INTRODUCTION

Within the past decade, the concept of corporate governance has played an ever increasingly significant role in enhancing the competitive power of global financial markets in the past few decades. One of the most important underlying factors behind the cause of both the recent financial crisis and recent company scandals that broke out across the world can be attributed to the inadequacy of sound corporate governance principles by both the public and private sectors. As a result, the concept of corporate governance has gained increased attention and momentum all around the world. Developed nations, international financial organizations and major financial institutions have all increased their focus towards improving corporate governance practices and have underlined the need to evaluate and observe the quality of corporate governance practices in developing nations before deciding whether to invest in or provide credit to developing nations and/or financial institutions within developing nations.

Corporate governance is the mechanism by which the values, principles policies and procedures of a corporation are inculcated and manifested. The essence of corporate governance lies in promoting and maintaining integrity, transparency and accountability in the higher echelons of management. Though, the concept and form of corporate governance is evolving over the years, it inherently requires continuous nurturing and adapting to the dynamic business environment.

Corporate governance is the most important organizational structure in the modern business system. It is a system and mechanism for the administration and control of corporations. Corporate governance involves a series of relationships between the administrative level of the corporation, the board of directors, shareholders and stakeholders. The core issue that the corporate governance faces is to handle the principal-agency relationship between shareholders and the corporation’s internal personnel through proper institutional arrangements under the conditions of separation of enterprise ownership and control. Through such a framework, corporate governance enables companies to define their goals and the means to achieve them. A good corporate governance structure is the essential means to ensure managers (agents) run business in the best interest of the corporate shareholders, stakeholders and that effective supervision is exercised over the agent so as to enable enterprises to create social wealth more effectively.
The world has become borderless and a global village. The spirit to implement internationally accepted norms of corporate governance standards found expression in private sector, public sector and the government thinking. The focal point of official efforts has been the OECD principles of Corporate Governance, endorsed by OECD ministers in May 1999 and thereafter revised in 2004. The principles are based essentially on the existing legal and regulatory arrangements as well as the best prevailing practices followed by market participants in the OECD countries. Support for this OECD initiative has been reaffirmed on several occasions by various inter-Governmental groups and by international organizations as part of efforts to construct a sound architecture after the 1997 crisis.

CORPORATE GOVERNANCE: AN OVERVIEW

Efforts to articulate standards for corporate governance took roots in countries like the United States and the United Kingdom and have subsequently spread to other countries. The OECD countries took early initiatives to address governance issues. As a fall out of 1997 economic and financial crisis, Asian countries too became keenly interested in the issue of corporate governance. It was realized that while corporate management is important when it comes to investment, even more important is good corporate governance. The OECD principles of corporate governance were endorsed by OECD ministers in May 1999 and thereafter revised in 2004. The principles are based essentially on the existing legal and regulatory arrangements as well as the best prevailing practices followed by market participants in the OECD countries. Support for this OECD initiative has been reaffirmed on several occasions by various inter-governmental groups and by international organizations as part of efforts to construct a sound architecture after the 1997 crisis.

The OECD revised its principles of corporate governance in the year 2004 to respond to corporate governance developments including corporate scandals that further focused the minds of Government on improving corporate
governance practices. The new OECD principles agreed by OECD countries in April 2004 reflects a global consensus regarding critical importance of good corporate governance in contributing to economic viability and stability in economics. A spate of scandals and financial collapses in the UK in the late 1980s and early 1990s made the shareholders and banks worry about their investments. This led the UK Government to recognize insufficiency of existing and role of self-regulation as a measure of controlling scandals and financial collapses. To prevent the recurrences of such business failures, the Cadbury Committee was set up by the London Stock Exchange in May 1991 inter alia to help raise standards of corporate governance. In its report and associated “Code of Best Practices” (1992), it spelt out the methods of governance needed to achieve a balance between the essential powers of the Board of Directors and their proper accountability.

DEVELOPMENTS IN INDIA

The initiatives taken by the Government in 1991, aimed at economic liberalization and globalization of the domestic economy, led India to initiate reform process in order to suitably respond to the developments taking place world over. On account of the interest generated by Cadbury Committee Report, the Confederation Of Indian Industry (CII), the Associated Chambers of Commerce and Industry (ASSOCHOM) and, the Securities Exchange Board of India (SEBI) constituted committees to recommend initiatives in Corporate Governance.

