (2013)analysed the impact of corporate governance on firm performance and found that board size negatively impacts firm performance while independent board directors tend to enhance the firm performance.

Many studies have investigated the relationship between corporate governance and firm performance. It has been widely recognized by researchers that corporate governance playsan important role in improving firm performance.

Akshita and Chandan (2015) have attemptsto examine the impact of prior and current firm performance on board composition as it is the least explored issue in the corporate governance area. For this purpose, the author's analysis covers a large sample of the Indian manufacturing firms for the period 2001–2010. They utilize a range of measures of firm performance such as return on assets, return on equity, net profit margin, adjusted Tobin's q and stock returns in the analysis. The study uses a range of alternative measures of board characteristics like board size, independence and meetings in theestimation process. The results of the study show that firm performance has a negative impact on board characteristics. Findings of the study also indicate that the larger board, outside membership and more meetings are considered as expensive affairs in the firm. The findings in this study are expected to generate further debate on the related issue and sensitize the scholars to reason further research in this area especially in context of developing countries.

The highlights of various studies are depicted in the table 2.1 detailing the major findings of the studies.

Table 2.1 : Research studies on Corporate Governance& Firm Performance

Title and Authors	Major Findings
Composition and Configuration of the Board and Firm Performance by Ranasinghe, D.N. (2010)	This study analyzed the association between the board composition (board size, Nonexecutive director proportion, Female director proportion, CEO/Chairman dualities) and firm financial and non-financial performance and revealed that the selected board composition characteristics have no significant relationship with financial performance, except that when the CEO/Chairman roles are separated.
Impact of Compositions and Characteristics of Board of Directors and Earnings Management on Fraud by Yi-Hsien Wang, Chung-Chu Chuang and hu-Yu Lee (2010).	This paper examined the effects of board of director characteristics and compositions, earnings management on fraud in Taiwan and found CEO have not influence on fraud before the act of the independent directors and auditor, but Institutional director holding, The duality of board chair and CEO has negative influence on fraud afterward.
Enforcement of Corporate Governance in India: Steps forward by VikramadityaKhanna (2011)	This paper posited the current states of corporate and security law enforcement in India, the economic theories of enforcement and the application of these theories in the light of the ownership structure of the most 87 Indian firms. The paper finds that: (a) government enforcement can be improved by developing early warning system and reforming parts of the criminal law, (b) private enforcement needs to be enhanced by devising mechanisms that rely less on court adjudication.
Corporate Governance: An Emerging Scenario by N. Balasubramanian, Deepak M. Satwalekar (2011)	This paper identified some of the major challenges that hinder good corporate governance, which broadly fall under three groups-board independence and effectiveness, Shareholder protection, and credible gate keeping.
Corporate governance: Ownership structure, board structure and performance of public s ctor entities by Immaculate Tusiime, Stephen K. Nkundabanyanga and Isaac N. Nkote	This study examined ownership structure, board structure and their relationship with public sector entities' performance in Uganda. The findings portrayed that, CEO duality is not yet an issue as far as the performance of public sector entities in

Title and Authors	Major Findings
(2011)	Uganda is concerned. Findings indicated that 67% of the variance in public sector entities' performance is explained by ownership structure and board structure. Evidence has emerged that it is necessary to reduce government ownership in public sector entities in Uganda to achieve better performance.
Does Good Corporate Governance include Employee Representation? Evidence from German Corporate Boards by Larry Fauvera and Michael E. Fuerst, (2009)	This paper discovered that labor representation on the supervisory board which is legally mandate provides a powerful means of monitoring and reduces agency costs within the firm. It showed that the judicious use of labor representation increases firm market value and that the greater the need for coordination within the firm, the greater the potential improvement there is in governance effectiveness.
A Corporate Governance Index for Large Listed Companies in India JayatiSarkar, SubrataSarkar and KaustavSen (2012)	In this paper authors constructed a Corporate Governance Index for 500 large listed Indian firms for the period from 2003 to 2008 in this paper. The index construction used information on four important corporate governance mechanisms: the board of directors, the ownership structure, the audit committee, and the external auditor. This analysis showed that Indian markets tend to reward companies that carry out governance reforms.
The Two sides of the governance Coin: Completion and Regulation by Chandrasekhar Krishnamurti (2011)	This paper posited competition and regulation constitute the two sides of the governance coin which together distil the importance of a country's characteristics. This paper examines and direct and interactive effects of competition and regulation on the level and variation of corporate governance.
Corporate Governance in India: Disciplining the Dominant Shareholder by Jayanth Rama Varma (2007)	This paper argued that the corporate governance problems in India are very indifferent. The governance issue in the US or the UK is essentially that of disciplining the management who has ceased to be effectively accountable to the owners. The problem in the Indian corporate

Title and Authors	Major Findings
	sector (be it the public sector, the multinationals or the Indian private sector) is that of disciplining the dominant shareholder and protecting the minority shareholders. Clearly, the problem of corporate governance abuses by the dominant shareholder can be solved only by forces outside the company itself. The paper discussed the role of two such forces – the regulator and the capital market.
Aggarwal1, P. (2013), Impact of Corporate Governance on Corporate Financial Performance. IOSR Journal of Business and Management (IOSR-JBM) e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 13, Issue 3 (Sep. - Oct. 2013), PP 01-05	To examine the impact of corporate governance on financial performance of firm Governance rating of company has a significant positive impact on its financial performance
Olannye, A. P., David. A. (2014). Corporate Governance and Organizational Performance in theNigerian Banking Industry. Journal of Emerging Trends in Economics and Management Sciences (JETEMS) 5(6):525-531 c Scholarlink Research Institute Journals, 2014 (ISSN: 2141-7024)	The purpose of the study was to determine the effect of corporate governance on organizational performance in the Nigerian banking industry Effective Corporate Governance and its related dimensions have positive impact on the Performance of Nigerian Banking Industry
Adebayo, M., Ibrahim, A.O. B., & Yusuf, B.O.I. (2014). Good Corporate Governance and Organizational Performance: An Empirical Analysis. International Journal of Humanities and Social Science, Vol. 4, No. 7(1); May 2014	The study investigates the relationship between corporate governance and the performance of organizations This result indicates a sound relationship between corporate governance and organizational performance of selected food organizations.
Shekar, M.A. ( ). Corporate Governance and Firms' Financial Performance. Journal of Academic and Business Ethics.	The objective of this research is to study the impact of corporate governance variables: CEO as board of director CEO as Chairman of the board, Chairman of Audit Committee, Proportion of Non-executive Directors, Concentrated Ownership structure, Institutional Investors, and Gearing Ratio on firm's profitability ratios Return on Assets and Return on Equity. The effect of corporate governance variables on firms' financial

Title and Authors	Major Findings
	performance is statistically highly significant, it should be left to the regulators, corporate governance thinkers and policy makers in deciding the range of optimum levels for these variables for the effective governance of the firms which is good for all
Corporate Governance And Firm Performance: Empirical Evidence From Vietnam	seeks to quantify the relationship between corporate governance and the performance of firms in Vietnam • There should not be too many members on the board because a larger board's size will contribute negatively to firm's performance. • Board should appoint female board members because these females will make a significant contribution to firm's performance. • The outcomes from this study also indicate that board's compensation will positively contribute to firm's performance. As a result, it is necessary for listed firms to consider an appropriate and competitive compensation level of board's members. The compensation will provide a better link between shareholders and firm's management and this link will enhance firm's performance to maximize shareholders' value

2.4 Listing and Corporate Governance

Many studies state that the corporate governance practices are governed by strong regulatory framework. In a case study on Bangladesh Model of corporate governance practices, Siddiqui, (2010) investigated that the development of corporate governance regulations in emerging economies would improve the corporate environment. Further, identifies that in the case of Bangladesh there is an absence of professional regulator monitoring the governance codes. In the case of listed enterprises governance code has to be regulated by regulator. Countries such as Sri Lanka, India, Korea, China, Malaysia, etc have the presence of regulator who enacts the corporate governance codes. In India, Securities Exchange Commission of India (SEBI) mandates the codes.

Manolescu, Roman and Mocanu (2011) have elaborated the issues in the case of Romanian enterprises. Listed companies, corporate governance disclosure is very important. Tsamenyi, Enninful-Adu and Onumah (2007)in their study worked on a disclosure scores to study the corporate governance practices of 22 Ghanaian listed firms. Further the study also discussed factors influencing ownership structure, firm size, leverage, dispersion of shareholding, auditing system, board and board committees.

2.4.1 Corporate Governance Disclosures

According to literature, it is noted that developing countries attempt to ensure market transparency, investor protection and effective management in order to ensure better governance. Reporting the information is an important issue in the corporate governance. A study conducted by Pahuja and Bhatia(2010) investigated the elements of corporate governance disclosure practices in the annual reporting of 50 Indian listed companies.

Betah, (2013)examines the level of corporate disclosure and transparency annual reports of listed companies in Zimbabwe.It is evident from the literature that most of the studies in developing economies are focusing on issues such as increased level of compliance with corporate governance codes, implementation of regulatory systems, examining the level of corporate governance disclosure, reporting mechanisms, compliances, etc.

2.4.2 Corporate Governance and Regulation in India

Public listed companies in India are governed by multiple regulator structure. The Companies Act is administered by the Ministry of Corporate Affairs (MCA) and is currently enforced by the Company Law Board (CLB). That is, the MCA, SEBI, and the stock exchanges share jurisdiction over listed company, with the MCA being the primary government body charged with administering the Companies Act of 2013, while SEBI has served as the securities market regulator.

SEBI serve as a market-oriented independent entity to regulate the securities market akin to the role of the Securities and Exchange Commission (SEC) in the United States. The stated purpose of the agency is to protect the interest of investors in securities and to promote the development of, and to regulate, the securities market. The realm of SEBI's statutory authority has also been the subject of extensive debate and some authors have raised doubts as to whether SEBI can make regulations in respect of matters that fall within the jurisdiction of the Department of Company Affairs. SEBI's authority for carrying out its regulatory responsibilities has not always been clear and when Indian financial markets experienced massive share price rigging frauds in the early 1990s, it was found that SEBI did not have sufficient statutory power to carry out a full investigation of the frauds. Accordingly, the SEBI Act was amended in order to grant it sufficient powers with respect to inspection, investigation, and enforcement.

The results of various research studies on CG and firm performance conducted by various researchers are highlighting the sample, estimation method, dependent and independent variables and the results discussed in Table 2.2

Table 2.2: Research Studies on Corporate Governance

Authors	*Dependent Variables*	*Independent Variables*	*Sample Country*	*Estimation Method*	*Results*
JayatiSarkar& SubrataSarkar (2009)	*ROA & Tobin Q*	*Board Size, Independent Directors*	*India & USA*	*Regression Analysis*	*Relatively smaller boards in India as compared to USA, Mean board size in USA 11.45, mean board size in India was 9.46; India had relatively fewer independent directors; larger boards lead to poorer performance both in India & USA*
Bhagat& black (1999)	*ROA & Tobin Q, Turnover ratio, operation margin*	*Board Independenc e*	*Regression Analysis*		*Not significant relation*
Balasubrmani an , Black, & Khanna (2010)	*Firm Performance*	*CG Index which consists of Board structure, disclosure, related-party transaction, shareholders rights, and board procedure*	*Regression Analysis*		*A positive relationship between overall CG Index and firm performance*
Lefort and Urzua (2008)	*Tobin Q*	*IDs*	*OLS*		*Not significant*
Lo, Wong & Firth (2010)	*Gross Profit*	*Proportion of independent directors*	*Regression Analysis*		*Negatively Significant*
Jackling, B. &Johl, Shireenjit (2009)	*ROA & Tobin Q*	*Board Size & Composition, board leadership structure and board activity (frequency of meetings)*	*Regression Analysis*		*Larger board has positive impact on firm performance; higher frequency of meetings have negative impact on firm performance*

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Chapter 3

Corporate Governance: A Theoretical Perspective

3.1 Backdrop of Corporate Governance

In recent years, there has been an increasing focus on corporate governance (CG), particularly after the Global Financial Crisis (GFC). Many countries have updated their corporate governance codes. The concept of CG has grown due to the massive corporate failures characterized by the burst of the dot.com bubble in 2000 to malfeasance at Enron, Tycon, Worldcom, etc resulting corporate crisis at international level. This has resulted in unrest among the investors, regulators, politicians, stock exchanges, etc. In light of the global failures, countries around the world have responded by enacting the governance framework for protecting the interests of stakeholders. USA was first to initiate the regulation by issuing Sarbanes Oxley Act in July 2002. Thus the concept of Corporate Governance has come to limelight as an issue ever since people began to organize themselves for a common purpose. But still, good corporate governance practices cannot be legislated. This does not mean that the legal framework is not important. The responsibility lies on how the boards are built, legal framework, compliance, best practices adapted, ethical code of conduct, etc. The board is responsible for internal culture that promotes good corporate governance at workplace. Boards need to recognize that good corporate governance culture adds value to the company. They can no longer be reactive, dependent and accommodating, as there are pressures on boards to accomplish more in a shorter time and in the right way. In this regard, the overall objective of the board is to move away from their role as mere advisers and to become active in terms of fiduciary responsibilities. A culture of good governance in the boardroom therefore needs to be inculcated as much as the rules themselves and this requires education and persuasion.

3.2 Meaning and Definition

Corporate Governance is a *legal discipline.* The term ‘governance’ derives from the Latin ‘gubernare’ meaning to ‘to steer’, applying the meaning to steering of a ship. In general, CG deals with the structure and functioning of the boards of directors and their relationship with management in delivering the corporate objectives. Cadbury Committee, 1992 defines Corporate Governance as: *“the system by which companies are directed and controlled".*

The OECD defines Corporate Governance as *"Corporate governance involves 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."*The significance of CG for stability and equity of society is captured by Adrian Cadbury as *“Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The Governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interest of individual’s corporations and society”.*

The ongoing nature of CG indicated by the definition of the Commission of Global Governance as “*a continuing process through which conflicting or diverse interest may be* *accommodated and co-operative action may be taken" .According to Mr Lim*[3]*, Corporate Governance is an ongoing process, so continuous review is necessary. Too often we adopt measures that are used in other countries. As long as we need money from these markets, we need to play to their music. However, we should be more concerned about achieving compliance with the rules that we have put in place. We should not put in new rules just for the sake of putting them in".*

CG has also been defined as *"the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations."*

Sheikh and Chatterjee (2002) define corporate governance as 'a system whereby directors are entrusted with responsibilities and duties in relation to the direction of a company's affairs', while Sternberg (2004) views it as 'ways of ensuring that corporate actions, agents and assets are directed at achieving the corporate objective established by the corporation's shareholders'.The ASX Corporate Governance Council defines corporate governance (2007) as '*the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account. Corporate governance influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized'.*

Lin and Hwang (2010) define the benefits of well-organised corporate governance as follows: 'A good corporate governance structure helps to ensure that the management

[3]Mr John Lim, Chairman, Singapore Institute of Directors

properly utilizes the enterprises resources in the best interest of absentee owners, and fairly reports the financial condition and operating performance of the enterprise'.

