Chapter II

Conceptual Framework of the Enquiry

INTRODUCTION

In previous chapter the study has discussed mainly research objectives, methodology, limitations, chapter planning, etc. Now in this chapter the study will discuss the general meaning of CG and its revolution, different committee's recommendations in worldwide as well as in India, development of CG from beginning to present, CG norms in different developed and developing countries, positive impact and negative impact of CG practices in Indian corporate, major scams etc. Grossly in this chapter the study will discuss a wide range of literature review regarding CG and firm performance. CG is a process as well as a combination of different principles through which the executives, key personnel and Boards have to recollect their tasks, responsibilities towards interested personnel of their company, like, minor and major shareholders, government (Govt.), creditors, money lenders, and entire society.

CORPORATE GOVERNANCE ISSUE AND ITS DEVELOPMENT GLOBALLY AS WELL AS INDIAN CONTEXT

Year after year, so many companies adopted CG but still their performance is very much low. After Satyam case the India govt. had published CG voluntary guidelines, which is hardly followed by the maximum number of companies. So it is necessary to take some actions about restricting the malpractices of CG norms and try to find out some new arena. For this reason India has started to think about the development of CG.

GENESIS OF CORPORATE GOVERNANCE

There is a wider history of development of CG. Few of them are discussed below:

Adam Smith in 1776 in '*The Wealth of Nations*' made a comment on company management that the manager of a company must protect the money of general people as if these funds are the own money of the manager and so he must take care of the management with the help of joint stock company concept. (Smith, 1976:55-65)

Business hub progress in India from a long period of time and from that period the system of corporate culture was enacted but nobody was aware about the term CG. So the development of CG framework has launched in India in very late stage. In India, the corporate world followed the system of CG in three fold basis, like,

1. The Managing Agency System (1850 - 1955)

2. The Promoter System (1956- 1991)

3. The Anglo-American System (1992 and onwards) (Das, 2008:8)

In 1952 one article was published relating to Trusteeship (Gandhism) in 'Harijan' newspaper and the main speech of Gandhiji was that let he has collected a wealth in fair means, then the entire wealth did not belong to him but one thing always belong to him was livelihood and rest part of the wealth would be used for the purpose of development and welfare of the community of a country. (Sarukka, 2005:4-9)

Government of India has taken many steps and also published so many orders to restrict the powers of Boards and tried to abolish negative side of power caused by the managing agents, hence Govt. has adopted many remedial measures and provisions in the Companies Act 1956. Thereafter the significance of the managing agency system was almost weakened. A new mechanism was developed, namely, the Promoter System from 1956. In the year 1991, the Government of India has adopted liberalization policies to make free economic movements and due to this a lot of changes took place in Indian capital market. Therefore, the Anglo-American System since 1991 has come into effect instead of the Promoter System. In corporate governance matter, many changes have already taken place in India due to the advancement of corporate world and many more are waiting. (Das, 2008:8)

DIFFERENT COMMITTEES RECOMMENDATIONS

In this section the study has discussed different Committee Reports and also observes their recommendations towards CG in the context of the world as a whole and India. The discussion has started with a popular Committee Report in this field i.e. Cadbury Report.

(a) Cadbury committee on Corporate Governance:

This committee was established on May 1991 and its main focused on the financial aspects of CG and Code of best practice.

Major recommendations of this committee are as follows–

(i) Any Board decision cannot be taken by a single Director.

(ii)Independent means the majority of non-executive Director's views among all Directors.

(iii) Remuneration Committee made up entirely or mainly on non-executive Directors will give remuneration policy of Executives.

(iv) An Audit Committee also be formed at least three non-executive Directors. (Cadbury, 1992:4.1-5.36)

(b) Greenbury Committee:

The Confederation of Business and Industry (CBI) formed a group under the direction of Shri Richard Greenbury to review the remuneration of Directors. Their valuable recommendations are as follows-

(i) The compensation committee should be formed on the basis of Independent Directors only.

(ii) Pay details, policy, bonus, pension, etc. of all Directors should be disclosed in the report of the compensation committee.

(iii) Up to one year contract and retire by rotation in the hands of executive employment.

(iv) Executive pay should be reasonable. (Report, 1995:21-34)

INDIAN COMMITTEES

The CG framework in India mainly consists of the following committee reports:

(a) SEBI's Kumar Mangalam Birla Committee:

This Committee is formed in 1999 by SEBI under chairmanship of Mr. Kumar Mangalam Birla and this committee recommended two main aspects of CG standard,

(i) Financial disclosure, disclosure of the Annual Report, risks etc. as Mandatory recommendations.