Confederation of Indian Industry (CII) took a special initiative on Corporate Governance, the first institution initiative in Indian Industry. The objective was to develop and promote a code for Corporate Governance to be adopted and followed by Indian companies, be these in the private sector, the public sector, Banks and financial Institutions, all of which
are corporate entities. The final draft of the said code was widely circulated in 1997. In April 1998, the code was released, it was called Desirable Corporate Governance Code. Following CII’s initiative, the Securities and Exchange Board of India (SEBI) set up a committee under the chairmanship of Kumar Mangalam Birla to promote and raise the standards of corporate governance. The committee in its report observed that “the strong Corporate Governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure. The recommendations of the Kumar Mangalam Birla Committee, led to inclusion of clause 49 in the listing agreement in the year 2000. These recommendations, aimed at improving the standards of Corporate Governance, are divided into mandatory and non-mandatory recommendations.

The said recommendations have been made applicable to all listed companies with the paid up capital of rupees three crores and above or net worth of rupees twenty five crores or more at any time in the history of the company. The ultimate responsibility for putting the recommendations into practice lies directly with the Board of Directors and the management of the company. In May 2000, the Department of Company Affairs (D.C.A) formed a broad based study group under the chairmanship of Dr. P.L. Sanjeev Reddy, Secretary, D.C.A. In November 2000 a task force on Corporate Excellence setup by the D.C.A. produced a report containing a range of recommendations for raising government standards amongst all companies in India. The Enron debacle of 2001 involving the hand-in-glove relationship between the auditor and the corporate client, the scams involving the fall of the corporate giants in the U.S. like the WorldCom, Qwest, Global Crossing, Xerox and the consequent enactment of the stringent Sarbanes Oxley Act in the U.S. were some important factors which the government of India to wake up and in the year 2002, Naresh Chandra Committee was appointed to examine and recommend inter-alia amendments to the law involving the auditor-client relationships and the independent directors.

In the year 2002 SEBI analyzed the statistics of compliance with the clause 49 by the listed companies and felt that there was a need to look beyond the mere systems and
procedures if the corporate governance was to be made effective in protecting the interests of the investors. SEBI therefore constituted a committee under the chairmanship of Shri N.R. Narayananmurthy, for reviewing the implementation of corporate governance code by the listed companies and issue of revised clause 49 based on its recommendations.

Recently the Ministry of Company Affairs, has set up National Foundation For Corporate Governance (NFCG) in partnership with Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and the Institute of the Chartered Accountants of India (ICAI). The NFCG would focus on the following areas:

- Creating awareness on the importance of implementation good corporate governance practices.
- Encouraging research capabilities in the area of corporate governance in the country.
- Working with the regulatory authorities at multiple levels to improve the implementation and enforcement of various laws related to corporate governance etc.

**SIGNIFICANCE OF CORPORATE GOVERNANCE**

Within the accelerated development of economic globalization, great changes have taken place in the practice of corporate governance in all countries. Although reasons for corporate governance reforms differ from country to country, corporate governance concerns reflect such as a consensus that people have generally realized that proper corporate governance is essential condition to safeguard the sustainable growth of the companies and the micro basis for the highly efficient operation of the modern market system. Corporate governance has a bearing not only on the success or failure and the sustainable development of an enterprise, but also effects, in a large, degree, the control
productive efficiency and social welfare worldwide. The extent to which a company follows the principles of corporate governance plays an increasing role in shareholders’ investment decisions. McKinsey’s investigation into more than 200 institutional investors has indicated that investors prefer to pay premium of 18% to 2% for companies with corporate governance. Thus, good corporate governance can create value for companies. From the investors perspective, corporate governance is as important as the company’s financial data. Corporate scandals such as Enron and WorldCom sounded the alarm bell once again. Corporate governance has has become the priority for the institutional investors to choose when making investment decisions.