According to Mallin (2010), the essential features of corporate governance are that: it assists in ensuring that an adequate and appropriate system of controls operates within a company and that assets may therefore be safeguarded; it avoids any single individual having too much influence; and it tries to encourage both transparency and accountability in the relationship between company management, the board of directors and other stakeholders, which investors are increasingly looking for in both corporate management and performance.

Sheridan and Kendall (1992)emphasise that achieving good corporate governance requires a system of structured operation and control that fulfills the following objectives:

- achieve a long-term strategy of goals of the owner to maximise shareholder value or control market share
- secure the interests of employees at all times and ensure that they are guaranteed a positive working atmosphere, further training courses, health coverage and fair retirement packages
- maintain excellent long-term relations with customers and suppliers in terms of service, quality and financial settlement procedures
- comply with all relevant legal and regulatory requirements.

3.3 Need for Corporate Governance

The global business need to access global pools of capital, need to attract and retain the best human capital from world, collaborate with global corporate communities, etc. To achieve this, they need to demonstrate ethical codes in the business in-terms of values, principles, code of conduct, transparency, reporting mechanisms, regularizing core operations, leadership, stakeholder involvement, etc. Corporate entities need to recognize that their growth requires the cooperation of all the stakeholders to enhance the best corporate governance practices. In this regard the management needs to act as a trustee of the shareholders at large and prevent asymmetry of benefits between various sections of the shareholders, especially between the owners – managers – shareholders. Corporate governance is a key element in improving the economic efficiency of a firm. Good corporate governance helps to ensure the stakeholders interest, in general, and shareholders, interest in particular.

3.4 Why is Good Corporate Governance Important?

Policy makers, practitioners and theorists have adopted the general stance that corporate governance reform is worth pursuing, supporting such initiatives as splitting the role of chairman/chief executive, introducing non-executive directors to boards, curbing excessive executive performance-related remuneration, improving institutional investor relations, increasing the quality and quantity of corporate disclosure, inter alia. However, is there really evidence to support these initiatives? Do they really improve the effectiveness of corporations and their accountability? There are certainly those who are opposed to the ongoing process of corporate governance reform. Many company directors oppose the loss of individual decision-making power, which comes from the presence of non-executive directors and independent directors on their boards. They refute the growing pressure to communicate their strategies and policies to their primary institutional investors. They consider that the many initiatives aimed at 'improving' corporate governance in UK have simply slowed down decision-making and added an unnecessary level of the bureaucracy and red tape (refer to summary Richard Branszn's experiment with the stock market). The Cadbury Report emphasized the importance of avoiding excessive control and recognized that no system of control can completely eliminate the risk of fraud (as in the case of Maxwell) without hindering companies' ability to compete in a free market (Cadbury Report, 1992).This is an important point, because human nature cannot be altered through regulation, checks and balances. Nevertheless, there is growing perception in the financial markets that good corporate governance is associated with prosperous companies. The research by Solomon (1999)showed some evidence to support the agenda for corporate governance reform. The findings indicated that the institutional investment community considered both company directors and institutional investors welcomed corporate governance reform, viewing the reform process as a 'help rather than a hindrance'.

3.4.1 Parties to Corporate Governance

Parties involved in corporate governance include stakeholders, policy makers, regulatory body, board of directors, etc. Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large. In corporations, the shareholder delegates decision rights to the manager to act in the principal's best interests. This separation of ownership firm control implies a loss of effective control by shareholders over managerial decisions. Partly as a result of this separation between the two parties, a system of corporate governance controls are implemented to assist in aligning the incentives of managers with those of shareholders. With the significant increase in equity holdings of investors, there has been an opportunity for a reversal of the separation of ownership and control problems because ownership is not so diffuse. A board of directors often plays a key role in corporate governance. It is their responsibility to endorse the organization's strategy, develop directional policy, appoint, supervise and remunerate senior executives and to ensure accountability of the organization to its owners and authorities. The effective performance ofthe organization depends on direct or indirect interest of various parties involved in CG. Directors, workers and management receive salaries, benefits and reputation, while shareholders receive capital return. Customers receive goods and services; suppliers receive compensation for their goods or services. In return these individuals provide value in the form of natural, human, social and other forms of capital. A key factor in an individual's decision to participate in an organization is through providing financial capital and trust that they will receive a fair share of the organizational returns. If some parties are receiving more than their fair return then participants may choose not to continue participating leading to organizational collapse.

The initiation of the process of corporate governance in PEs is likely to result into a series of important benefits. The flip-flop about owning of the responsibility for low performance would perhaps come to an end. The owner will be on enterprise board. Secondly goal and role clarity would improve. Enterprise would be mission – vision driven.

3.5 Corporate Governance and Public Enterprises

Corporate governance in Public Enterprises is a new phenomenon. In its ambit, the responsibilities of an enterprise to its customers, employees, society/government, suppliers and creditors are defined and a stocktaking is done at the end of a specified period to ensure whether such responsibilities have been fulfilled or not. The board of directors has to assume the responsibility of installing the systems of corporate governance in the enterprise and overseeing its effective implementation.

A number of enterprises have been taken by surprise by the process adopted by the government of liberating the Indian Economy from the shackles of controls, quotas, embargoes and protection. Many public enterprises have turned sick, as their products have no appeal left for consumer.

PE boards have been an utter failure with regard to succession planning. No effort is made to groom people internally to succeed the CEO. Sometimes, PE boards just do not have an idea as to who could succeed the CEO in the event of his retirement or resignation, as they have had no time to observe the style and functioning of their immediate junior colleagues. Most boards do not even recommend the names of insiders to their administrative ministry or to the Public Enterprise Selection Board (PESB) nor lobby the case of the insiders.

Table 3.1: Comparison of Agency Theory and Stewardship Theory

Criteria	Agency Theory	Stewardship Theory
Model of Man	Economic Man	Self-Actualized Man
Behavior	Self-Serving	Collective Serving
Motivation	Lower order/economic needs (Physiological, security, economic)	Higher order needs (growth achievement, self-actualization)
Social Comparison	Other Managers	Principal
Identification	Low value commitment	High value commitment
Power	Institutional (legitimate, coercive, reward)	Personal (expert, referent)
Management Philosophy	Control oriented	Involvement oriented
Risk Oriented	Control mechanisms	Trust
Time Frame	Short-term	Long-term
Objective	Cost Control	Performance enhancement
Cultural difference	Individualism	Collectivism
	Higher power distance	Low power distance

3.6 Theories of Corporate Governance

The unique characteristics and distinctive features of four important models of corporate governance are detailed below:

- The Anglo-American Model
- The German Model
- The Japanese Model
- The Indian Perspective

3.6.1 The Anglo-American Model

In this model, the board appoints and supervises the managers who manage the day-to-day affairs of the corporation. While the legal system provides the structural framework, the stakeholders in the company will be suppliers, employees and creditors. However, creditors exercise their lien over the assets of the company. The policies are framed by the board of directors and implemented by the management. The board oversees the implementation through a well-designed information system. The board of directors, being responsible to their appointers - the shareholders - commits to them certain returns within the board contours of the market framework.

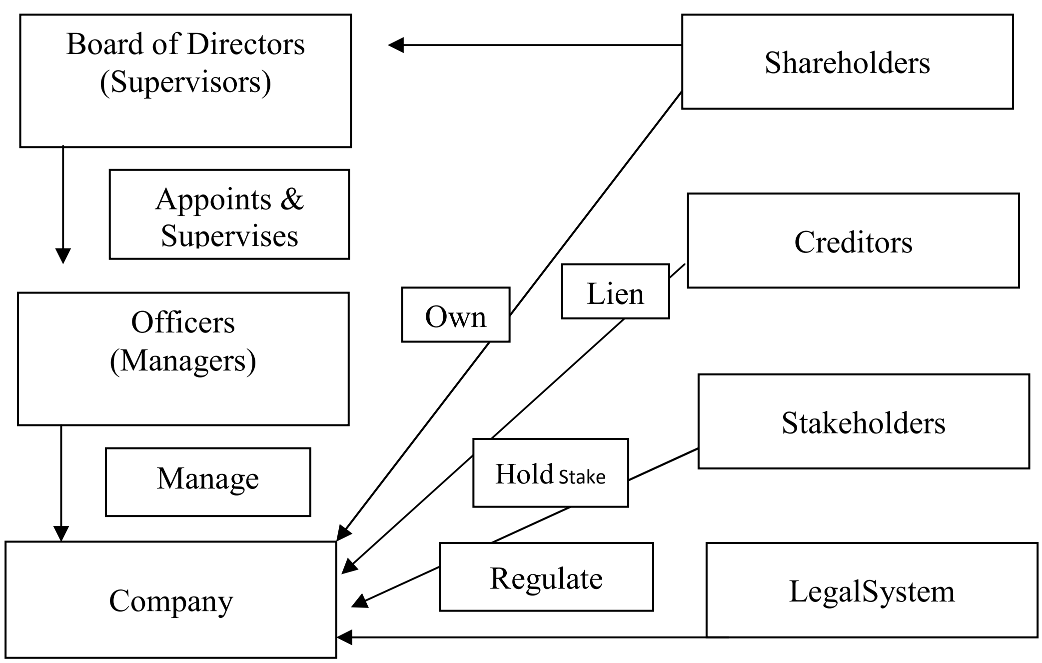
In the Anglo–Saxon system, the company concept is based on a fiduciary relationship between shareholders and management. The Anglo–Saxon system is founded on the notion that self-interest and decentralised markets can function in a self-regulating, balanced manner, and it is based on the concept of market capitalism (Cernat, 2004). Thus, companies have generally similar models of corporate governance in Anglo– American countries (UK, US, Australia and Canada). This model includes one independent board of directors, which monitors and controls management's activity for the purpose of improving it. The International Chamber of Commerce shows that ownership is concentrated in the Anglo–Saxon model, with few people having authority over the management team, and that there is a poor shelter for minority investors who call for independent director support, which is done through an executive chairman (Hasan, 2009).

The distinctive features are:

i. Clear separation of ownership and management, which minimizes conflict of interests.

ii. Companies are run by professional managers who have negligible ownership stakes linked to performance. CEO has a major role to play.

Figure3.1 : The Anglo-American Model



3.6.2 The German Model

In this model, although the shareholders own the company, they do not entirely dictate the governance mechanism. As shown, shareholders elect 50 per cent of members of supervisory board and the other half is appointed by labour unions. This ensures that employees and laborers also enjoy a share in the governance. The supervisory board appoints and monitors the management board. There is a reporting relationship between them, although the management board independently conducts the day-to-day operations of the company.

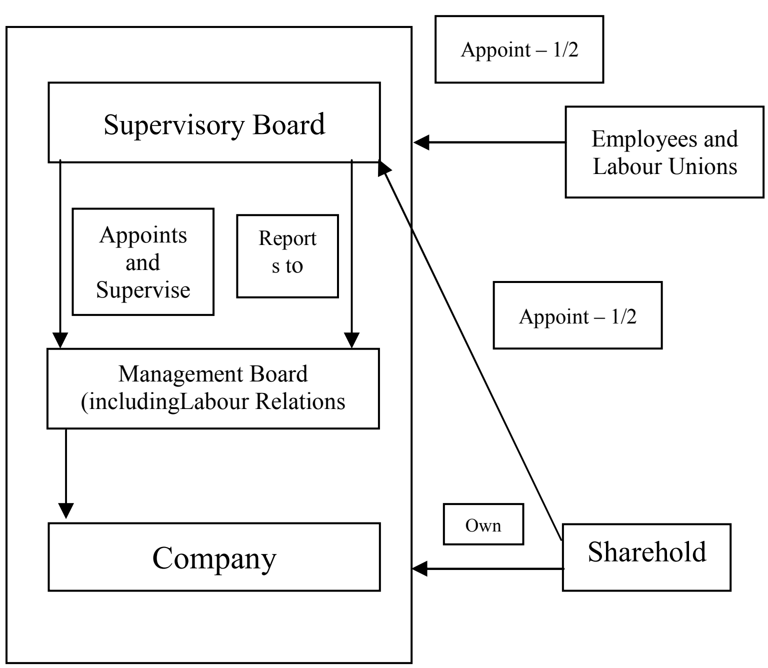
The distinctive features are:

i. Banks and financial institutions have substantial stake in equity capital of companies.

ii. Labour Relations Officer is represented in the management board. Worker participation in management is practiced.

iii. Both shareholders and employees have equal say in selecting the members of the supervisory board.