(ii) Non-mandatory recommendations like whistle blower policy, Board members training, evaluation of non-executive Directors, etc. They also recommended as a part of Clause 49 of listing agreement. (Committee K. M., 1999:5.1-5.2

(b) Naresh Chandra Committee Report:

This committee was formed by DCA (Department of Corporate Affairs) to study of corporate auditing and Independent Directors. Major recommendations of this committee were that no rotation of Audit firms, but rotation of auditor (Chandra N., 2002:2,43-45)

(c) SEBI's Narayan Murthy Committee:

This committee is formed by SEBI under the chairmanship of Shri N.R. Narayan Murthy to review the CG, especially the role of Boards of a company regarding price sensitive information. This committee's main mandatory recommendation was to emphasis on strengthening the responsibility of all members of audit Committee and to disclose all material facts for maintaining transparency. (SEBI N. M., 2003:19-25)

(d) J.J.Irani Committee:

MCA constitute this committee under the chairmanship of Dr. J. J. Irani. Major recommendations are-

(i) To maintain e-governance, e-filing and online incorporation.

(ii) Disclosure the charter about the promoters and the Directors and their responsibilities in detailed.

(iii) Trainings of Directors.

(iv) The clear-cut definition of Independent Directors and start new regulation for them besides clause 49. (Irani,2005:15.1-15.7)

DIFFERENT LAWS, ACTS AND ORDINANCES

The CG framework in India mainly consists of the following legislations and regulations:

(i) Companies Act 1956:

Companies in India are controlled by the companies act under direction of MCA. The Act offers all types of rules, regulations regarding incorporation of company, issue of company prospectus, annual returns, listing agreement etc. (Govt. of India, 1956:1-10).

(ii) SEBI Act, 1992:

This body is the main independent regulatory authority of Indian capital market. Its main objective is to protect the interests of investors, including minority shareholders in securities and expand the growth of Indian capital market. This body controlled totally of CG matters of all the companies and provides new rules, regulations, circulars etc. for better governance. (SEBI, "The Securities and Exchange Board of India Act, No.15", 1992: 3-15JA)

(iii) Companies (Amendment) Act 2000: For developing the functions of Indian corporate, the government amended the Companies Act in 2000. Various provisions regarding corporate governance included in this amendment act were (i) provide report in cases where buy-back not completed within the time specified Section 77 (4), (ii) maintain Directors' responsibility statement Section 217 (2), (iii) small shareholders' representation in the Board through a Director (Section 252), (iv) limitations in Directorships in companies (Section 274 & 275), (v) proper constitution of audit committees [Section 292 (A)1], (vi) provisions for higher penalties for noncompliance of various rules, sections, provisions of the Companies Act etc. (Shankar, 2001:2-9)

(iv) Insertion of New Clause 49 of the Listing Agreement by SEBI (2000,): After the provisions of the Companies (Amendment) Act 2000 came into force, SEBI in its meeting held on 25th ,January 2000, decided to make amendments to the Listing Agreement by inserting a new Clause 49 and published it through a circular no. SMDRP/Pohcy/Cir-10/2000 dated 21st February 2000. The new Clause 49 dealt with corporate governance and included different provisions, viz. (i) providing for appointment of optimum number of Directors like executive, non-executive/independent, (ii) appointment of the audit committee, (iii) remuneration policy of

Directors and its proper disclosure, (iv) Board procedures and meetings, (v) management report in transparent manner, (vi) independent report on corporate governance. (SEBI, Circular no. SMDRP/Policy/Cir-10/2000: 1-2)

(v) Reserve Bank of India - Report (2001):

A standing committee under the chairmanship of Dr. Y.V. Reddy, Deputy Governor of RBI, was set up by the Governor of the Reserve Bank of India on 8th December 1999. This committee in its first meeting on 13th January 2000, constituted non-official advisory groups in ten key subject areas, one was recognized as CG. (R.H.Patil, 2001:1-2)

(vi) Review of the Companies' Bill 2008:

The following are the revised provisions under this bill:

1. Central Government can manage the entire activity from formation of companies to winding up according to companies act.
2. Another provision of this bill is related to protecting the rights of minority stakeholders, control of internal affairs, as well as the decision of the company.
3. Govt. launched proper application of different matters through e-governance mechanism under the MCA portal.
4. Appointment of Independent Directors according to proper proportion i.e. Independent Directors must be at least 33% of the total number of Directors. (MCA, 2008:1-4)

(vii) MCA: National Voluntary Guidelines on Social, Economical & Environmental Responsibilities of Business 2009: These guidelines are a modification over the CSR Voluntary Guidelines 2009, issued by the MCA in December 2009. This document provides the safeguard and satisfaction measure of stakeholders and basic requirements for businesses to function in a responsible way, so it will be confirmed about a wholesome economic growth in India. (Affairs, 2009:7-10,20)

(viii) Report of the CII task force on corporate governance (2009): The report is prepared based on different components of corporate governance. These are the Board of Directors, non-executive and Independent Directors, committees of the Board, significant related party transactions, auditors, independence of auditors, rotation of audit partners, regulatory agencies, legal and regulatory standards, effective and credible enforcement, external institutions, institutional investors, the press. (Chandra, 2009:6-12)