The importance of strict adherence to the code of corporate governance could only be understood by the case studies where the management has acted in breach of this code. The recent Satyam fiasco wherein the fourth biggest I.T. services provider and exporter in India, owing its failure to comply with corporate governance practices has affected the humongous corporate fraud to the tune of Rs. 8000 crores, forms the classic example of breach of corporate governance practices. The company’s balance-sheet was so manipulated over a period (more than a decade) as to show inflated profits i.e. the profits shown in the books were much more than the actual profits earned. This difference between shown and actual profit was not due to and accounting error rather was a deliberate and well planned enterprise for many a reason say attract business by showing financial prowess. In this process the officers in change acted in utter defiance of corporate governance kicking the ideals of fairness, accountability and transparency to dust, ultimately shocking the investor.

**REVIEW OF LITERATURE**

There are few studies which had been conducted in recent past in the area of corporate governance practices. These studies have been classified into following two groups:

**A- Studies at International Level**

**B-Studies at National level**

A brief discussion of these prominent studies have been made as under:
INTERNATIONAL LEVEL

Garvey and Swan (1994)\(^1\) assert that ‘governance determines how the firm’s top decision makers (executive) actually administer such contracts. They also observe that governance only matters when such contracts are incomplete, and that a consequence that executives “no longer resemble the Marshallian entrepreneur.

Hart, O(1995)\(^2\) was of the view that “corporate governance issues arise in an organization whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organization—these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract.

Caramanolis-Cotelli (1995)\(^3\) regards corporate governance as being determined by the equity allocation among insiders (including executives, CEOs, directors or other individual, corporate or institutional investors who are affiliated with management) and outside investors.

Zingales (1998)\(^4\), expresses the view that “allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labour market competition, organizational structure, etc., can all be thought of as institutions that affect the process through which quasi-rents are distributed. He therefore defines” corporate governance “as “the complex set of constraints that shape the ex-post bargaining over quasi-rents generated by firm.

---


John and Senbet (1998)⁵, are of the view that “corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected. They include as stakeholders not just shareholders, but also debt holders and even non-financial stakeholders such as employees, suppliers, customers and other interested parties.

Gandia & Andres (2004)⁶, has stated that the utilization of information technology could improve corporate governance in: first, it facilitate better communication between company and investor, second, it reduce the cost for distributing information, third, it augmented shareholders involvement in governing the corporation, fourth, encourage democracy in accessing information, and enhance the credibility of corporate.

Sayogo (2005)⁷, has examined that, the utilization of internet is relevant in enhancing information of transparency given by company which as an end result will enhance corporate governance.

NATIONAL LEVEL

PT Giridharan (2005)⁸, In his study highlighted the material disclosure in Indian Corporate Governance and the Whistle-Blowing exercise in India under clause 49 and Whistle-Blowing exercise in US under SOX Act, 2002.

Naresh Kumar (2007)⁹ has assumed that corporate governance plays a vital role in the wake of increasing competition and globalization. In the emerging scenario of globalization, a uniform accounting and reporting standard is needed from the Ministry of Corporate Affairs and the regulator, Securities and Exchange Board of India (SEBI). As it stipulates parameters of accountability, control and reporting functions of the board of directors. It also encompasses proper relationship among various participants- the board, management shareholders, banks, other financial institutions, suppliers, creditors and the state in determining the direction and performance of companies.

---

Vibha Mahajan (2007)\textsuperscript{10} attempts to highlight the role of regulators such as SEBI and stock exchange in corporate governance. An attempt has been made to find out the growing importance of ethics, transparency and voluntary disclosure over the regulations.

Y.V. Reddy, R.W. Rebell (2007)\textsuperscript{11} attempts to identify and appropriate the relationship between corporate earnings, interest rate and market price. This study carried out on selected stocks which are actively traded on National Stock Exchange, Mumbai for the period from 2001 to 2006. The analysis reveal that the market price of securities is highly correlated with the corporate earnings (cash basis) as well as risk free rate of interest.

Anil Arora and Madan Singh (2007)\textsuperscript{12} have discussed the trends in corporate governance by taking the case study of Ranbaxy. This case study explains the constitution of four committees, namely, Management Committee, Finance Committee, Audit Committee, and Science Committee as per corporate governance code adopted by Ranbaxy.

Y.K. Panday and Rajeev Prabhakar (2007)\textsuperscript{13} was of the opinion is that success of corporate governance is based on complete transparency and “arms length” relationship between owners and managers.