Figure 3.2 : The German Model



3.6.3 The Japanese Model

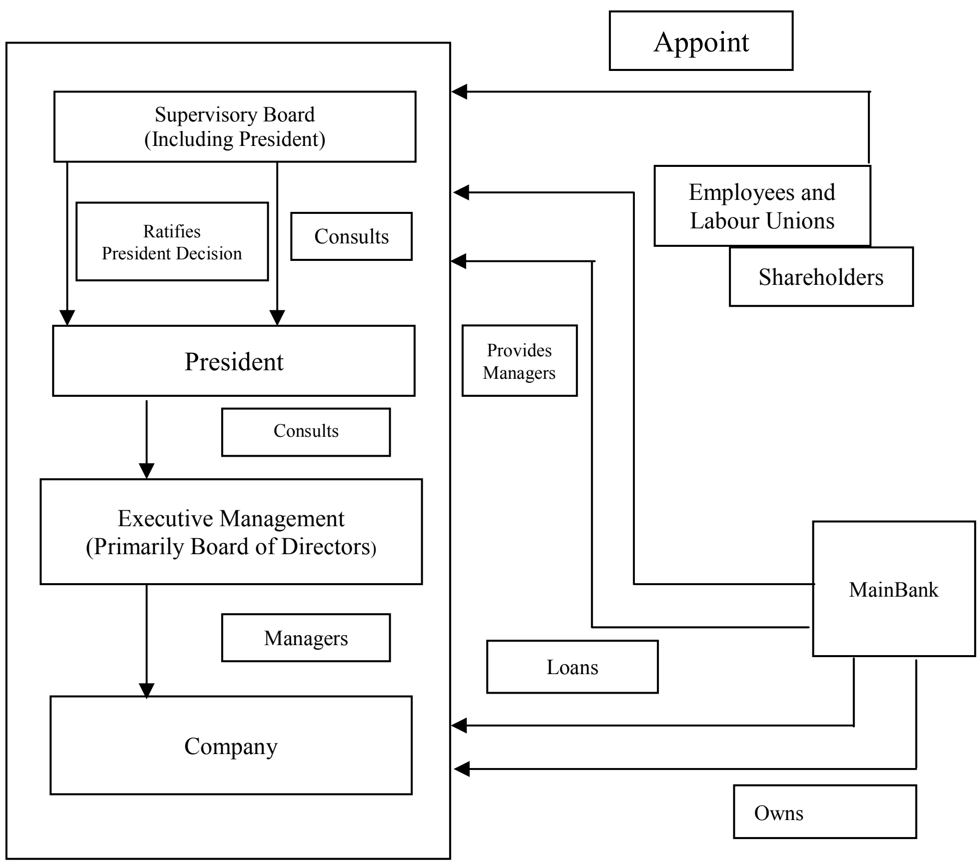
In Japanese model, the financial institution has accrual role in-governance. The shareholders and the bank together appoint board of directors and the president.

The distinctive features are:

i. Inclusion of President who consults both the supervisory board and the executive management.

ii. Importance of the lending bank is highlighted

Figure 3.3: The Japanese Model



3.6.4 The Indian Perspective

India in its own right has a unique and epochal background of governance. In the ancient times, the King was always considered the representative of the people. The wealth of the State was not the personal wealth of the king. Various modern authors have also taken tips on good governance from Kautilya's Arthasastra. The earlier Indian corporates are governed by the Company's Act of 1956 that followed the UK model. The pattern of private companies is mostly that of closely held or dominated by a founder, his family and associates. In respect of public enterprises, central/state government forms the board. The hold of the government constitutes is to be dominant.

The distinctive features are:

i. Equity shares are owned wholly or substantially (51 percent or more) by the government.
ii. Good deal of political and bureaucratic influence over the management.
iii. Organization often viewed as a social entity.
iv. The boards of directors are appointed by the controlling administrative ministry.
v. Excessive emphasis on observing rules, regulations and guidelines.
vi. Efficiency and performance are sacrificed at the altar of propriety.

Figure 3.4: The Indian Perspective of Corporate Governance

Regulatory Framework

Self vs Legal	**Company Law**	**Take-over codes**	**Disclosure requirements**

Accountability	**Supervision of Directors**
• Auditors role expectation gap • Audit Committees • Executive remuneration • Committees / disclosure • Parliamentary Committees	• Stakeholders • Shareholders • Financial Institutions • Market for Corporate control • Non-executive directors

Directors Executive

Management

3.7 Committees on CG

The various committees that were formed to intensify the practices of the corporate governance are depicted in the following table 2.2 The Cadbury Committee was the first committee to be constituted to report on the financial aspects of corporate governance during 1992. The report was compiled on the basic assumption that the existing, implicit system of CG in UK.

Table 3.2: Summary of the Committees

	Year	**Purpose**	**Focus**
Cadbury	1992	The Cadbury committee was the first committee to be constituted to report on the financial aspects of corporate governance	The Cadbury Report focused attention on the board of directors as being the most important corporate governance mechanisms, requiring constant monitoring and assessment. However, the accounting and auditing function were also shown to play an essential role in good corporate governance, emphasizing the importance of the corporate transparency and communication with shareholders and other shareholders.
Greenbury	1995	Remuneration of Directors	The Greenbury Committee were keen to ensure that directors' remuneration was linked to company performance, and the committee did not seem to see a problem with high levels of pay per se, as long as they were justified on the basis of the company's financial results.
Hampel	1998	To review implementation of the findings of the Cadbury and Greenbury Committees.	The Hampel Report emphasized the need to maintain principles-based, voluntary approach to corporate governance rather than a more regulated and possibly superficial approach.

Turnbull	1999	The Turnbull Committee was established specifically to address the issue of internal control and to respond to these provisions in the combined code.	The aim was to provide companies with general guidance on how to develop and maintain their internal control systems and not to specify the details of such a system.
Higgs	2003	The Higgs Report dealt specifically with the role and effectiveness on non-executive directors, making recommendations for changes to the Combined Code.	The general recommendations included a greater proportion of non-executive directors on boards (at least half of the board) and more apt remuneration for non-executive directors.
Smith	2003	In response to the Enron scandal Commissioned this committee, inter alia, with the aim of examining the role of audit committee in UK corporate governance	The main issue is dealt within the report concerned the relationship between the external auditor and the companies they audit, as well as the role and responsibilities of companies' audit committees.
Sarbanes-Oxley Act	2002	In the USA, corporate crisis associated with companies such as Enron, Tyco and Global Crossing seem to have hastened the introduction of the Sarbanes-Oxley legislation. There is some evidence that the bankruptcy of WorldCom on 21 July, 2002, and the public outrage that followed, encouraged President G.W. Bush to sign into law nine days later the Sarbanes-Oxley legislation	The Sarbanes-Oxley Act introduced sweeping corporate law changes relating to financial reporting, internal accounting controls, and personal loans from companies to their directors, whistle blowing and destruction of documents. In addition, Sarbanes-Oxley severely restricts the range of additional services that an audit firm can provide to a client.

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Chapter 4

Corporate Governance in India

4.1 Introduction

The essence of corporate governance lies in promoting and maintaining integrity, transparency and accountability in the highest echelons of management. The term corporate governance is sometimes used very widely embracing a company's relations with a wide range of stakeholders comprising shareholders, managers, employees, customers, suppliers, labour unions, providers of finance, regulators and the community at large or very narrowly referring to a company's compliance with the provisions of best practice codes. It is the boarder approach of corporate governance that is more meaningful in achieving sustainability.

4.2 Enforcement of Corporate Governance Norms

The issue of enforcement of corporate governance norms also needs to be seen in the broader context of the substantial delay in the delivery of justice by the Indian legal system on account of the significant number of cases pending in the Indian courts. A research paper by PRS Legislative Research[4] places the number of pending cases in courts in India, as of July 2009, as 53,000 pending with the Supreme Court, 4 million with various High Courts, and 27 million with carious lower courts. This points to an increase of 139 percent for the Supreme Court, 46 percent for the High Court and 32 per cent for the Lower courts, from the pending number of cases in each of them in January 2000. Furthermore, in 2003, 25 percent of the

[44]www.prsindia.org/

pending cases with High Court had remained unresolved for more than 10 years and in 2006, 70 percent of all prisoners in Indian jails were under trials. Since fresh cases outnumber those being resolved, there is obviously a shortfall in the delivery of justice, and a consequent increase in the number of pending cases. In addition, the weight of the backlog of older cases creeps upward every year.

Indian regulatory framework of corporate governance started way back in 1988 with the establishment of SEBI. During 1992, SEBI became fully autonomous to regulate the Indian capital markets. The main function of SEBI is to maintain stable and efficient markets by creating and enforcing regulations in the market place. During 1998, India produced the first substantial code of best practices on corporate governance after the start of the Asian Financial Crises in mid-1997. Confederation of India Industry began to work on the CII Code of Corporate Governance, 1998. Kumara Mangalam Birla was appointed as the Chairman to work on the revised code of the CII during 1999. The new National Code on Corporate Governance was released during 2000 and was approved by SEBI. Later SEBI revised its Listing Agreement to incorporate the recommendation of the country's new code on corporate governance. The rules contained a section Clause 49 of the Listing Agreement took effect in phases over 2000 – 2003. SEBI mandated that listed companies to comply with the corporate governance related provisions of the Clause 49 of the Listing Agreement. The New Companies Act, 2013 has been enacted with 470 Sections, 29 Chapters, 7 schedules. The duties of directors have been laid down in Section 166 of the Indian Companies Act 2013.Efficient corporate governance requires clear understanding of the respective roles of boards and senior management and their relationships with others in corporate structure. The relationships of the Board and management shall be characterized by sincerity; their relationships with employees shall be characterized by fairness, their relationships with government shall be characterized by commitment to compliance. The board of directors has the important role of overseeing management performance on behalf of the company.

India is one of the major, emerging economies in the world. The corporate failures such as Enron, Xerox, Worldcom, etc. have highlighted the various issues pertaining to reporting standards, enhancing stakeholders confidence, etc. Since 2001 emphasis was laid down on the governance mechanism to be reinforced to retrieve accuracy and reliability. Over the years, a number of initiatives have been undertaken by the government, regulators, and the private sector to reform corporate governance and financial reporting in India.

Figure4.1: Corporate Governance Emergence in India

- CII Code on Corporate Governance, 1998
- National Code on Corporate Governance, 1999
- SEBI Listing Clause 49, 2000
- Chandra Committee on Auditing and Governance, 2002
- OECD Principles, 2002
- Voluntary Guidelines on CG, 2009
- DPE Guidelines on CG, 2010
- Companies Bill, 2012
- Companies Act, 2013
- SEBI – Listing Obligations and Disclosure Requirement Regulation, 2016, 2018

(Source: Compiled by author)

4.3 Public Enterprise and Industrial Policy

The Industrial Policy Resolution of 1948 reserved all the ‘core industries’ for the public sector. Both the public and private sectors were eligible to enter the ‘non-core industries’ sector. The Industrial Policy Resolution of 1956 made public sector responsible for the future development of the industries mentioned in the Industrial Policy Resolution of 1948. It indicated a set of industries in the second category which were to be progressively 'state-owned' and the state was to take initiative to establish new undertakings, but private enterprise was also expected to supplement to the efforts of the State.

The Statement on Industrial Policy of 1991 inter-alia included Public Sector Policy and contained the following decisions:

- "Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained, there would be no bar for area of exclusivity to be opened up to the private sector selectivity. Similarly, the public sector will also be allowed entry in areas not reserved for it.
- Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival / rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose.
- A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.
- In order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers
- Board of public sector companies would be made more professional and given greater powers.
- There will be a greater thrust on performance improvement through the Memorandum of Understanding (MoU) system through which managements would be granted greater

autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MoU negotiations and implementation more effective

- To facilitate a fuller discussion on performance, the MoU signed between Government and the public enterprises would be placed in Parliament. While focusing on major management issues, this would also help place matters on day-to-day operations of public enterprises in their correct perspective

National Common Minimum Programme (NCMP)

The present Government policy towards Public Sector Enterprises as contained in the National Common Minimum Programme (NCMP), were as under:

- To devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment
- Profit-making companies will not be privatized
- Every effort will be made to modernize and restructure sick public sector companies and revive sick industry
- Chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation.
- Private industry will be inducted to turn-around companies that have potential for revival.
- Privatization revenues will be used for designated social sector schemes
- Public sector companies will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

4.4 Meaning and Definition

Corporate Governance is a legal discipline. The term 'governance' derives from the Latin 'gubernare' meaning to 'to steer', applying the meaning to steering of a ship. In general, CG deals with the structure and functioning of the boards of directors and their relationship with management in delivering the corporate objectives.

The OECD defines Corporate Governance as:

"Corporate governance involves 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."

The significance of CG for stability and equity of society is captured by Adrian Cadbury as *"Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interest of individual's corporations and society".*

The ongoing nature of CG indicates by the definition of the commission of Global Governance as "*a continuing process through which conflicting or diverse interest may be accommodated and co-operative action may be taken"*

According to Mr Lim[5], Corporate Governance is an ongoing process, so continuous review is necessary. Too often we adopt measures that are used in other countries. As long as we need

[5]Mr John Lim, Chairman, Singapore Institute of Directors

money from these other markets, we need to play to their music. However, we should be more concerned about achieving compliance with the rules that we have put in place. We should not put in new rules just for the sake of putting them in."

4.5 Committees on Corporate Governance in India

4.5.1 CIL Code of Corporate Governance (1998)

In April 1998, India produced the first substantial code of best practice on corporate governance after the start of the Asian financial crises in mid-1997. Titled 'Desirable Corporate Governance: A Code", this document by not written by the government, but by the Confederation of Indian Industries (CII). CII began working on this document prior to the financial crisis. It is one of the few codes in Asia that explicitly discusses domestic corporate governance problems and seeks to apply best-practice ideas to their solution. Most codes are abstract statements of principle with equally general recommendations, and say little about local conditions.

4.5.2National Code on Corporate Governance (1999)

In late 1999, a government-appointed a committee under the leadership of Shri Kumar Mangalam Birla, Chairman, Aditya Birla Group, released a draft of India's first national code on corporate governance for listed companies. The committee's recommendations, many of which were mandatory, were closely aligned to international best practices on corporate governance and set higher standards than most other parts of the region at that time. The code was approved by the Securities and Exchange Board of India (SEBI) in early 2000 and was implemented in stages over the following two years (applying first to newly listed and large companies). It also led to changes in the stock exchange listing rules.

4.5.3SEBI Listing Clause 49 (February 2000)

In February 2000, the Securities and Exchange Board of India (SEBI) revised its Listing Agreement to incorporate the recommendations of the country's new code on corporate governance, produced in late 1999 by the Birla Committee. These rules contained in new a section, Clause 49, of the Listing Agreement took effect in phases over 2000-2003.As per Clause 49 of the Listing agreement of the SEBI, the companies agree to comply on the following provision:

Composition of Board

- The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.
- Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.