(ix) General Circular by MCA (2011): In this general circular, the Ministry has taken different vital initiatives in the present corporate scenario, like, timeless activities, green initiative, certificates issued through electronic mode with the help of digital signature of the Registrar of Companies. (U.C.Nahata, 2011:1-2)

(x) C**onsultative paper on review of corporate governance Norms in India (2012):** According to SEBI recommendation the consultative paper developed in India in 2012 for the purpose of revision of clause 49 of listing agreement. This paper also helps to implementation of the Companies Bill 2012. (SEBI, "Consultative paper on review of corporate governance". , 2012:5-7)

(xi)The Companies Bill 2012: This bill provided several provisions, especially about Independent Directors, like, proper proportion of Independent Directors, their fees, functions, rotations, re-appointments etc. This bill also provides the tenure of Independent Directors' maximum for five years and they should abide by the provision of bill. They cannot take any types of remunerations from the company, cannot hold any profit related commissions etc. (KPMG, 2012:1-8)

(xii) Companies Bill 2013: In case of CG issue a vital portion covered in this bill regarding the revised provision of Independent Directors. Proportion numbers of Independent Directors are mentioned clearly in this bill, i.e. at least one-third Directors must be Independent Directors among total in the case of public limited companies. For this reason the rule of minimum numbers of Independent Directors is applicable if some criteria fulfilled by any public companies, like, paid up share capital of Rs.100 crore or more; or turnover is Rs.300 crore or more etc.

The 2013 Act also mentioned about the appointment of the Independent Directors from MCA data bank and also provides the liability and the code for Independent Directors. (PWC, 2013:18-23)

(xiii) RBI is also issued some provisions of the audit committee and guidelines of CG for all Non-Banking Financial Companies. (NBFCs,DNBS (PD) CC No. 288 / 03.10.001 / :1-2).

(xiv) Circular published by SEBI regarding revised clause 49 on 17th April, 2014:

This circular provides the following matter relating to revised clause 49 under Companies Act 1956 incorporate with Companies Act 2013:

1. The company must give protection from all aspects to their shareholders.
2. The company should provide timely and accurate disclosure regarding all material facts.
3. The Board of Directors must consist of the optimum proportion of executive and non-executive Directors and also appoint at least one woman Director and it should be assured that not less than fifty percent of the Board of Directors comprising non-executive Directors.
4. This circular also provides about appointment criteria, tenure, training and meeting of Independent Directors.
5. CG norms should be represented in a separate section/ part of a company's annual report. (SEBI, 2014:1-36)

In the present day this is fact that the Directors are very much responsible regarding success and failure of a company, they have enough responsibilities to compliances all norms, acts, circulars as well as the protection given to all categories of stakeholders. Directors are the primary authority of a company, so it is necessary to monitor their activities and control them as required. Then an organization can reach a higher position in front of shareholders. (John, 1998:371-373)

CORPORATE GOVERNANCE AND FIRM PERFORMANCE

Maximum studies regarding CG and firm performance, the authors have found a positive relation between two, but some studies also observed that there is a negative relation exist between CG and firm performance (Bathala, 1995:16,59-69).

The firm performance is definitely increased with the help of proper corporate governance and maximum firms used separate titles of key personnel like, Chairman, CEO (Brickley, 1997:217-218).

So many authors have published this topic on the basis of sample from developed countries and relationships established between Board size, its compositions and firm performance (Bhagat, 2002:131).

The Relationship does not exist between CG and Firm performance. (Shin,2004:455-456)

Fich and Shivdasani found in their article that the firms with Director stock option plans have higher market value ratios and profitability and the authors concluded that a positive stock market reaction lies when the firms announce stock option plans for their Directors. (Shivdasani, 2004:25-26)

The article concluded after studying of qualitative aspects of the Board that have some contribution to firm value, such as the Directors observation of the role of the Board and its decision-making technique. In this study, the authors used Tobin's Q and market capitalization as dependent variables of firm performance. This study used data from the Prowess database of (CMIE) on market capitalization and sales basis and also used the simultaneous equations model of regression (Neeraj Dwivedi, 2005:166,169).

Author found that the independent nature of the Board of Directos can influence the performance of firm but it totally depends on strategy formulation of the firm, creative and innovative ideas (Jermias, 2006:311-312).

Luo Lei explained in his paper that it is necessary to improve CG for the purpose of improvement of the value of the firm. Here the author used CG score, selected sample on the basis of large cap, mid-cap and small cap and also used market capitalization. The author classified different companies into related industries. Here the models used for analysis are multiple regression, Pearson correlation and three simultaneous equations (Lei, 2006: 48, 51, 69, 80).