V.M. Budhiraja (2007)\textsuperscript{14} He has discussed the procedural aspect of the corporate governance in the light of social responsibility and accountability standards and describes that how the concept of corporate governance has evolved over the years in the light of increased corporatization and growing stock markets.

K.V. Achalapathi, Rajini Devarajan (2008)\textsuperscript{15}, examined corporate disclosure index model to measure the levels of disclosures. Governance practices in information technology sector. The study develops a index model to measure the levels of disclosure.

\textsuperscript{10} Mahajan Vibha, "Corporate Governance", Deep & Deep Publications Pvt. Ltd., Preface(xi), 2003, p-44.
SIGNIFICANCE OF CORPORATE GOVERNANCE

Within the accelerated development of economic globalization, great changes have taken place in the practice of corporate governance in all countries. Although reasons for corporate governance reforms differ from country to country, corporate governance concerns reflect such as a consensus that people have generally realized that proper corporate governance is essential condition to safeguard the sustainable growth of the companies and the micro basis for the highly efficient operation of the modern market system. Corporate governance has a bearing not only on the success or failure and the sustainable development of an enterprise, but also effects, in a large, degree, the control productive efficiency and social welfare worldwide. The extent to which a company follows the principles of corporate governance plays an increasing role in shareholders investment decisions. McKinsey’s investigation into more than 200 institutional investors has indicated that investors prefer to pay premium of 18% to 2% for companies with corporate governance. Thus, good corporate governance can create value for companies. From the investors perspective, corporate governance is as important as the company’s financial data. Corporate scandals such as Enron and WorldCom sounded the alarm bell once again. Corporate governance has become the priority for the institutional investors to choose when making investment decisions.

The importance of strict adherence to the code of corporate governance could only be understood by the case studies where the management has acted in breach of this code. The recent Satyam fiasco wherein the fourth biggest I.I. services provider and exporter in India, owing its failure to comply with corporate governance practices has effected the humongous corporate fraud to the tune of Rs. 8000 crores, forms the classic example of breach of corporate governance practices. The company’s balance-sheet was so manipulated over a period (more than a decade) as to show inflated profits i.e. the profits shown in the books were much more than the actual profits earned. This difference between shown and actual profit was not due to and accounting error rather was a deliberate and well planned enterprise for many a reason say attract business by showing financial prowess. In this process the officers in change acted in utter defiance
of corporate governance kicking the ideals of fairness, accountability and transparency to dust, ultimately shocking the investor.

PURPOSE OF STUDY

Corporate governance starts from the system and ends with honesty. Morality and cultural values are the foundations for good corporate governance. Corporate governance does not have a sole or best standard and the best practice of corporate governance differs from one country to another. Furthermore, what constitutes best practice is a process of constant development. No matter what kind of corporate governance is practiced, good corporate governance always shares some common elements and its basic principles are more or less the same. Those principles include fairness, accountability, openness and transparency, and they are the basis for us to evaluate whether a listed company has good or bad corporate governance. The recent financial crisis and recent company scandals that broke out across the world can be attributed to the inadequacy of sound corporate governance principles by both the public and the private sectors. As a result, the concept of corporate governance has gained increased attention from all around the world. Developed nations, international financial organizations and major financial institutions have all increased their focus towards improving corporate governance practices and have underlined the need to evaluate and observe the quality of corporate governance practices in developing nations before deciding whether to invest in or provide credit to developing nations and or financial institutions within developing nations.

Hence, considering the recent scandals and financial failure it was utmost important to analyze the transparency in the corporate governance disclosure practices and adherence of the corporate governance principles by the Indian companies. Therefore the present problem titled, “Corporate Governance Disclosure Practices of Indian Corporates in Domestic and Global Perspective” was taken for the purpose of research.
OBJECTIVES OF THE STUDY

To make the present study scientific and systematic, the following objectives have been framed.

1. To study and examine the fulfillment of the requirement of the provision of clause 49 of corporate governance as laid down by The Securities and Exchange Board of India.

2. To analyze the factors that contributes to corporate governance disclosure of information in selected companies.

3. To examine the extent of adoption of principles of corporate governance as developed by Organization for Economic Cooperation and Development.

4. To carry out SWOT analysis and suggest an action plan to improve the legal, institutional and regulatory framework for corporate governance.

In addition to above objectives of the study, the researcher may consider few more objectives at the time of process of present study.