Provided that where the non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors. Every Company to have a board of directors consisting of individual director with Minimum Directors as follows:

- Public companies: 3 directors
- Private companies: 2 directors

- One person company: 1 director

Maximum directors: 15 (except with special resolution). In the New Companies Act, 2013 it has been mandated have to have at least one woman for the listed companies.

Code of Conduct

i. The Board shall lay down a code of conduct for all Board members and senior management of the company. The code of conduct shall be posted on the website of the company.

ii. All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The Annual Report of the company shall contain a declaration to this effect signed by the CEO.

Board Responsibilities

The board of director of the company represents the shareholders interest in perpetuating a successful business and optimizing long-term financial returns in a manner consistent with applicable legal requirements and ethical considerations. The Board is responsible for identifying and taking reasonable actions to held and assure that the Company is managed in a way designed to achieve this results.

Duties of Directors

The basic responsibility of the Directors is to exercise their business to act in reasonably responsible manner in the best interests of the Company and its shareholders. In discharging these obligations, directors shall rely on the honesty and integrity of the executives, customers, advisors and auditors. The Directors shall acknowledge and sign the following documents:

The specific duties of the Board of Director's are as follows:

- Director shall act according to articles of company, subject to Act
- Director of company shall act in good faith in interest of company and its stakeholders
- Shall exercise duties with due and reasonable care, skill diligence and independent judgment
- Director should not involve in a situation where his interest may conflict the interest of the company.
- Director should not try for any undue gains from the company and in case found guilty, shall be liable to pay an amount equal to that gain to the company.
- Director of a company shall not assign his office and any assignment so made shall be void.
- In case of contravention, director shall be punished with a fine of not less than Rs. 1 lakh, but which may extend to Rs.5 lakh

4.5.4 Naresh Chandra Committee (2002)

The initial stimulus for corporate governance reforms came after the South-East and East Asian crisis of 1997-98. Governments, multilateral institutions, banks and companies recalled that the devil lay in the details the nitty-gritty of transactions among companies, banks, financial institutions and capital markets; corporate laws, bankruptcy procedures and practices; the structure of ownership and crony capitalism; stock market practices; poor boards of directors with scant fiduciary responsibility; poor disclosures and transparency; and inadequate accounting and auditing standards.

Following the Enron fiasco and subsequent enactment of Sarbanes – Oxley Act in the US, Government of India [Department of Company Affairs (DCA)] had set up another committee to study corporate governance. This committee was formed under the chairmanship of Naresh Chandra (known as Naresh Chandra Committee/ NC Committee).This committee examined various governance issues, such as:

1. Statutory auditor – company relationship including independence of Audit functions and restrictions on non – audit services.
2. Need for rotation of statutory audit firms.
3. Advantages of setting up an independent regulator and
4. Role of independent directors for their composition in Board.

4.5.5 Narayan Murthy Committee (2002)

After this study, SEBI appointed a second committee under the chairmanship of NR Narayana Murthy to analyze the compliance of clause 49. Narayana Murthy Committee focused mainly on the role of the audit committee and the board composition, particularly independent directors. The objective of this committee was to examine and recommend amendments to the law in order to maintain high standards of corporate governance and also to ensure that corporate governance is looked beyond mere procedures, and is implemented by companies to protect the interests of shareholders. The recommendations of the committee, in short, are;

1. Audit committees should consist of members who are 'financially literature'. i.e., ability to read and understand basic financial statements.

2. Audit committees of listed companies should review the financial statements and certify that they are true and report any material deviations from prescribed accounting standards if any.
3. A statement of all transactions with related parties should be placed before audit committee for formal approval.
4. Procedures should be in place to inform board members about the risk assessment and minimization procedures.
5. To lay down the code of conduct for all the board members and senior management.
6. Nominee directors, if appointed, shall be only by the shareholders and institutional directors shall be subject to same liabilities as other directors.
7. Non – executive director's compensation should be fixed by the board and should be approved by the shareholders.
8. Companies to frame policies, where by personnel who observe any unethical or improper practice, are able to approach the audit committee directly. Further, companies should affirm annually that they have provided protection to such 'whistleblowers'.

4.5.6 DPE guidelines on Corporate Governance

DPE guidelines on Corporate Governance are formulated with an objective that the CPSEs follow the guidelines in their functioning. Proper implementation of these guidelines would protect the interest of shareholders and relevant stakeholders. The importance of Corporate Governance principles in ensuring transparency and trust among the stakeholders was needed to adopt and apply the good Corporate Governance practices in respect of CPSEs March, 2010[6]. These Guidelines are applicable to CPSEs and cover issues like composition of Board of CPSEs, Audit Committee, Remuneration Committee, Subsidiary Companies, Disclosures, Code of Conduct and Ethics, Risk Management and Reporting, monitoring the compliance of Guidelines by the CPSEs and formation of Remuneration Committee. The Board of Directors of CPSEs are delegated powers to follow the policy decisions issued by Government from time to time. The Government has granted enhanced powers to the Boards of Maharatna, Navratna, Miniratna and other profit making enterprises. The CPSEs following criteria are eligible to be considered a Maharatna CPSEs:

- Having Navratna status
- Listed on Indian stock exchange, with minimum prescribed public shareholding under SEBI regulations
- An average annual turnover during the last 3 years of more than Rs 25,000 crore
- An average annual net worth during the last 3 years of more than Rs 15,000 crore
- An average annual net profit after tax during the last 3 years of more than Rs 5,000 crore
- Significant global presence or international operations.

4.5.8 Kotak Committee

The Kotak Committee on Corporate Governance (hereinafter referred to as 'The Committee') was constituted on June 2, 2017, under the chairmanship of Uday Kotak. Its primary objective was improving standards concerning corporate governance of listed companies in India. The Committee was represented by different stakeholders, including the government,

[6]Public Enterprise Survey, 2014-15, Department of Public Enterprise, MHI&PE, GoI

stock exchanges, academicians, proxy advisors, professional bodies, lawyers, etc. It was requested to provide recommendations on diverse issues such as ensuring independence in spirit of independent directors and their active participation in the functioning of the company, and improving safeguards and disclosures pertaining to related party transactions. The highlights of the recommendations of the Committee are as follows :

- Reduction in the maximum number of listed entity directorships from 10 to 8 by April 01, 2019 and to 7 by April 1, 2020
- Expanding the eligibility criteria for independent directors
- Enhanced role of the Audit Committee, Nomination and Remuneration Committee and Risk Management Committee
- Disclosure of utilization of funds from QIP/preferential issue
- Disclosures of auditor credentials, audit fee, reasons for resignation of auditors, etc.
- Disclosure of expertise/skills of directors
- Enhanced disclosure of related party transactions (RPTs) and related parties to be permitted to vote against RPTs
- Mandatory disclosure of consolidated quarterly results with effect from FY 2019-20
- Enhanced obligations on the listed entities with respect to subsidiaries
- Secretarial Audit to be mandatory for listed entities and their material unlisted subsidiaries under SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations.

4.6 Companies Act 2013

The Section 149 of the Indian Companies Act, 2013 deals with the provisions relating to appointment of directors and matters such as the minimum and maximum number of directors, type / class of directors to be appointed. As per this Section:

- Every listed company shall appoint at least one woman director within one year from the commencement of the second provision to Section 149(1).
- Every other Public company: having paid up capital of 100 crore or more or a turnover of 300 crore or more have to compulsorily appoint within 3 years from the commencement of second proviso to Section 149(1) of the Act.

A time limit of one year is provided to fall in line with the new requirement. A search for right kind of women directors has to be made and it is certainly a time consuming exercise. As per section 152(5), every person including a woman director who has been appointed to hold the office of a director shall on or before the appointment furnish to the company consent in writing to act as such in Form No. 11.2 and comply with requirements for filing of consent on MCA portal. Woman director proposed to be appointed has to obtain DIN and shall give a declaration that she is not disqualified to be appointed as a director.

The presence of women directors on the boards of the listed SOEs very clearly points out that there has been little regard paid by the SOEs to the provisions of the Indian Companies Act 2013. About two-thirds of the women directors on the SOEs boards had doctorate or post graduate qualifications. They represented occupations such as civil services, consultancy, accounting, law and academia. Only one SOE had a women member as the Chairman and Managing Director.

4.6.1 Powers of Boards

Board Committees

The following section discusses the duties of various board committees of which audit committee, nomination and remuneration committee, Risk management committee and CSR committee are mandated by the Companies Act 2013.

Audit Committees

The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise. The audit committee shall have powers, which should include the following:

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

The role of the audit committee shall include the following:

- Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

- Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
  - Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956
  - Changes, if any, in accounting policies and practices and reasons for the same
  - Major accounting entries involving estimates based on the exercise of judgment by management
  - Significant adjustments made in the financial statements arising out of audit findings
  - Compliance with listing and other legal requirements relating to financial statements
  - Disclosure of any related party transactions
  - Qualifications in the draft audit report
- Reviewing, with the management, the quarterly financial statements before submission to the board for approval
- Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter.

- Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
- Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussion with internal auditors any significant findings and follow up there on.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.
- To review the functioning of the Whistle Blower mechanism, in case the same is existing.
- Approval of appointment of CFO (i.e., the whole-time Finance Director or any other person heading the finance function or discharging that function) after assessing the qualifications, experience & background, etc. of the candidate.
- Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

Nomination and Remuneration Committee

Every board of listed company should constitute the Nomination and Remuneration Committee constituting 3 or more non-executive directors of which at least half should be independent directors. The chairman can be a member of the committee whereas, but not the chairman for the nomination and remuneration committee. The following are the duties of the Nomination and Remuneration Committee:

- Identify persons who may be appointed as directors and senior management, and recommend to board appointment and removal of director and evaluate performance of directors.
- Committee to formulated criteria for determining qualifications, attributes and independence of director and recommend to board policy regarding remuneration of directors, key managerial personnel and other employees.
- While formulating policy committee should ensure following:-
    - Level and remuneration to directors should be sufficient to attract, retain & motivate directors of quality
    - Relationship of remuneration to performance is clear and meets appropriate performance benchmarks
    - Remuneration to Directors and senior management involves a balance between fixed and incentives reflecting performance

Stakeholders Relationship Committee

Every company having more than 1000 (One thousand) Share Holders + Debenture Holders + Deposit Holders + Other Security Holders shall constitute a Stakeholders Relationship

Committee, which shall consider & resolve the grievance of security holders. The committee comprises of a Chairperson and members would be nominated by the board.

Corporate Social Responsibility Committee

Companies having net worth of Rs. 500 crore or more, orturnover of Rs. 1000 crore or more or a net profit of Rs. 5 crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board. Apart from these committees, Indian Listed enterprises are also following other committees as per there requirements. These include Whistle Blower Committee, Executive Committee, Sexual Harassment and Redressal Committee, Project Management Committee, Health Safety Environment Committee, etc.

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Chapter 5
CG International Practices

5.1 Background

The corporate governance framework promotes transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement. Effective corporate governance requires a sound legal, regulatory institutional framework that market participants can rely on when they establish their private contractual relations. This corporate governance framework typically comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practices that are the result of a country's specific circumstances, history and tradition. The corporate governance framework should be developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and efficient markets. The legal and regulatory requirements that affect corporate governance practices in a jurisdiction should be consistent with the rule of law, transparent and enforceable. The corporate governance framework should protect and facilitate the exercise of shareholders' rights. Basic shareholder rights should include the right to: 1) secure methods of ownership registration; 2) convey or transfer shares; 3) obtain relevant and material information on the corporation on a timely and regular basis; 4) participate and vote in general shareholder meetings; 5) elect and remove members of the board; and 6) share in the profits of the corporation. The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights. The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. The rights of stakeholders that are established by law or through mutual agreements are to be respected. B. Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

5.2 Corporate Governance in USA

Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed. Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. Governance mechanisms include monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and includes the rules and procedures for making decisions in corporate affairs. Corporate governance practices are affected by attempts to align the interests of stakeholders. Interest in the corporate governance practices of modern corporations, particularly in relation to accountability, increased following the high-profile collapses of a number of large corporations in the United States.

The two scandals i.e. Enron and Worldcom has led to the debate over the performance of the corporate sector in the US. The Republican congress and President enacted the Sarbanes-Oxley Act of 2002. Sarbanes – Oxley Act is short is termed as SOX. SOX is generally seen as a piece of "progressive" regulation (Baker, 2008). The SOX reform changed the pattern of regulations, disclosure requirements mandating corporate governance. The Federal government has taken greater role, since the Stock Exchange Commission (SEC) has moved into areas that had been exclusively regulated. Finally, the role of largely self-regulated or professional groups such as accountants, auditors, analysts, middle managers, etc has been brought into the forefront of the corporate governance.

Table 5.1: Various committees /commissions / Act

Year	Name of the committees /commissions / Act	Remarks
1933	Securities Act of 1933 (1933 Act)	Publicity-traded corporations must comply with federal securities laws
1934	Securities Exchange Act of 1934 (1934 Act)	
1977	Foreign and Corrupt Practices Act	Provisions regarding the establishment, maintenance and review of systems of internal control systems
1987	Tradway Report published in 1987	Proper control environment, independent audit committees and an objective internal audit function and insisted to publish reports on the effectiveness of internal control mechanisms
2002	Sarbanes-Oxley Act of 2002 (SOXA)	regulations, disclosure requirements mandating corporate governance

5.3 Corporate Governance in UK

The United Kingdom company law was enacted on 8th November 2006.[7] The Companies Act 2006 is an act revised to reform the existing legal framework relating to companies and other forms of business organization, roles and responsibilities of directors', auditors, actuaries (amends also Part 9 of the Enterprise Act 2002), etc.[8] The Companies Act 2006 is a piece of primary legislation that applies to companies directly. A number of provisions were set out in secondary legislation, mainly through regulations and orders.

The Companies Act, 2006 substantially rewrites the 1985 Companies Act replacing almost all of its provisions and also introducing new provisions. The Companies Act, 2006 is modernizing and simplifying company law. It brings among other novelties a clear statutory statement of directors' general duties and clarifies the existing case law based rules.

The Companies Acts, as defined in section 2 of the Companies Act 2006, in so far as they apply to the company; it includes:

- the company law provisions of Companies Act 2006,
- Part 2 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 (c. 27) (community interest companies), and
- the provisions of the Companies Act 1985 (c. 6) and the Companies Consolidation (Consequential Provisions) Act 1985 (c. 9) that remain enforced.