According to Garg, the Board size and performance as also Board independence and performance were contradicted in nature. A low performance leads to increase in the size of the Board, which have a chance to hinder the performance (Garg, 2007:57-58).

Imam and Mahfuja Malik explained that there is no relation between CG and firm performance except foreign shareholding. Here the authors used multiple regression models with 3 equations in 3 dependent variables, adjusted R^2, F-stat and also taken empirical model as research type (Malik,2007:88,95,100-101).

The study found that corporate governance data are categorised in four components, namely, ownership component, Board component, committee component, and Board procedure component. This study used OLS regression analysis, small-cap index and established that committee component has statistically significant relationship with company's firm performance. It also concluded that corporate governance practices influenced the firm performance positively in case of Indian service firm. (Raja, 2007:105,108-111)

In the empirical study of timeliness disclosures of corporate governance norms, it observed that the authors used market capitalization as a base of choosing the size of firms from BT-500 companies (Poonam Mahajan, 2008:48,58).

Bhagat, Bolton stated that good governance always related positively to future activities of firm and used four equations for analysis (Sanjai Bhagat , 2008:257,260).

The researcher used empirical model to investigate corporate governance and firm performance and he collected data from published financial reports of firms. He also specifies hypothesis and provides a conclusion. (Rashid, 2008:7-8,38).

The literature found that there are three variables to decide the relationship of CG and FP, like, Board, disclosures and ownership structure. Ultimately, it found that the disclosure norms have a significant impact on firm performance and it is applicable mostly in developed countries (Manpreet Singh Gill, 2009:7).

The study found that there is a positive relationship in between Board size and firm performance. Here the authors used empirical research for developing their manuscript. On the other side of this study failed to prove that the resource dependency theory for the establishment of a relation between frequency Board meeting and firm performance. This study used Pearson correlation, regression analysis with R, R^2 , F value. Here the authors also used four simultaneous equations for analysis. This article has been selected sample on the basis of market capitalization from the BSE website (Johl, 2009:492,499-501).

Sharma and Singh have taken 50 listed companies for the study of CG and he also divided all the sample companies into different industries. They are also formed CG index and all CG elements are sub divided into seven dimensions (Singh, 2009:94-101).

Gupta, Duane B. Kennedy, Samuel C. Weaver concluded that no consistent disclosure of CG variable in the annual reports of the companies. Four subcategories of CG variables comprise different elements of CG disclosures variables and used multiple regression models for analysis. Here the authors used dependent factor as market value to book value ratio, i.e. price to book value ratio (Parveen P. Gupta, 2009:296-297,301).

Matthew and Gbadebo, Olusegun Odularu concluded that the positive relation exists between share value and firm performance on the basis of the empirical analysis model. Here the authors used market capitalization as the dependent variable. (Oluwatoyin, 2009:224-226).

Yifang Wan has explained in his thesis that in capital market it is essential by every company to follow up voluntary CG disclosure norms. He constructed CG score and used market capitalization as dependent variables of the study. This paper is also used multiple regressions with several equations (Yifang, 2009:23,26-31).

In a research article the author proof that there is a positive relation between EBT(Earning before tax)/Sales ratio and corporate governance score of selected Indian companies(Joshi, 2010: 234).

One popular article explained that an efficient size of the Board provided a better performance of a company's affairs. Always not mean that an excess Independent Directors will create a high grade of firm performance rather than it may give a lower level of performance. It used G-index on the basis of 1 or 0 mechanisms, regression models, Pearson correlation for analysis and total market capitalization as sample selection (Lal C. Chugh, 2010, 1-4).

Khrawish, Walid Zakaria Siam, Mohammad Jaradat used their study multiple linear regression model and dependent variables as market capitalization(Husni Ali Khrawish, 2010: 63-65).

Kavitha D & Nandagopal R stated a new dimension of CG. Here the authors have used a weighted score for preparation of CG index and weight has provided according to importance, which is purely subjective and from previous studies. They have also mentioned to use modified binary system for CG scoring (R, 2011: 35-37).

Chaghadari explained through empirical analysis that no relationship between CEO duality and firm performance. Here the author used "1" or "0" score system, multiple regressions with two equations and Pearson correlation for their analysis (Chaghadari, 2011: 485-486).

The author Naveen Kumar has established through his empirical analysis that an effective positive relation between a good combination of Independent Directors and firm's internal control mechanisms. He also recommended that if any company formulated its Board on the basis of suitable proportion of Directors both independent and non-executives, then that company may gain in near future. This paper used regression analysis and correlation matrix. The data have collected from prowess database, CMIE (Naveen Kumar., 2012:39-47).

The author Lama in his study proposed that those mid-size companies, corporate governance variables are not affected shareholder returns. This study is based on empirical analysis and also used mid- cap basis companies in its sample and model used Pearson correlation and multiple regression (Lama, 2012:63,72).