RESEARCH METHODOLOGY

To accomplish the objectives of the study, the following research methodology is proposed.

Sample Size : 30 Companies

Selection of Sample : The companies which will be considered for the purpose of the study will be those companies which are listed on Bombay Stock Exchange (BSE) and which had appeared in the first 30 scrips as on 1 April, 2008.

Duration of the Study: For the purpose of analysis of data, a period of 3 years will be taken into consideration. The 3 years period will be from financial year 2008-09 to 2010-11.
Sample Data: In order to examine, evaluate and analyze the corporate governance practices, secondary will be taken into consideration. The secondary data will be collected from various Journals, books, reports periodicals, news papers, SEBI websites.

The data collected as per the above stated methods will be analyzed by using various financial and statistical tools in order to achieve the objectives.

In addition to this, the researcher would like to use the following specific Research methodology.

<table>
<thead>
<tr>
<th>OBJECTIVES</th>
<th>METHODOLOGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To study and examine the fulfillment of the requirement of the provisions of clause 49 of corporate governance as laid down by SEBI</td>
<td>A checklist will be prepared as per the requirement of SEBI disclosure and will be examined from the disclosures made in the annual reports of the selected firm which will be quantified by assigning proper weight.</td>
</tr>
<tr>
<td>2. To analyze the factors that contributes to corporate governance disclosure of information in selected companies</td>
<td>To achieve this objective various factor viz. company size, profitability, board of directors and shareholders distribution pattern will be taken into consideration. These factors will further be analyzed at micro level by considering various parameters. Content analysis will be carried out in the study on the corporate annual report of selected companies to measure the information disclosed. A corporate disclosure index will be developed which will be used as measure of disclosure level. Disclosure index will be based on different aspects of corporate governance and specificity of the information provided. Corporate disclosure</td>
</tr>
</tbody>
</table>
will be rated on the presence or absence and degree of specificity of each corporate item. Levels of extensiveness will be measured and grouped according to nature of corporate governance information disclosed say (1) general disclosure (2) qualitative disclosure (3) quantitative disclosure (4) combination of qualitative and quantitative disclosure.

A regression analysis will be used to understand the main leading factor towards corporate governance disclosure.

<table>
<thead>
<tr>
<th>3. To examine the extent of adoption of principles of corporate governance as developed by OECD at global level.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A questionnaire will be framed on the various principles of corporate governance as laid down by OECD and will be served to Chief Executive Officer, Company Secretary, Board of Directors, Shareholders, Company Auditors and Financial Analysts to know their opinion in order to develop a score to identify the achievement of these principles in the corporate governance disclosure.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. To carry out SWOT analysis and suggest an action plan to improve the legal, institutional and regulatory framework for corporate governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strength, Weakness, Opportunities and Threats would be identified on the basis of response collected. On the basis of SWOT data, an action plan would be suggested to improve the legal, institutional, and regulatory framework for corporate governance</td>
</tr>
</tbody>
</table>
**HYPOTHESIS:**

To fulfill the objectives the following null hypothesis has been constructed:

H01: Generally there is no significant influence of company size on the level of disclosure regarding corporate governance.

H02: By and large company profitability is not affecting significantly the level of disclosure regarding corporate governance.

H03: By and large number of independent board does not influence the level of disclosure regarding corporate governance.

H04: By and large the shareholding pattern does not influence the level of disclosure regarding corporate governance.

**PROPOSED PLAN OF THE STUDY**

Chapter-1: Introduction

Chapter-2: Review of Literature

Chapter-3: Corporate governance-SEBI requirements

Chapter-4: Evaluation of corporate governance disclosure in India

Chapter-5: Analysis of principles of corporate governance as laid down by OECD

Chapter-6: SWOT Analysis

Chapter-7: Conclusions and suggestions
BIBLIOGRAPHY


Journals, Magazines and Periodicals

1. The Management Accountant (various issues)
2. Financial Analysts (various issues)
3. The Accounting World (various issues)
4. Indian Journal of Accounting (various issues)
5. The Icfai Journal of Accounting Research (various issues)
6. The Indian Journal of Commerce (various issues)
7. The Chartered Accountant (various issues)

Websites

www.icwai.com

www.icaic.com

www.icfai.com