[7] *Office of Public Sector Information, Public Acts 2006, Companies Act 2006 (c. 46).*

[8] *The government established the Company Law Review Group in 1998 to consider in detail how company law could be modernized. The Company Law Review recommendations became the blueprint for the reforms proposed in the Company Law Reform White Paper issued in March 2005. Following consultation, the White Paper proposals evolved into a draft Bill which was then debated during its passage through Parliament. Finally, the Bill received Royal Assent (official approval) on 8 November 2006*

In the UK various other Act pertaining to the companies functioning were also amended. The Financial Services and Markets Act 2000 was one among those which was amended by Companies Act 2006. Substantial amendments were also made earlier when the Companies Act 2004 was enacted. The company law provisions of the 2006 Act (Parts 1 to 39) restate almost all of the provisions of the 1985 Act, together with the company law provisions of the Companies Act 1989 (the 1989 Act) and the Companies (Audit, Investigations and Community Enterprise)[9] Act 2004 (C(AICE) Act 2004).

5.4 Corporate Governance in Singapore

Corporate Governance is a 'Culture' which tones the top management emphasizing them to follow the guidelines to cultivate effective corporate governance among the listed companies in Singapore. Due to the changing global scenarios, the corporate governance structure in Singapore has undergone tremendous changes since 2007. This was due to the corporate failures in Singapore followed by global financial crises. During 2009, Singapore Exchange (SGX) prepared and circulated a consultation paper and the suggestions were implemented during 2011. This helped the state to have a greater control over the listed enterprise in Singapore Exchange. The key suggestion was to implement the internal control system in the listed enterprises. The Singapore Companies Act 1999 was reviewed by the Company Legislation and Regulatory Framework Committee. The New Companies Act highlighted on the ensuring an effective, efficient and transparent corporate regulatory framework aimed to attract the international investors into the country. The Monitory Authority Singapore issued guidelines of CG for Banks and financial institutions during 2010.

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[9]*Explanatory Notes, referring to the Companies Act 2006 (c. 46) which received Royal Assent on 8 November 2006.*

5.5 Corporate Governance in Malaysia

Ever since the 1980s, the governance of the Malaysian has experienced a lot of transformations as a result of various improvements and modernization. In addition, the Malaysian government aims to be ranked into the top 30 of the Transparency International's Corruption Perception Index (CPI) by year 2020. However, CPI of Malaysia since year 2008 to 2011 somehow showing that the public comprehend business ethics in Malaysia is still not as to be expected (Maisarah et al., 2012). Furthermore, there are a number of corporate governance issues arise in Malaysian (Amalina, Zunaidah, and Ridzwana, 2014).

Malaysia is struggling to become a developed nation in its own frame by 2020. With the aim to become a successful developing country, Malaysian Government is working hard to strengthen corporate governance framework to ensure citizens quality of life are continuously improve. The biggest challenge within corporate governance framework is to strengthen the ethics and integrity framework (National Integrity Plan, 1998). Lack of integrity value within individuals and organisations as well as society at large can lead to many negative consequences such as corruption, irregularities, misuse of power, deception, unethical practices as well as increasing crime rate. Malaysian recently listed at number 39 out of 159 countries with a score of 5.1 in the CPI. The introduction of the National Integrity Plan (NIP) is to reduce the level of Transparency International (TI) to 30 (Source: The STAR Online Friday September 16, 2005). The Bribe Payers Index Ranking in year the 2002 presented Malaysia at number 15 out of 21 (Mohd Adam, 2008).

Table 5.2: Key Corporate Governance Statistics of Public Listed Companies in Malaysia, Assessment by Minority Shareholders Watch Group (2013-2017)

Micro Statistics					
Public Listed Companies	**2017**	**2016**	**2015**	**2014**	**2013**
Total no. of Listed Companies	918	920	927	906	930
No. of Companies Covered	880	868	870	873	862
Companies Covered in Index (%)	96%	94%	94%	96%	93%
Market Capitalisation					
All Public Listed Companies (RM billion)	1778	1654	1718	1683	1484
Top 100 in Corporate Governance Score (RM billion)	1215	1116	1161	1304	1041
Top 100 in Corporate Governance Score (%)	68%	67%	68%	77%	70%

Corporate Governance Statistics					
Corporate Governance Base Score	**2017**	**2016**	**2015**	**2014**	**2013**
No. of Companies Covered	880	868	870	873	862
Average Base score for all Companies	62.20	66.52	62.98	60.23	61.59
Average Base score for Top 100	86.18	85.02	80.41	76.82	75.99
Other Disclosures					
Companies having Board Charter	97%	94%	97%	80%	70%
Companies having code of Ethics	80%	90%	77%	68%	57%
Companies that published AGM minutes	78%	48%	37%	26%	7%
Companies that published M&A	52%	41%	28%	22%	11%
Companied disclosing individual director remuneration	48%	43%	33%	35%	39%
Companies with dividend policy	41%	41%	38%	35%	38%

Companies with whistle blowing policy	84%	86%	70%	51%	48%
Companies with corporate social responsibility policy	98%	94%	93%	97%	94%
Companied disclosing training attended by each director	95%	80%	65%	59%	65%
Annual Financial report release within four months	100%	99%	99%	82%	81%

(Source : Key CG Statistic for 2013-17, issued by MSWG, Malaysia)

Table 5.3 Comparison of the Corporate Governance Approach in the US, the UK and Australia

Governance Mechanasims	US	UK	Australia	Singapore	Malaysia
Board size	Boards should determine the appropriate board size and periodically assess overall board composition to ensure the most appropriate and effective board membership.	The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy.	The board should be of sufficient size so that the requirements of the business can be met and changes to the composition of the board and its committees can be managed without undue disruption. However, it should not be so large as to be unwieldy.	The board should be of sufficient size so that the requirements of the business can be met and changes to the composition of the board and its committees can be managed without undue disruption. However, it should not be so large as to be unwieldy.	The board should be of sufficient size so that the requirements of the business can be met and changes to the composition of the board and its committees can be managed without undue disruption. However, it should not be so large as to be unwieldy.
Leadership structure	The purpose of creating these positions is not to add another layer of power	There should be a clear division of responsibilities at the head of	The chair of the board of a listed entity should be an independent director and, in	The chair of the board of a listed entity should be an independent director and, in	The chair of the board of a listed entity should be an independent director and, in particular, should not

Governance Mechanasims	US	UK	Australia	Singapore	Malaysia
	but instead to ensure organization of, and accountability for, the thoughtful execution of certain critical independent director functions.	the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	particular, should not be the same person as the CEO of the entity	particular, should not be the same person as the CEO of the entity	be the same person as the CEO of the entity
Board composition	Boards should require that independent directors fill the substantial majority of board seats. Boards should ensure that any director candidate under consideration, with the exception of their own CEO or senior managers, is independent.	The board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.	A majority of the board of a listed entity should be independent directors. Having a majority of independent directors makes it harder for any individual or small group of individuals to dominate the board's decision making.	A majority of the board of a listed entity should be independent directors. Having a majority of independent directors makes it harder for any individual or small group of individuals to dominate the board's decision making.	A majority of the board of a listed entity should be independent directors. Having a majority of independent directors makes it harder for any individual or small group of individuals to dominate the board's decision making.
Audit committee	The audit committee must have a minimum of three	The board should establish an audit committee of at least three	The board of a listed entity should: (a) have an audit committee	The board of a listed entity should: (a) have an audit committee which: (1) has at least	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of

Governance Mechanasims	US	UK	Australia	Singapore	Malaysia
	members. All audit committee members must satisfy the requirements for independence	independent non-executive directors. In addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman.	which: (1) has at least three members, all of whom are non executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board .	three members, all of whom are non executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board .	whom are non executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board .

(Source: Weil &Manges (2014))

The legal framework of corporate governance is governed by the guidelines from the regulatory agencies. The Table 5.4 gives an overview of the company's law, securities law and other regulations that are governing the corporate governance. Countries such as Malaysia and Singapore have been following the code of corporate governance. Other countries have amended the law as per the requirements.

Table 5.4: Regulatory framework - Laws and Regulations

Jurisdictions	Companies Law	Securities Law	Other relevant regulations on corporate governance
India	Companies Law 2013	Securities and Exchange Board of India Act	Listing Agreement – Clause 49
United States	State Corporate Laws	The Securities Act of 1993 The Exchange Act of	

Jurisdictions	Companies Law	Securities Law	Other relevant regulations on corporate governance
		1934	
United kingdom	Companies Act, 2006	Financial Services and Market Act 2000	Listing Rules, Prospectus rules, Disclosure and Transparency Rules (FCA)
Australia	Corporation Act 2001	-	-
Singapore	Companies Act	Securities and Future Act	
Malaysia	MCG code 2001		

The role of Boards is to guard the company and to improve the governance standards. The Table 5.5 depicts the regulators responsible for implementing Corporate Governance practices in the countries of study. In India, Securities and Exchange Board of India and Ministry of Corporate Affairs together are responsible in designing the code of corporate governance mandating to be followed by all the listed companies. Whereas, Securities and Exchange Commission for USA, Financial Conduct Authority for UK, Australian Securities and Investment Commission for Australia, Monetary Authority of Singapore for Singapore, and Securities Commissions for Malaysia.

Table 5.5: Main Public regulators of Corporate Governance

Sl No.	Jurisdictions	Key Regulators	
1	India	SEBI	Securities and Exchange Board of India
		MCA	Ministry of Corporate Affairs
2	United States	SEC	Securities and Exchange Commission
3	United Kingdom	FCA	Financial Conduct Authority
4	Australia	ASIC	Australian Securities and Investment Commission
5	Singapore	MAS	Monetary Authority of Singapore
6	Malaysia	SC	Securities Commission

Table 5.6 depicts the budgets and funding of regulators of corporate governance. The most of the funding is allocated in the national budget whereas, approvals were obtained from the government agencies such as Ministry of Finance, Ministry of Corporate Affairs, etc in all the countries referred in the study. In the case of United States, the SEC receives fees from regulated entities but Congress determines the SEC's funding.

Table 5.6: Budget and Funding of Main Regulators of Corporate Governance

Jurisdictions	**Form of Funding**	**Main Funding Resources**	**Budget approved by**	
		National Budget (NB)	**Government (Ministry of Finance, etc.,)**	**Congress**
India	Public & Self	Yes	-	-
United States	Public	Yes	Required	Required
United kingdom	Self	-	Required	Required
Australia	Public	Yes	-	-
Singapore	Self	Yes	-	-
Malaysia	Public	Yes	-	-

The ruling bodies of CG regulators Table 5.7 depicts that most of the regulators have boards whereas USA, Australia and Malaysia has Commissions. The members of regulatory boards range between 5 and 9. In the case of USA the commission should not have more than 3 members for the same party. Table 5.9 depicts the ruling bodies and members of the regulators.

Table 5.7: Ruling bodies of Corporate Governance Regulators

Jurisdictions	Key Regulators	Ruling body in charge of Corporate Governance	Members incl. chair (current)	Representatives from specific entity				Appoint-ments
				Government	Central Bank	Others Public	Others private	
India	SEBI / MCA	Board	9	Yes	Yes	-	-	Ministry of Finance
United States	SEC	Commission	5	Yes	-	-	-	President
United kingdom	FCA	Board	12	Yes	-	Yes	-	Treasury
Australia	ASIC	Commission	3-8 (5)	-	-	-	-	Government –General
Singapore	MAS	Board of Directors	9	-	-	-	-	President
Malaysia	SC	Commission	d	Yes				Ministry of Finance

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Chapter 6

Discussion and Implication of the results

6.1 Introduction

The study explored the relationship between corporate governance practices of listed CPSEs in India. The study makes an attempt to compare the various corporate governance variables of the listed CPSEs for a period of five years ie 2012-13 to 2016-17. A detailed analysis of the 42 listed CPSEs[10] in terms of board size, board meetings, board committees, board composition, independent directors, firm age, women directors are analyzed. The CPSEs are categorized as per the sectors.

6.2 Board Size

In theory, the board is responsible to the shareholders and is supposed to govern a company's management. The role of the board of directors has increasingly come under scrutiny in light of corporate scandals such as those at Enron, WorldCom and HealthSouth, in which the directors failed to act in investors' best interests. There is no universal agreement on the optimum size of a board of directors. A large number of members represent a challenge in terms of using them effectively and/or having any kind of meaningful individual participation. The Table6.1 depicts the categorization of board size of the listed CPSEs from 2012-17. Crude oil sector with ONGC Ltd has highest number of board members (16) followed by State Trading Corporation Ltd (15) and Steel Authority of India (15) during

[10]*Note : Few companies have not been considered for comparison due to lack of data*

2016-17. Balmer Lawrie Investment Ltd in Financial services sector has the least number of directors on Board (3).

Table 6.1: Board Size of listed CPSEs for FY 2012-13 to 2016-17

Company Name	Board Size				
	2012-13	2013-14	2014-15	2015-16	2016-17
HOCL	5	7	7	4	6
IRCON	7	8	7	6	9
ONGC	13	15	10	13	16
FACT	4	6	6	4	6
NFL	7	9	9	8	8
RCF	6	6	7	7	8
BLIL	3	3	2	3	3
PFC	9	7	7	7	6
RECLTD	7	7	4	7	8
BHEL	9	7	10	12	14
ENGINERSIN	13	13	10	11	12
AY&CL	6	5	6	6	7
BL&CL	13	7	7	7	7
BEL	15	11	12	12	11
HCL	3	2	4	3	3
HMT	4	4	4	4	5
ITI	9	7	9	7	7
HINDCOPPER	11	14	9	13	11
KIOCL	8	11	10	11	7
NATIONALUM	14	14	10	13	13
NMDC	16	12	11	14	14
CHENNPETRO	11	12	11	10	12
GAIL	11	10	6	10	11
HINDPETRO	13	11	11	8	11
IOCL	15	18	10	12	13
MRPL	8	11	6	7	8
NLCINDIA	15	10	8	10	13
NTPC	17	18	11	11	12
POWERGRID	14	14	12	7	10
SAIL	16	18	10	15	15
MTNL	6	6	5	7	7
ITDC	5	7	6	9	5
MMTC	10	16	12	8	11
STCINDIA	15	14	8	7	15
CONCOR	12	13	9	6	9
DREDGECORP	7	6	8	7	7
SCIL	13	14	8	9	8
BEML	15	10	11	10	9

(Source :Compiled by authors)

6.3 Women on Board

Table 6.2 depicts the number of women in CPSEs boards. It is observed that the presence of women board members is less in core manufacturing sectors such as medium and light engineering, petroleum (R&M), power generation, transport services and telecommunication services. Financial sector is the most preferred sector where women board members are present in large numbers. Companies Act also mandates at least one woman director to be appointed in every listed company within one year from the commencement of the Act. Deloitte Research Report[11]highlightsthat'Women still go largely under- represented on corporate boards and hold just 12.4 per cent of board seats in India, slightly lower than the global average of 15 per cent'. The percentage of women in top leadership roles is even lower as they constituted 3.2 per cent of board chairs in India in 2016 while the global average stood at 4 per cent. Securities and Exchange Board of India in a study titled 'Corporate India: Women on Boards,' recommends that companies target to have 20% woman boards members by 2020.