In another paper, the author used share price as the dependent variable of firm performance and corporate governance sub-index scores as independent variable. In preparation of CG sub-index, the author used dummy variables as flag 1 or 0. Ultimately, the article concluded that there is a positive relationship between firm performance and CG sub-index. In this article the author used share price of firm as the dependent variable in capital markets (Ergin, 2012: 64-67).

Based on 53 listed companies in Iran, the authors have established that a significant relation exists between firm performance and CG procedures. This study conducted on five years sample data. The authors used different statistical tools for analysis like, correlation, multivariate regressions, F-test etc. Corporate governance mechanisms scored on the basis of 1 or 0.(N.S.Moradi, 2012: 87-88).

The authors stated that Board size is affecting firm performance in small business. Here the author used Pearson bivariate correlation analysis & regression analysis with R^2; adjusted R^2; F-stat (Amarjit Gill, 2012: 85-86).

The authors Moeinaddin & Karimianrad stated that CG systems always influenced to firms' performance. They used the correlation and six equations of multivariate regressions with R^2; Adjusted R^2 and F-statistics (Mahmoud Moeinaddin M. K., 2012: 491,494-497).

Gul, Sajid, Razzaq, Afzal stated that the agency cost could be minimised with large numbers of Directors and institutional ownership. The authors selected sample based on market capitalization and model used Pearson's correlation, multivariate regression with R^2, F-stat (Sajid Gul, 2012: 271-275).

Manawaduge explained in his thesis that a positive relation exists in case of ownership pattern and return on assets of the firm but no any relation with market to book value of firm. Here he used dependent variable as market to book value ratio and tobin's q. He also used CG score and form four basic CG variables which are sub elements of CG as independent variables. The author also used correlation matrix for analysis of CG and firm performance (Manawaduge, 2012: 99,104,107,191).

Coşkun, Sayilir explained that CG and firm valuation has a positive relation and they have taken independent variables as CG score. The model used for the article was multiple regression (R-squared, Adjusted R-squared F-statistic) with three equations (Sayilir, 2012: 61-64).

Krafft, Yiping Qu, and Jacques-Laurent Ravix stated in their project that CG score is much more affected in stock price of firms. They have formed CG score of 55 different issues of CG divided into eight categories. They classified industry and model used correlations, regression that includes only two variables, one is dependent variable, namely, stock price (Jackie Krafft, 2013:16-25).

The author proof that a positive relation exists between CG and firm performance based on some particular variables like, executive pay, Board compositions etc. The author used two different regression models for testing of hypothesis (Rashid, 2013: 562-565,570).

In a paper regarding *corporate governance and information content of stock trades: evidence from s&p 100 companies*, the author used different financial ratios as firm performance variables, like, firm size, market to book ratio, return on equity, volatility of ROE, dividend yield , trading volume, age, business segment and insider holdings. The author has also used governance index 1 or 0 mechanisms; divide 44 elements of CG into 5 Governance index. He also used Ordinary Least Square (OLS) model for testing of hypothesis (Fan, 2013: 44-46).

Sharma, Ben Branch, Chetan Chgawla, and Liping Qiu stated in their paper that firm's efficiency and growth always depend on market to book value ratio of the firm. They used this ratio, regression model, including R-squared, adjusted R-squared, F-statistic, and correlation for their analysis (Anurag Sharma, 2013: 9-10,14,22).

A popular article explained the impact of Board independence and CEO duality as variables of firm performance and concluded that no significant relation exist between CG and CEO duality. They selected sample companies from BSE 100 index based on market capitalization. The article ultimately used panel data regression, Tobin's Q. This study also recommended that if Board size will be large in case of Indian companies, then the firm could increase its value (Saibaba, 2013: 50,54).

Tangjitprom stated that the role of CG provides risk less earning and used the CG score for his study (Tangjitprom, 2013:215,219).

So from the above literature review the study observed that authors are using panel data on the basis of stock exchange used Tobin Q, closing stock prices, book value per share, etc. as dependent variables in the hands of firm performance. The existing literatures show a positive relationship between corporate governance and firm performance on the basis of few years' data. Many authors used data on the basis of developed countries. However, there will be a wide literature gap that the period of study is not so long; fewer of them used CG scores. So, these studies have a lot of limitations and for these limitations there will be a lot of scope for further research. So this study has selected Indian companies i.e. on the basis of developing countries and tried to establish a concrete relationship of CG and firm performance.

FRAMEWORK OF CORPORATE GOVERNANCE

Organizational Framework: The principal structural framework of CG in India has been formed under the supervision of three bodies, namely, the Ministry of Corporate Affairs (MCA), the Confederation of Indian Industry (CII) and the Securities and Exchange Board of India (SEBI).