Table6.2: Women on Board of listed CPSEs

Company	Women on board				
	2012-13	2013-14	2014-15	2015-16	2016-17
HOCL	0	0	0	0	3
IRCON	0	0	0	0	1
ONGC	0	0	0	0	0
FACT	0	0	0	0	1
NFL	1	1	0	0	2
RCF	0	0	0	0	1
BLIL	0	0	0	0	2
PFC	0	0	0	0	0

[11] //economictimes.indiatimes.com/articleshow/59284663.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Company	Women on board				
	2012-13	2013-14	2014-15	2015-16	2016-17
RECLTD	0	0	0	0	1
BHEL	0	0	1	1	2
ENGINERSIN	2	2	2	2	3
AY&CL	0	0	0	1	2
BL&CL	1	0	1	1	0
BEL	0	0	0	2	2
HCL	0	0	0		
HMT	0	0	0	0	1
ITI	0	0	0	1	2
HINDCOPPER	2	2	2	2	1
KIOCL	0	0	2	1	1
NATIONALUM	1	1	1	1	1
NMDC	1	0	1	2	1
CHENNPETRO	0	0	1	0	1
GAIL	1	1	0	0	0
HINDPETRO	1	1	1	2	2
IOCL	1	1	1	0	0
MRPL	0	2	0	1	2
NLCINDIA	0	0	0	1	2
NTPC	1	1	0	1	1
POWERGRID	2	2	1	1	2
SAIL	0	1	1	2	2
MTNL	1	0	0	1	1
ITDC	0	2	2	2	1
MMTC	1	1	0	0	0
STCINDIA	0	0	1	0	1
CONCOR	1	1	1	1	1
DREDGECORP	0	0	0	2	2
SCIL	1	0	1	1	1
BEML	2	0	1	0	0

(Source : Compiled by authors)

6.4 Board Composition

According to Section 149 of the Companies Act, 2013 every company should have a minimum number of three directors in the case of a public company, two directors in the case of a private company, and one director in the case of sole proprietorship. A company can appoint maximum of 15 fifteen directors. A company may appoint more than fifteen directors after passing a special resolution in general meeting and approval of Central Government is not required. The listed CPSEs board's composition includes the presence of functional directors, independent directors and non-executive directors. The table 6.3 details the board composition of listed CPSEs for five years from 2012-13 to 2016-17. All the listed CPSEs should have at least 1/3rd of the total number of directors as independent directors. It is observed that there are vacant positions on board with respect to nominee directors and independent directors in unlisted CPSEs.

Table 6.3: Board Composition of listed CPSEs

Company	2012-13			2013-14			2014-15			2015-16			2016-17		
	ED	ID	ND	ED	ID	ND	ED	ID	ND	ED	ID	ND	ED	ID	ND
HOCL	3	1	1	4	1	2	4	1	2	2	1	1	1	3	2
IRCON	4	3	0	4	3	1	4	1	2	4	0	2	4	4	1
ONGC	5	6	2	6	7	1	7	1	2	7	3	2	7	6	3
FACT	3	1	0	5	2	0	5	0	2	2	0	2	0	2	4
NFL	4	1	2	3	3	3	3	3	2	3	4	1	3	3	2
RCF	4	0	2	3	1	2	4	1	2	4	1	2	2	4	2
BLIL	2	0	1	1		2	1	0	1	2		1	1		2
PFC	5	4	0	3	4	1	3	3	2	5	2	1	4	1	1
RECLTD	3	3	1	3	3	1	3	0	1	3	3	1	3	4	1
BHEL	7	0	2	5	0	2	6	2	2	5	5	2	6	6	2
ENGINERSIN	6	7	0	6	6	2	6	4	1	5	4	2	5	5	2
AY&CL	4	0	2	3		2	4	0	2	3	2	1	2	3	2
BL&CL	5	6	2	5	2	0	5	0	2	5	0	2	5	1	1
BEL	6	7	2	6	4	1	7	3	2	7	4	1	6	4	1
HCL	2	0	1	0	0	0	2	1	1	2		1	2	0	1
HMT	3	0	1	2	1	1	2	0	2	2	0	2	2	0	3
ITI	4	3	2	3	3	2	4	3	2	3	1	3	3	2	2
HINDCOPPER	3	5	3	4	3	7	4	4	2	5	8	0	5	4	2
KIOCL	4	2	2	4	5	2	4	4	2	4	5	2	4	2	2
NATIONALUM	5	8	1	6	8	0	6	2	2	6	5	3	5	5	3
NMDC	6	8	2	6	4	2	6	3	2	5	3	4	5	6	3
CHENNPETRO	6	3	2	3	3	5	3	1	7	3	1	7	3	2	7
GAIL	6	3	2	4	3	3	3	0	3	2	3	4	2	5	4
HINDPETRO	9	4	0	2	4	5	4	4	3	4	1	2	5	4	2
IOCL	8	5	2	7	9	2	6	3	1	7	3	2	7	3	3
MRPL	3	2	3	3	6	2	3	0	3	3	0	4	3	1	4
NLCINDIA	5	8	2	6	2	4	6	0	4	5	3	3	6	4	3
NTPC	7	8	2	7	9	2	5	2	4	4	3	4	5	3	4
POWERGRID	3	8	3	2	9	3	5	5	2	4	1	2	5	1	4
SAIL	10	2	4	4	10	4	5	0	5	5	4	6	6	6	3
MTNL	3	1	2	3	1	2	2	1	2	3	2	2	3	2	2

Company	2012-13			2013-14			2014-15			2015-16			2016-17		
	ED	ID	ND	ED	ID	ND	ED	ID	ND	ED	ID	ND	ED	ID	ND
ITDC	0	0	0	0	0	0	0	0	0	0	0	0	2	2	1
MMTC	5	3	2	6	8	2	5	5	2	6	4	2	4	2	5
STCINDIA	5	8	2	4	8	2	3	2	3	5	0	2	5	7	3
CONCOR	4	7	1	4	8	1	3	3	3	4	0	2	4	3	2
DREDGECORP	5	2	0	2	1	3	3	0	2	3	3	1	3	2	2
SCIL	3	6	4	2	3	5	5	0	3	4	1	3	5	2	1
BEML	5	8	2	3	3	4	3	3	5	3	3	4	3	3	3

(Source :Compiled by authors)

6.5 Board Meetings

Formal meeting of the board of directors of an organization are held at definite intervals to consider policy issues and major problems. The meeting is presided over by a chairperson (chairman or chairwoman) of the organization or his or her appointee. The board meeting has to meet the quorum requirements and its deliberations must be recorded in the minutes. Under the doctrine of collective responsibility, all directors (even if absent) are bound by its resolutions.On an average the listed CPSEs were holding meeting within a range of 8-12 in a year. GAIL, ONGC andIOCL are conducting meetings at a frequency of 18, 11 and 11 in a year that mean in a month there are atleast two meetings of the Board.

Table 6.4: Number of Board Meetings Held

Company	Number of meetings held				
	2012-13	2013-14	2014-15	2015-16	2016-17
HOCL	0	0	8	9	7
IRCON	5	4	6	9	7
ONGC	12	13	13	13	11
FACT	5	8	10	8	9
NFL	10	10	8	11	9
RCF	13	14	11	13	10
BLIL	0	0	0	0	0
PFC	9	11	13	15	14
RECLTD	9	8	10	9	9
BHEL	8	9	9	10	8

Company	Number of meetings held				
	2012-13	2013-14	2014-15	2015-16	2016-17
ENGINERSIN	6	8	7	6	8
AY&CL	4	5	4	4	7
BL&CL	7	8	8	10	8
BEL	6	5	5	5	6
HCL	4	4	4	4	2
HMT	6	6	9	5	5
ITI	0	7	6	6	5
HINDCOPPER	7	5	6	7	5
KIOCL	10	5	6	5	7
NATIONALUM	5	7	9	9	8
NMDC	14	14	9	11	9
CHENNPETRO	0	6	9	6	5
GAIL	11	11	14	18	18
HINDPETRO	9	10	9	8	10
IOCL	11	13	13	10	11
MRPL	9	8	9	7	6
NLCINDIA	11	10	9	9	10
NTPC	13	12	13	13	14
POWERGRID	15	15	12	14	13
SAIL	11	13	12	12	12
MTNL	8	8	11	7	10
ITDC	9	7	8	6	0
MMTC	7	6	8	9	8
STCINDIA	0	7	6	6	6
CONCOR	6	7	5	10	8
DREDGECORP	11	9	9	7	6
SCIL	10	14	10	7	7
BEML	8	5	6	11	6

(Source: Compiled by authors)

6.6 Age of Board Members

A board that has a healthy mix of directors with age, experience and qualification is seen to balance the insights from the older lot with the fresh perspectives of the younger members. In the past six years, the average age of Indian boards has gone up to 58 from 55 years, while the number of independent directors are younger than 45. The table 6.5 depicts that an average age of Board members in CPSEs for a period of 2012-13 to 2016-17.It is noted that the average age of board members found decreased to 45-60 in 2016-17 whereas it was 51-63 during 2012-13.No age limit has been prescribed by the Companies Act 2013. But, there should be an adequate disclosure of age in the company's documents. It should be the duty of the Director to disclose his / her age correctly. In case of a public company, appointment of directors beyond a prescribed age say 70 years, should be subject to a special resolution by the shareholders which should also prescribe his tenure. Continuation of a director above the age of 70 years, beyond such tenure, should be subject to a fresh resolution.

Table 6.5: Average Age of Board of listed CPSEs

Company Name	Average age of directors				
	2012-13	2013-14	2014-15	2015-16	2016-17
HOCL	55	57	53	55	54
IRCON	52	56	55	53	56
ONGC	58	58	57	57	57
FACT	51	52	48	52	45
NFL	55	58	60	59	57
RCF	56	57	56	57	55
BLIL	59		52	53	
PFC	57	57	58	58	59
RECLTD	55	56	56	56	59
BHEL	56	56	64	61	59
ENGINERSIN	58	58	59	57	57
AY&CL	59	47	48	41	51
BL&CL	61	57	55	52	54
BEL	59	59	60	59	60
HCL					
HMT	57				60
ITI	59	60	61	56	56
HINDCOPPER	54	55	57	57	57
KIOCL		53	55	56	54
NATIONALUM	60	59	58	56	58
NMDC	59	58	58	56	58
CHENNPETRO	61	62	53	54	57
GAIL	58	60	58	57	59
HINDPETRO	58	58	58	57	55
IOCL	59	60	59	57	55
MRPL	59	57	53	52	52
NLCINDIA	60	58	58	57	57
NTPC	59	59	57	56	57
POWERGRID	57	57	57	56	57
SAIL	60	59	56	58	57

Company Name	Average age of directors				
	2012-13	2013-14	2014-15	2015-16	2016-17
MTNL	55	52	50	54	53
ITDC					51
MMTC	58	59	59	59	58
STCINDIA	58	60	56	56	56
CONCOR	59	60	59	56	56
DREDGECORP	63	60	55	56	56
SCIL	61	60	56	58	60
BEML	60	59	60	59	60

(Source :Compiled by authors)

6.7 Board Level Committees

The Companies Act, 2013 has mandated the constitution of three additional board committees for all listed companies apart from Audit Committee. They are Nomination Committee and Remuneration Committee (NC&RC), Corporate Social Responsibility Committee (CSRC) and Stakeholders Relationship Committee (SRC). The Nomination and Remuneration Committee is expected to ensure among other things that remuneration arrangements to support the strategic goals of the business and more importantly to conduct performance evaluation of every director. The Corporate Social Responsibility Committee would formulate the corporate social responsibility policy, recommend the expenditure that can be incurred and monitor the activities. The Stakeholders Relationship Committee would help in resolving the grievances of the security holders of the company. Table6.6 and Table 6.7 depicts that board committees in listed CPSEs for a period from 2012-13 to 2016-17.

Table 6.6: Number of Board Committees of Listed CPSEs

Company	Board Committees (nos)				
	2012-13	2013-14	2014-15	2015-16	2016-17
HOCL			3	4	
IRCON	6	7	7	6	
ONGC	9	9	13	15	15
FACT	4	4	5	4	3
NFL	7	6	6	4	4

Company	Board Committees (nos)				
	2012-13	2013-14	2014-15	2015-16	2016-17
RCF	5	5	5	6	6
BLIL					
PFC	9	9	9	9	9
RECLTD	13	12	10	10	13
BHEL	9	10	9	8	8
ENGINERSIN	9	11	8	9	9
AY&CL	4	4	4	6	
BL&CL	5	5	4	4	4
BEL	6	8	8	9	5
HCL	3	3	3		
HMT	4	4	4	3	1
ITI		3	4	5	4
HINDCOPPER	4	4	5	4	4
KIOCL	4	5	5	5	5
NATIONALUM	9	10	9	9	9
NMDC	4	4	6	6	6
CHENNPETRO		5	6	8	7
GAIL	12	12	12	12	5
HINDPETRO	5	5	5	5	6
IOCL	14	14	15	13	5
MRPL	3	3	5	6	7
NLCINDIA	14	13	13	12	12
NTPC	15	15	17	14	16
POWERGRID	10	10	11	11	11
SAIL	3	3	10	10	10
MTNL	3	4	4	5	5
ITDC	4	5	5	5	3
MMTC	7	7	9	9	5
STCINDIA		4	4	4	4
CONCOR	4	4	6	6	6
DREDGECORP	3	3	4	5	5
SCIL	12	12	10	0	3
BEML	5	6	4	6	6

(Source :Compiled by authors)

NTPC has 16 committees followed by ONGC with 15 committees and NLC with 12. Apart from mandatory committees there companies have Contracts Sub-Committee, Exchange Risk Management Committee, Invest/Contribution Committee, Management Controls Committee, Project Sub-Committee, Health, Safety & Environment Committeeand Dispute Resolution Committee.

Table 6.7: Board Committees of listed CPSEs

Company	AC	CSR & SDC	NRC	PSC	RMC	STC	SRC	H S & EC	HRC	MCC
BL&CL	☑	☑	☑				☑			
BEML		☑	☑				☑			
BEL		☑					☑			
BHEL	☑	☑	☑				☑			
BPCL	☑	☑	☑		☑		☑			
CHENNPETRO	☑	☑	☑	☑			☑			
CONCOR		☑	☑		☑					
DREDGECORP	☑									
ENGINERSIN	☑	☑	☑			☑	☑			
FACT	☑	☑					☑			
GAIL	☑	☑	☑				☑			
HCL	☑		☑				☑			
IOCL		☑	☑				☑			
ITI							☑			
MTNL	☑		☑		☑		☑			
MRPL	☑	☑	☑				☑			
MMTC	☑	☑	☑							
NATIONALUM	☑	☑	☑		☑		☑			
NFL	☑	☑	☑				☑			
NLC	☑	☑	☑	☑	☑		☑			
NMDC	☑				☑	☑				
NTPC	☑	☑	☑	☑	☑		☑			☑
ONGC	☑	☑	☑		☑		☑	☑	☑	
PFC	☑	☑			☑					
POWERGRID	☑	☑	☑		☑		☑			
RCF	☑	☑	☑			☑	☑			
RECLTD		☑			☑		☑			
STCINDIA		☑					☑			
SAIL	☑	☑	☑		☑		☑	☑		

(Source :Compiled by authors)

6.8 Statistical Analysis

6.8.1 Descriptive Statistics

Descriptive statistics provide summary of the data and observations that have been made. These summaries could be analyzed quantitatively or through graphical representation. These summaries form the basis for initial description of the data as part of a more extensive statistical analysis. The sample under reference includes 44 listed CPSEs. Two CPSEs have been excluded because of non-availability of data. It is also observed that the majority of companies have at least nine directors as shown by median value. The statistics reveals that the minimum board size is 3 indicating that in all listed companies have atleast three board members. The maximum board size is 14.80.

Independent directors vary from 0 to 5.6 with mean size of 2.88. It is found that independent directors positions are vacant in some listed CPSEs not meeting the mandatory requirement of SEBI i.e. 1/3 members on the board as independent directors. CPSEs have atleast one nominee directors on board and with a maximum of 7.8 members with a mean scaling to 2.36.

As per companies Act 2013 and SEBI regulations, women directors are mandated to hold position in listed companies. As per the sample it is observed that most of the companies are not holding women board members. A maximum number of women occupying the board position is 2.2. The proportion of women directors to the total board size is very low. While the table 6.8 further analyse the age of the firm as an important factor which determines that most of the companies are have a minimum age of 13.69 years (Balmer Lawrie Investment Ltd.)whereas maximum age is 91 years(Balmer Lawrie& Co. Ltd.).Board meetings vary from 3.6 to 14.40 in a year. On an average most of the listed companies are holding eight meeting per annum. Every listed CPSE holds on an average six committees. Most of the committees are mandated by SEBI listed companies include audit committee, remuneration committee, shareholder relationship committee, etc.

Table 6.8: Descriptive Statistics

	B_SIZE	IDs	NOM_D	W_D	B_MEET	Committees	F_AGE
N= 42							
Mean	9.16	2.88	2.36	0.70	8.40	6.48	45.91
Median	9.60	2.77	2.00	0.68	8.00	5.30	44.50
Std. Deviation	3.06	1.51	1.28	0.50	2.69	3.19	13.69
Minimum	3.00	0.20	1.00	0.00	3.60	2.00	26.00
Maximum	14.80	5.60	7.80	2.20	14.40	15.40	91.00

B_SIZE= total no. of Directors on Board

IDs+= no. of independent directors on board

NOM_D= no. of nominee directors on board

W_D= Women directors on board

B_MEET= total no. of board meetings in a financial Year

Committees+ total no. of Committees

F-Age= firm Age

Turnover= Sales Turnover (natural log value has been taken)

6.8.2 Correlation Analysis

Pearson correlation test is used to test the correlation among of corporate governance variables. A correlation coefficient analysis is important to avoid multicollinearity between corporate governance mechanisms and the control variables. The test allows toexamine the relationship between independent and dependent variables. The Pearson correlation analysis of firm performance and corporate governance mechanisms is depicted in table6.9.

The results of the correlation analysis of the seven variables used for the governance mechanism and other two are financial variables. The correlation is positive between some independent variables. It is observed that the correlation between B_SIZE and IDs is

.654**which means that as the size of board increases, the number of IDs will also increase. The highlighted values depicted in the table6.9 show high positive correlation. The correlation for firm performance and corporate governance variable is also studied in the table6.9. The correlations are significant and positive between the performance measures in terms of net profit with independent variables such as board size (B_SIZE) 0.343, board meetings (MEET) 0.407, independent directors (IDs) 0.307 and board committees (Comts) 0.489.

Table 6.9 : Pearson Correlations of Corporate Governance

		B_SIZE	IDs	NOM_D	W_D	MEET	Comts	F_AGE	Turnover	NP
B_SIZE		1								
IDs	Pearson Correlation	.654**	1							
	Sig. (2-tailed)	.000								
NOM_D	Pearson Correlation	.426**	.009	1						
	Sig. (2-tailed)	.005	.955							
W_D	Pearson Correlation	.475**	.495**	.198	1					
	Sig. (2-tailed)	.001	.001	.208						
MEET	Pearson Correlation	.477**	.350*	.170	.043	1				
	Sig. (2-tailed)	.001	.023	.283	.785					
Comts	Pearson Correlation	.613**	.578**	.098	.055	.674**	1			
	Sig. (2-tailed)	.000	.000	.537	.729	.000				
F_AGE	Pearson Correlation	.114	-.006	-.023	-.020	-.130	-.043	1		
	Sig. (2-tailed)	.474	.969	.885	.898	.413	.786			
Turnover	Pearson Correlation	.681**	.523**	.239	.167	.654**	.585**	-.037	1	
	Sig. (2-tailed)	.000	.000	.127	.289	.000	.000	.817		
NP	Pearson Correlation	.343*	.307*	-.044	-.215	.407**	.489**	.091	.317*	1
	Sig. (2-tailed)	.026	.048	.782	.171	.007	.001	.568	.041	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

6.8.3 Regression analysis

The ordinary least square (OLS) regression method is used with a robust standard error to test hypotheses. Testing the degree of relationship between the various variables in the study includes board size, committees, meetings, women directors and nominee directors. In the analysis, the estimated Pearson Correlation coefficient, standard errors, t-value and coefficient of determination were present for each of the corporate governance variables usedto measure the selected corporate performance. The t-value was tested using two-tail test. The statistical significance was determined at 5% confidence level. This translates to 95 percent confidence level that the results are not attributable to chance. Other statistics such as coefficient of determination (r^2) and the adjusted $r^2$are represented in Table 6.10. The regression results showed a positive significance for the constant term, which is consistent with the theory. The implication of these results is that the dependent variable i.e. net profit is positively affected by the corporate governance variables such as board size (BSIZE), board meetings and committees. This means that an increase in the performance of these independent variables with positive sign will lead to an increase in the dependent variable. The table6.10 also depicts that r^2 is 0.403 and adjusted r^2 0.459.The values of the adjusted r^2 are an indication of a good relationship between the dependent and independent variables. The adjusted r^2 value is 0.459 indicating that there is only 45.90% variation due to all independent variables employed by the study. It can be concluded that there is no direct effect of corporate governance variables on the firm performance of the company.

Table 6.10: Regression Modelof Corporate Governance Variable

Variable	Beta-Coefficients	T	Sig.
(Constant)		-1.300	.203
B_SIZE	.844	1.355	.185
IDs	-.282	-.567	.575
NOM_D	-.325	-1.197	.240
W_D	-.399	-2.328	.026
MEET	.178	.842	.406
Comts	.177	.801	.429
F_AGE	.001	.007	.994
Turnover	-.186	-.820	.418
R Square	.403		
Adjusted R Square	.459		

6.9 Corporate Governance Index

Listed companies in India are required to comply with the Corporate Governance requirements as specified in the Companies Act, 2013 and SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015. The Department of Public Enterprise grades CPSEs on the basis of their compliance with Guidelines on Corporate Governance in a specific format. The annual score range from 85 per cent and above to 50 % and below. The grading is awarded as excellent to poor. The following table 6.11 depicts the corporate governance index of the listed CPSEsfor the financial year 2016-17. As per the index 24 listed CPSEs are graded in excellent category for the year 2016-17.

Table 6.11: Corporate Governance Index

Company	Excellent	Very Good	Poor	Under Construction	Under Closure
HOCL			☑		
IRCON	☑				
ONGC	☑				
FACT	☑				
NFL	☑				
RCF	☑				

Company	Excellent	Very Good	Poor	Under Construction	Under Closure
BLIL	☑				
PFC	☑				
RECLTD	☑				
BHEL	☑				
ENGINERSIN	☑				
AY&CL		☑			
BL&CL			☑		
BEL	☑				
HCL					☑
HMT			☑		
ITI	☑				
HINDCOPPER	☑				
KIOCL	☑				
NATIONALUM	☑				
NMDC	☑				
CHENNPETRO	☑				
GAIL	☑				
HINDPETRO	☑				
IOCL	☑				
MRPL	☑				
NLCINDIA	☑				
NTPC	☑				
POWERGRID	☑				
SAIL	☑				
MTNL	☑				
ITDC	☑				
MMTC	☑				
STCINDIA	☑				
CONCOR	☑				
DREDGECORP	☑				
SCIL	☑				
BEML	☑				

(Source: Grading on CG 2016-17, DPE, Govt. of India)

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Chapter 7

Findings, Conclusions and Futuristic Scenario

7.1 Introduction

The present study explored the relationship between corporate governance and firm performance of Listed CPSEs in India for the period 2012-2017. The effectiveness of corporate governance is a function that the board leadership plays in a corporate enterprise by measuring, directing and controlling.

A good corporate governance practices in the corporate form of organisation mainly relates to an effectiveness of the board of directors. The board of directors often play a key role in corporate governance. It is their responsibility to endorse the organisations strategy, develop directional policy, appoint, supervise and remunerate senior executive and to ensure accountability of the organisation to its owners and authorities. Nevertheless, Harmelin and Weisbach (2003) indicated that board size seems to be decreasing over time, suggesting that firms and market recognise the advantage of smaller board size when it comes to fulfilling responsibilities and improving firm value. The board should be of sufficient size that balance of skills and experience is appropriate for the requirements of the business and the changes to the board's composition can be managed without undue disruption. Board size is expected to be greater when the need for information and hence board advice is high. Such needs are expected to increase with firm scale and complexity. The results of the present investigation indicate that in listed CPSEs the board size is positively related to firm performance. This made policymakers makes in thinking about the ideal size for listed CPSEs boards.

External participants on the boards do contribute to the effectiveness to increase the firm performance (Weisbach, 1988; Byrd & Hickman, 1992; Brickley et al., 1994; Borokhovich et al., 1996; Cotter et al., 1997).

It is found that the authorities should reassess the procedure for the appointment of directors in order to remove the influence of higher authority from the appointment process. It is also suggested that shareholders should carefully make the decision.

Listed CPSEs need more qualified people to work as independent directors to improve board performance that may lead to better performance of firms. It is therefore essential to improve effectiveness of Independent directors in monitoring managers especially to strengthen their freedom of executing their powers.

Executive directors are in a better position than the non-executive directors. They have more information and knowledge about firm's about firm's daily operations. Thus a hand on involvement enables them to make appropriate decisions and deal with the problems in an effective and timely manner.

An opportunity or a crisis should not be allowed to go waste. They should be used to understand the causes for crisis to learn and take action to improve the effectiveness or governance and prevent/ minimize the chances of any crisis or non-performance. Some of the actions to improve effectiveness of governance could be as follows:

- Setup corporate governance mechanisms and internal control to reduce inefficiencies and enhance effectiveness of governance.
- Consistent supervision of Management by board of director and making remedial move is required

- Challenging management as and when required for performance improvement of organisation.

The board of directors are the key element in the organisation structure. The middle management and junior management and respective personnel tend to mould themselves on the lines of the board and management. Hence, the board and management need to ensure the prevention/ minimization of the fraud, utilisation of company resources for personal benefit, lethargy, focusing on excuses as opposed to results, being risk too risk prone.

Senior management is a vital duty of corporate governance. While the board of directors formulate and elaborate the CG, comparatively, senior managers should assume that oversight part as for line directors in particular business areas and activities. Indeed, even in small listed CPSEs, key management decisions ought to be made by more than one individual.

7.2 Research Findings

The first objective of the study is to review the corporate governance practices in listed CPSEs in India. There is no clear consensus on the structure and size of the board. There are arguments both for smaller and larger boards to be effective in controlling managers. But it is noted that larger boards gather more human capital and this in turn boost firm performance. The present study suggests the corporate governance mechanisms impact the performance of the commercial listed CPSEs in India. It also suggests that the perception of senior management is effective towards corporate governance. However, it can be seen that the size of the board is playing an important role in improving the performance in public sector listed CPSEs and promoters holding in the listed CPSEs in India.

The findings reported in the present study show that the model is a good fit. The independent variable selected for the study influence the firm performance. The main responsibilities of the board are to provide effective oversight and strategic guidance for the management.