In 1998 the Confederation of Indian Industry (CII), "India's premier business association," has opened the first code of Corporate Governance in India. But it was not mandatory to follow up this CG mechanism. After that the SEBI appointed the Kumar Mangalam Birla Committee for the purpose of reformulate a code of Corporate Governance. In 2000, SEBI acknowledged the recommendations of the Kumar Mangalam Birla Committee and has launched Clause 49 of the Listing Agreement. In 2003 again SEBI introduced the N.R. Narayan Murthy Committee to review India's corporate-governance framework and to offer some additional recommendations for getting CG’s true spirit, and the latest revisions to Clause 49 became law on January 1, 2006 (Basu, 2006:1).

Generally renowned companies are instituting different CG committees to comply the requirements of listing agreement under clause 49 under the Companies Act, which is discussed below:

COMMITTEES OF THE BOARD OF DIRECTORS AND ITS COMPOSITIONS

A. Audit Committee.

B. Remuneration Committee.

C. Investors Grievance.

D. Nomination Committee.

E. Management Committee.

A. Audit Committee: The main functions of this committee are to safeguard the assets, effective control of financial matters, internal control to create a good environment and to protect the interest of shareholders. At least three Directors constituted the audit committee, out of these twothirds of the members will be Independent Directors and all of them shall have financially literate. The audit committee must meet at least four times during a financial year and two meetings gap will not be more than four months.

B. Remuneration Committee: Another name of this committee is compensation committee. It comprises mainly non-executive Directors. This committees' main function is to observe a fair policy of remuneration of executive and non-executive Directors. This Committee is also responsible for managing the Employee Stock Option Scheme of the firm. The chairman of this committee will be an Independent Director. The committee members should attend the meeting.

C. Investors Grievance Committee: This committee mainly formulated for the purpose of redress different grievances raised by stakeholders. Four members should constitute this committee out of which three of them, including the Chairman are non-executive Directors.

D. Nomination Committee: This committee is to fulfill vacancies on the Board and to develop a policy regarding the Board size and composition. Four to five members can constitute this committee with a proportion membership of outside Directors.

E. Management Committee: This committee formulated in mixing of whole time Directors, non- executive Directors and Independent Directors. This committee will take vital decisions of companies' matters like, like strategic planning, financial, corporate and legal. The Company Secretary (CS) is playing a role as the secretary of this committee.