In second objective examine the impact of corporate governance on firm performance. The study showed that as far as Board size is concerned, there has been a mixed response to existing relationship between board size and firm performance. Observations by Lipton and Lorsch (1992), Jensen (1993) and Fama and Jensen (1983) who presented that the increase in the number of the members of the board would slows-down the decision making processes of the firm. A well constituted board with an optimum number of directors can be effective in monitoring the management and driving value enhancement for shareholders. Some researchers however, have been sceptical about boards ability to mitigate the agency problem to enhance firm value (Erickson et. al, 2005). The number of directors on the board therefore, is a critical factor that influences the performance of a company. The Board act on behalf of shareholders and is considered as major decision making group. The complexity of decision making and effectiveness is largely affected by the size of the board.

The result of descriptive statistics observes that the majority of companies have at least nine director's median value. The statistics reveals that the minimum board size is three indicating that in all the listed companies have atleast three board members. The maximum board size is 14.80.

A well governed firm is expected to have better performance and the rational decisions of the board of directors make an important contribution to the governance. Therefore, it is more likely that the structure of the board of directors affects firm performance.

The descriptive statistics presented in table suggest that listed CPSEs outcomes differ significantly across corporate governance mechanisms and performance measures. It is observed that the correlation between B_SIZE and IDs is $.654^{**}$ which means that as the size of board increases, the number of IDs also increase.

The descriptive statistics presented in table suggest that listed CPSEs outcomes differ significantly across corporate governance mechanisms and performance measures. It is observed that the correlation between B_SIZE and IDs is $.654^{**}$ which means that as the size of board increases, the number of IDs will also increase.

The first important characteristic is board size and it has along with its effect upon board effectiveness. Board of directors is the main internal governance mechanism responsible for monitoring executive decisions. The listed CPSEs believes that at the core of its corporate governance practice is the Board, which overseas how the management serves and protects the long-term interests of all the stakeholders of the company. The Listed CPSEs expects all directors and members of the core management to exercise good judgement, to ensure the interests, safety and welfare of customers, employees and other stakeholders and to maintain a Cooperative, efficient, positive, harmonious and productive work environment and business organisation. The study concludes:

- **Board Size** : Crude oil sector has highest number of board members in ONGC Ltd (16) followed by State Trading Corporation Ltd (15) and Steel Authority of India (15) during 2016-17. BalmerLawrie Investment Ltd in Financial services sector has the least number of directors on Board (3).

- **Gender diversity on Board :** It is observed that the presence of women board members is less in core manufacturing sectors such as medium and light engineering, petroleum (R&M), power generation, transport services and telecommunication services
- **Board Composition:** All the listed CPSEs should have at least 1/3rd of the total number of directors as independent directors. It is observed that there are vacant positions on board with respect to nominee directors and independent directors in unlisted CPSEs.
- **Board Meetings:** GAIL, ONGC Ltd and IOCL are conducting meetings at a frequency of 18, 11 and 11 in a year that mean in a month there are atleast two meetings of the Board.
- **Age of Board Members:** It is noted that the average age of board members found decreased to 45-60 in 2016-17 whereas it was 51-63 during 2012-13
- **Board Level Committees:** NTPC has 16 committees followed by ONGC with 15 committees and NLC with 12. Apart from mandatory committees there companies have Contracts Sub-Committee, Exchange Risk Management Committee, Invest/Contribution Committee, Management Controls Committee, Project Sub-Committee, Health, Safety & Environment Committee and Dispute Resolution Committee.
- The statistics reveals that the minimum board size is 3 indicating that in all listed companies have atleast three board members. The maximum board size is 14.80. It is

also observed that the majority of companies have at least nine directors as shown by median value

- Independent directors vary from 0 to 5.6 with mean size of 2.88. It ha resulted that independent directors positions are vacant in some listed CPSEs.
- The age of the firm as an important factor which determines that most of the companies are having a minimum age of 13.69 years (BalmerLawrie Investment Ltd.), whereas, maximum age is 91 years (BalmerLawrie& Co. Ltd.). Board meetings vary from 3.6 to 14.40 in a year. On an average most of the listed companies are holding eight meeting per annum. Every listed CPSE holds on an average six committees. Most of the committees are mandated by SEBI listed companies include audit committee, remuneration committee, shareholder relationship committee, etc.
- It is observed that the correlation between B_SIZE and IDs is .654** which means that as the size of board increases, the number of IDs will also increase.
- The correlations are significant and positive between the performance measures in terms of net profit with independent variables such as board size (B_SIZE) 0.343, board meetings (MEET) 0.407, independent directors (IDs) 0.307 and board committees (Comts) 0.489.
- The performance of these independent variables with positive sign will lead to an increase in the dependent variable. The study reveals that r^2 is 0.403 and adjusted r^2 0.459. The values of the adjusted r^2 are an indication of a good relationship between the dependent and independent variables whereas, adjusted r^2 value is 0.459 means that there is only 45.90% variation due to all independent variables used the study.

The study concludes that there is no direct effect of corporate governance variable on the firm performance of the company.

- 24 CPSEs are graded as ‘Excellent’ on the basis of compliance with Guidelines on Corporate Governance in a specific format issued by DPE for the year 2016-17.

7.3 General Observations

Gender diversity on boards remains high on the regulators agenda. Proponents of greater diversity contend that female representation brings in a different perspective, intuitiveness and a more collaborative style of leadership into corporate boardrooms. Their views are supported by a growing body of academic evidence linking gender diversity and financial performance.

Securities and Exchange Board of India in a study titled ‘Corporate India: Women on Boards,’ recommends that companies target to have 20% of their boards comprising women by 2020.

According to Jensen (1993) small boards can help improve the performance. He further concludes that board gets beyond seven or eight members they are less likely to function effectively and are easier for CEO to control.

Sahu and Manna (2012) studies as to whether the corporate board composition and number of meeting affect the performance of selected four Indian manufacturing companies. The study period was from April 2006 to March 2011 for 52 manufacturing companies. They measured the corporate performance through the measure like ROA, ROCE, RONW, Tobin's Q and EVA, MVA. The results showed that board size and board meetings have a positive impact on corporate performance whereas independence of the board and presence of non-executive chairman in the board has negative impact. The study further noted that there is no significant relationship between the proportion of executive directors in the board and the performance of the companies.

Temesgen. et.al. (2013) analysed the impact of corporate governance on firm performance and related to board size negatively impacts firm performance while independent board directors tend to enhance the firm performance.

Siddiqui, (2010) investigated that the development of corporate governance regulations in emerging economies would improve the corporate environment. Further, identifies that in the case of Bangladesh there is an absence of professional regulator monitoring the governance codes. In the case of listed enterprises governance code has to be regulated by regulator. Countries such as Sri Lanka, India, Korea, China, Malaysia, etc have the presence of regulator who enacts the corporate governance codes. In India, Securities Exchange Commission of India (SEBI) mandates the codes.

It is evident from the literature that most of the studies in developing economies are focusing on issues such as increased level of compliance with corporate governance codes, implementation of regulatory systems, examining the level of corporate governance disclosure, reporting mechanisms, compliances, etc.

7.4 The Contribution of the Study

The present study makes specific contribution corporate governance practices in vague during 2012 to 2017 in listed CPSEs in India. The literature has shown there was limited research on the perceived effectiveness in commercial listed CPSEs. The study also provide evidence for the various factors that influence the performance of the listed CPSEs over the period of 2012-2017, particularly with board size, board meetings, independent directors, women directors, etc on the board.

7.5 Conclusions

The study concludes that there is no direct effect of corporate governance variable on the firm performance. This finding were in line with Yermack (1990) and Jensen (2012), which supports the hypothesis. Eisenberg, Sundgren, and Wells (1998) present evidence that a negative correlation between board size and profitability.

The present study has few shortcomings. Due to limitations on data collection, sample for the study was limited to listed CPSEs in India and for a period of 5 years. Study can be extended to a large sample and to a longer time period to strengthen the findings. The study has examined only few variables of corporate governance due to limitations of data availability. Other dimension such as number of women directors on board, CEO duality, disclosures, general Body Meetings, codes and conduct and performance variable such as net profit margin, book to market ratio, non-performing assets, return on equity, return on capital employed of the Indian listed CPSEs can be incorporate into future studies. As the study includes panel data,the various statistical software such as R, STATA, E-VIEWS and be used to know the findings in detail.

7.6 Futuristic Approach

The vision 2022 document called for a transformative change in the function of CPSEs meeting the futuristic challenges andalign them with national priorities. CPSEs has been asked to redefine the role and functioning, to achieve futuristic challenges have focused area need to be attributed to bring about transformative[1] changes along with the sub-themes are detailed below:

Theme	Transformative Change	Focused areas
1	Corporate Governance in the new age	· Challenges holding CPSEs back · Vision and Goals · Improving performance of CPSEs · Role and contribution of Govt nominee directors · Promotion of flagship scheme
2	People first – reinventing human resource management	· Sharing best practices · Review HRM policies · Young minds in business · CSR
3	Financial re-engineering	· Consolidation of CPSEs · Promoting efficiency and better financial management · Promotion of micro and small enterprise
4	Innovation, R&D and technology for the future	· Export promotion, import substitution · Roadmap for upgradation of technology · Common research center · Digital India

(*Source: Compiled from Vision New India 2022*)

***Corporate Governance in the new age**:* Corporate Governance has been one of the fast growing concepts in improving the enterprise performance in India. DPE introduced the Guidelines on Corporate Governance for CPSEs, mandating enterprises to follow the norms. These Guidelines are applicable to all CPSEs and cover issues like composition of Board of CPSEs, Audit Committee, Remuneration Committee, Subsidiary Companies, Disclosures, Code of Conduct and Ethics, Risk Management and Reporting, monitoring the compliance of Guidelines by the CPSEs. Corporate Governance is dynamic in nature and hence they are modifying the Guidelines from time to time aligning to the national priorities. The introduction of CSR in Companies Act mandating CPSEs exceeding the threshold limits to contribute at least two percent of the average net profit of three immediately preceding years is an important step. During 2016-17, 129 CPSEs have spent Rs 3,336.50 crore on CSR activities out of the allocated amount of Rs 4933.10 crore. Out of 129 CPSEs which are qualified to spend under CSR, 40 per cent of the companies could not spend 50 percent of the amount allocated for CSR[2].

People first – reinventing human resource management: HRM is a holistic approach towards management of people resources present in an organization which contribute to the achievement of organizational objectives. HR strategies evolve round the HR systems and practices that should be aligned with the objectives of the organization. Effective utilization of human resources has special significance in the management of enterprises. They are around 3.70 lakhs of employees working in CPSEs. It is a challenge to manage them efficiently and utilization of their skills to the maximum capacity. Enterprises are aimed to build competency, organizational culture, systems and process to increase productivity through efficiency and quality. Integrating HR with technology has helped to strengthen the HR systems in CPSEs in effective delivery and value addition services. HR Management System in PowerGrid is a web-based system enabling the enterprises to go online the HRD process, TNA capturing, smart profiling, training history, smart scheduling and updating, e-Communication and SMS integration, smart uploading facilities for modules and study material and feedback and smart reporting. ICON is an initiative at BHEL which is a social networking for employees. The portal provides greater opportunities to employees for collaboration, information sharing, faster communication and disseminate. The portal provides a platform for top management to directly interact with all employees. People Capability Maturity Model (PCMM) is a maturity framework that focuses on continuously improving the management and development of the human assets of a software or information systems organization.

***Financial re-engineering*: Sickness in CPSEs include old and obsolete plant and machinery, outdated technology, low capacity utilization, low productivity, poor debt–equity structure, excess manpower, weak marketing strategies, stiff competition, lack of business plans, dependence on Govt. orders, heavy interest burden, high input cost, resource crunch, etc. Administrative Ministries and concern departments are responsible to monitor sickness of CPSEs and timely suggest redressal measures with the approval of the competent authority. Financial re-engineering is a tool aiming to overcome sickness in CPSEs through better financial management practices, merger, holding companies to manage CPSEs at arm's length from government and corporatizing statutory agencies. To improve efficiency among enterprises, new initiatives including consortium among enterprises was formed to bid and attract global tenders and logistic aggregation through Government e-Market portal (GeM), etc. HSCC and EPIL are two CPSEs which are likely to be the first set of state-owned firms which will be merged with their peers in the current fiscal year[3].

***Innovation, R&D and Cyber security*:** R&D prescribing therein that Maharatna and Navratna companies should invest at least one per cent of their profits after tax (PAT) in R&D and Miniratna and other should earmark 0.5 per cent of their PAT for R&D operations. R&D expenses in CPSEs have improved from 76.18 percent to 113.03 percent in the current financial year ie 2016-17. CPSEs have setup in-house R&D facilities and are also undertaking the sponsored research through collaboration with Universities and reputed R&D institutions. Awareness of Intellectual Property Rights (IPR) and 'patenting 'of new knowledge gained and discoveries made in the process of R&D are been promoted by National Research Development Corporation (NRDC), an enterprise engaged in promoting, developing and commercializing technologies, knowhow, patent and processes generated through national R&D. Cyber Security is protecting our cyber space (critical infrastructure) from attack, damage, misuse and economic espionage. Cyber Intrusions and attacks have increased dramatically over the last decade, exposing sensitive personal and business information, disrupting critical operations, and imposing high costs on the economy. The various protective measures that are considered to protect enterprises from cyber-attacks includes Viruses (1990s) Anti-Virus, Firewalls Worms (2000s) Intrusion Detection & Prevention Botnets (late 2000s to Current) DLP, Application-aware Firewalls and SIM APT, etc. The Innovation Action Plan has been prepared to promote global competitiveness, growth orientation in major sectors such as automobile and capital goods[4].

CPSEs could perform better by superior inter-PEs collaboration, regulation, improved corporate governance, linking with capital markets, improved resource use, upgraded labour efficiency, innovation and R&D, honing their competitiveness through building up enterprise specific ethos and cultures. CPSEs has to pay attention to improve service delivery mechanisms, customer satisfaction, pricing, reforms and restructuring, stressed assets in CPSEs, reducing accumulated losses and increasing the number of profit making enterprise, improving the economic returns for stakeholders, etc. Maharatna CPSEs could aim to be among the fortune 500 companies. Start-up India is an important scheme wherein CPSEs could collaborate by setting up incubators cells. Decentralization and delegation supported by relative technology could leap forward CPSEs to un-scaled peaks.

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