FRAMEWORK OF CORPORATE GOVERNANCE

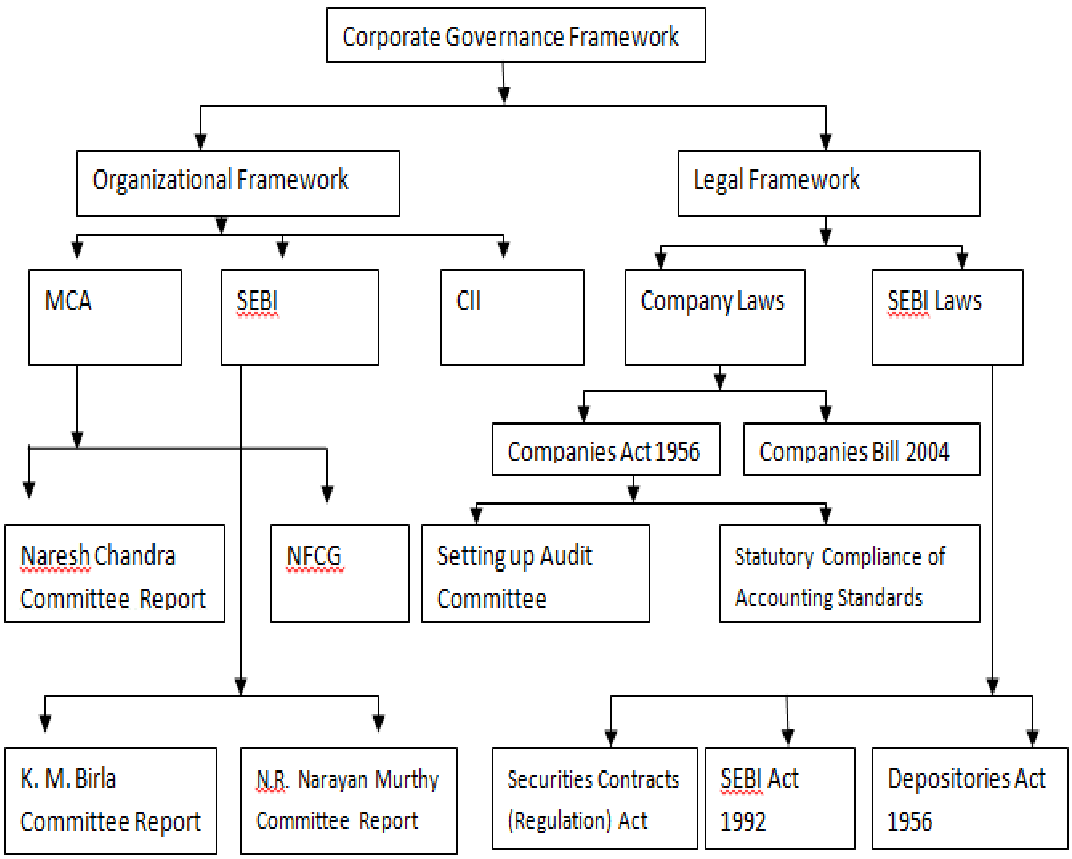

Diagram 2.I: Framework of CG

Sources: (1)http://economictimes.indiatimes.com/Infosys_will_not_go_for_hostile_takeover_CEO/articleshow/3975232.cms

(2) http://economictimes.indiatimes.com/articleshow/msid-3892605,prtpage-1.cms

GLOBAL CONTEXT OF CORPORATE GOVERNANCE DEVELOPMENT

Global context has incorporated as a major literature review about CG and from here; the study can get different core ideas to develop its research. This review is presenting of different developed and developing countries CG mechanisms and codes:

1. Corporate Governance, Netherland:

The main control of the institution goes to Supervisory Board of the company. It formed based on unrelated supervisory Directors who are free from any relation with the company and independent. The organisation in this country also formed audit committee, remuneration committee, compliance committee, risk management committee etc. This Board is responsible to provide remuneration to the executive supervisory Board of Directors. ("Corporate Governance Summary of best Practice Guidelines", 2006:2-5)

2. Corporate Governance Code, Georgia:

Here the banks have formed governing body of their institutions. This body has two parts, namely, Supervisory Boards and Management Boards. The code provides different functions of these Boards. The members of the Supervisory Board are a proportion of independent and shareholder members. This Supervisory Board always tries to evaluate the rights of shareholders. Whereas the members of Management Board have selected by Supervisory Board and this Supervisory Board can also dismiss the membership of the Management Board (Georgia, 2009:4-10).

3. The Swedish Code on Corporate Governance:

Here the companies' shareholders' are called shareholders meeting and they are the highest decision making body regarding companies. They have to decide the remuneration of Board members and auditors in their meeting. Different activities of shareholders have done through nomination committee and this committee selects the chair. The maximum numbers of members will be independent of company management (Halvarsson, 2010:13-19).

4. Corporate Governance, Canada:

There should be separate corporate governance of FRFIs (Federally-Regulated Financial Institutions) based on size, ownership formation, nature, volume of activities etc. of the institutions and it is recognized by OSFI (Office of The Superintendent of Financial Institutions Canada). The Board structure should be independent from top-level management i.e. senior management. The Board is responsible to maintain a proper internal control of the institutions.

Every FRFI should form an audit committee based on non-employee Directors and they are not affiliated (OSFI, 2013:6-8).

5. Corporate Governance Code, Norwegian:

The Norwegian Corporate Governance Board (NCGB) has issued this code in 2012 and provided the following guidelines:

a. If there will not be any agreement between company and employee regarding selection of the Board of Directors (when no. of employees are more than 200), then the company will form a corporate assembly at minimum numbers of members is 12 in the proportion of 2/3, elected by shareholders and the rest elected by employees. The Main function of this assembly is to choose the Board members.

b. Remuneration of executive personnel should show as Annexure of Annual Report (AR) of the company.

c. In case of public companies act, the Chairman of Board and the corporate assembly must be present in general meeting of shareholders and others members of the Board should attend. The members of nomination committee also are present at the meeting.

d. The members of nomination committee must be excluded chief executive of the company and any other executive personnel (NCGB, 2014:7-10).

6. Corporate Governance Code, UK:

According to this code, the annual report of the companies should have the following contents:

a. Detail of Board operations of the company.

b. Disclose the name of the main personnel like CEO, chairperson of the Board of the company.

c. Total number of meeting and attendance detail of the Board members.

d. Detail of the name of non-executive members, formation of nomination committee etc.

e. Director responsibilities statement, performance evaluation of the company etc. (Council, 2014:5-11).

7. Corporate Governance, New Zealand :

In case of formation, Board composition there will be a formal selection process after considering skills, knowledge, experiences etc. The Board should form a proper balance of independence, skills, etc. The chairperson is responsible to follow up a charter towards the role and responsibility of Board members. At the time of formation of an audit committee, major should be the non-executive person and chairperson will be independent. The organization also formed a nomination committee, takeover committee, remuneration committee etc.

In case of executive remuneration the Board should publish a clear-cut remuneration policy based on performance, share-based payment etc. All the process should approve by the esteem shareholders (New Zeland , 2015:4-8).

8. Corporate Governance Code, German:

This code framed for the purpose of proper management and proper supervision of the listed companies in German stock exchange. The Board in this country has two parts, namely, the Management Board and Supervisory Board. These two Boards have different responsibilities. General shareholders will select the members of the Supervisory Board and this Board plays an advisory role ("German Corporate Governance Code", 2015:3-8).

9. Corporate Governance Code, Japan:

This code has some amount of principles, like,-

a. All shareholders must have equal rights and the company always take care about these.

b. The company always tries to develop a bridge between shareholders and other than shareholders of the company, like, creditor, employees, partners, customers etc.

c. The Board of the company should disclose appropriate data towards their interested parties.

d. The code also provides a clear-cut guideline regarding the responsibilities of the members of the Board (Tokyo Stock Exchange, 2015:5-10).

CORPORATE GOVERNANCE'S IMPACT ON INDIAN CAPITAL MARKET

Due to lots of scams, the role of CG is increased in high pace day by day. During last several years' capital markets scams happened in India, fewer of them discuss below:

a. Harshad Mehta Scam - The amount of scam in the stock market was of Rs.4000 crore (approx.) and it was made under the process of insider trading in 1992. This scam happened due to evil steps taken by

Harshad Mehta and his associates. Then end of the season, the market was crashed (Gupta, 2015:80).

b. The Bhansali Scam - Here the loss amount was more than Rs.1200 crore in Indian capital markets. He had collected Rs.900 crore or more after issuing different financial instrument and a financial crisis appeared in Indian capital market. After this event RBI denied to provide banking status to that company (Gupta, 2015:80).

c. Ketan Parekh Scam - A biggest scam occurred in Indian capital markets due to run a family oriented business of NH Securities' and after that there was an proof of price manipulation in the scripts of global trust bank, Lupin Laboratories, Zee Telefilms etc. by Ketan Parekh, a chartered accountant (Gupta, 2015:80).

d. Satyam Computer Scam - at the end of 2008 problems of Satyam scam occurred in India and B.Ramalinga Raju, Chairman of this company was announced that more than Rs.8000 crore financial fraud conducted by his company and the promoters were arrested (Gupta, 2015:80).

From the above discussion, it may conclude that these scams occurred due to lack of transparency in Board of Directors, Auditors thoughts, different CG committees etc. So it is urgently necessary to develop the role of CG Committees. Most of the companies are not abiding the rules of CG and other laws. They have published their Annual Reports on the basis of copy paste mode during several years, so these may turn the CG norms in an idle manner.

After keeping in mind the study may discuss some positive as well as negative impacts of CG in Indian capital markets, few of them are discussed below:

POSITIVE IMPACT

a. Due to implementation of CG guidelines, especially disclosure norms, Indian companies are also getting a large portion of foreign money through FDI (Foreign Direct Investment).

b. With the initiatives of GOI (Government of India) to implement these CG committees it would be possible to maintain a wide series of disclosures by several companies. So funds will be rising easily in Indian capital markets.

c. Timeliness disclosures, i.e., investors are more helpful if they will get timely information from every company and they will be more interested to invest in the capital market rather than before. It contributes an immediate and efficient performance of stock markets to evaluate price of stocks and their functioning mechanism. It helps to reduce insider trading and rumors in the market. So most of the stock exchanges, namely, NSE, BSE, London Stock Exchange, NYSE and Dow Jones etc. have demanded audited financial reports from their listed companies immediately. In this way a company can enjoy more capital from their investors in both primary as well as secondary markets and they also gained the confidence from their stakeholder's side. SEBI published a circular relating to timely disclosure by every listed company on their web site. (Poonam Mahajan, 2008:39-40).

NEGATIVE IMPACT

a. If the study follows CG structure, then the study can find that the application part of CG structure varies county to county and norms according to different potential and relevant factors, but in India it is observed that most of the companies are preparing CG Report just for maintaining a formality and nothing else.

b. In our country, most of the audit committees are doing their duties on the supervision of the Board of Directors and the collects their remunerations as well as sitting fees. Most of the activities are doing inefficient manners. The impacts of these types of negligence are very much harmful to the society.

c. Actual meaning of CG is in the gray area in mind of retail shareholders. So, CG has no any impact to restrain the corporate collapsed.

From the above points it is necessary to develop Indian capital markets and it is possible when every company will think to implement properly the CG mechanism.

SUMMING UP THE CHAPTER

In this chapter the study has shown a clear evolution of CG in India, its structure, different committee's viewpoints, development stage of CG etc. It also narrates different committee proposals in the world as well as in India regarding CG development. Different literatures also discussed about CG and firms' performance. This chapter also highlighted the positive and negative impact of CG practices in Indian capital market. From this impact it will be necessary to follow a good CG norm by every corporate. The investors also get a good idea from this chapter. So it may be concluded that development of CG is now in a paradigm shift. There will be lots of scope to develop new ideas about CG. In the next chapter the study has discussed details of the CG scores pattern followed by different companies in India.