

# **CORPORATE GOVERNANCE – NATIONAL AND INTERNATIONAL SCENARIO**

**SMITA JAIN\***

---

## **BACKGROUND**

“Corporate Governance” is the current buzz word in India as well as the world over. It has gained tremendous importance in the recent past, especially after the second half of 1996. Two of the main reasons for this upsurge are, firstly, the economic liberalization and deregulation of industry and business and secondly, demand for new corporate ethos and stricter compliance with various laws and greater accountability of companies to their shareholders and customers.

Corporate Governance is a phrase which implies transparency of management systems in business and industry, be it private sector or public sector - all of which are corporate entities. Corporate Governance, is a set of standards, which aims to improve the company's image, efficiency, effectiveness and social responsibilities. In the words of 'Naresh Chandra' Former Cabinet Secretary, “Maintaining governance standards requires accountability at all levels of management. Hence corporate conduct and culture, based on attributes of self-regulation and openness contribute most to the essence of corporate governance”.

In the present scenario of globalization and liberalization, the corporate sector at national and international level have no way but to seriously and continuously strive for “Excellence in Corporate Governance” to the maximum possible extent. In this article an attempt has made to show how the concept of 'Corporate Governance' has developed over a period of time at the national and international level and what direction will it take in the future.

## **CORPORATE GOVERNANCE : CONCEPT**

The concept of 'Corporate Governance' has been

defined at national and international level in various perspectives, some of which are reproduced as follows:-

Cadbury Committee, U.K. has defined the term in the following manner : “It is the system by which companies are directed and controlled.” The committee also mentioned that “ the role of corporate governance is to ensure that the directors of a company are subject to their duties, obligations and responsibilities, to act in the best interest of their company, to give direction and to remain accountable to their shareholders and other beneficiaries for their actions” .

The Experts of the Organization for Economic Cooperation and Development (OECD) have defined corporate governance to mean “ a system by which business corporations are directed and controlled” . According to them, the corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the Board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it provides the structure through which the company objectives are set, and also provides the means of attaining those objectives and monitoring performance.

In India, the Confederation of Indian Industry(CII) defined the term stating that “corporate governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take informed managerial decisions vis-à-vis its claimants – in particular, its shareholders, creditors, customers, the State and employees. There is a global consensus about the objective of 'good' corporate governance: maximizing long-term shareholder value.”

---

\* Practising Company Secretary, Mumbai.

The Kumara Mangalam Birla Committee constituted by SEBI has observed "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."

After observing the above mentioned definitions, it can be said that corporate governance is concerned with the ethics, values and morals of a company, its directors and with the ways of bringing the interests of investors and management in tandem and to ensure that their interests are best served. Corporate governance practices promotes the conducting the affairs of a company in such a manner that ensures fairness to customers, employees, shareholders, fund providers and the society as a whole. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations, the accountability of managers and the boards to shareholders and corporate responsibility towards stakeholders.

### **Major Developments at International Level**

The concept of Corporate Governance took roots in countries like US and UK and have subsequently spread to other countries. After 1990, the transition from central planning to market driven economies, particularly the privatization of state-owned companies, and the need to provide governance rules for the emerging private sector, brought the issue of corporate governance to the centre stage. As a fall out of 1997 economic and financial crisis, Asian countries too became keenly interested in the issue of corporate governance. The OECD took early initiatives to address governance issues.

Since the mid-1990s, at international level, various corporate governance reports, guidelines and regulations have come into existence. In this article the emphasis has been made on the following major international developments in corporate governance:

- Cadbury Committee Report
- OECD Principles
- The Sarbanes-Oxley Act
- A Chronological Review of Other International Developments

### **CADBURY COMMITTEE REPORT ON CORPORATE GOVERNANCE**

In an attempt to prevent the recurrence of business failures in countries like UK and to raise the standards

of corporate governance, the Cadbury Committee, under the chairmanship of Sir Adrian Cadbury, was set up by the London Stock Exchange in May 1991. The committee, consisting of representatives drawn from the top levels of British industry, was given the task of drafting a code of practices to assist corporations in U.K. in defining and applying internal controls to limit their exposure to financial loss, from whatever cause.

In the view of 'Sir Adrian Cadbury', " a code of corporate governance cannot be imported from outside, it has to be developed based on the country's experience. There cannot be any compulsion on the corporate sector to follow a particular code. An equilibrium should be struck so that corporate governance is not achieved at the cost of the growth of the corporate sector" .

The Committee investigated accountability of the Board of Directors to shareholders and to the society. It submitted its report and associated "Code of Best Practices" in Dec 1992 wherein 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. The resulting report, and associated "Code of Best Practices," published in December 1992, was generally well received.

The Cadbury Code of Best Practices had 19 recommendations. The recommendations are in the nature of guidelines relating to the Board of Directors, Non-executive Directors, Executive Directors and those on Reporting & Control. Whilst the recommendations themselves were not mandatory, the companies listed on the London Stock Exchange were required to clearly state in their accounts whether or not the code had been followed. The companies who did not comply were required to explain the reasons for that.

### **Organization for Economic Co-operation and Development (OECD) - Principles**

OECD is a unique forum where the governments of 30 market democracies work together to address the economic, social and governance challenges of globalization as well as to exploit its opportunities. The organization provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practices and co-ordinate domestic and international policies. It is a forum where peer pressure can act as a powerful incentive to improve policy and implement "soft law" – non-binding instruments such as the OECD Corporate Governance Principles – and can on occasion lead to formal agreements or treaties.

The OECD Council, meeting at Ministerial level on 27-28 April 1998, called upon the OECD to develop, in conjunction with national governments, other relevant international organizations and the private sector, a set of corporate governance standards and guidelines. In order to fulfill this objective, the OECD established the ad-hoc Task Force on Corporate Governance to develop a set of non-binding principles that embody the views of Member countries on this issue.

The Principles contained in this document build upon experiences from national initiatives in Member countries and previous work carried out within the OECD, including that of the OECD Business Sector Advisory Group on Corporate Governance. Such principles were based essentially on the existing legal and regulatory arrangements as well as the best prevailing practices followed by market participants in the OECD countries.

The OECD revised its principles of corporate governance in the year 2004, which reflects a global consensus regarding the importance of good governance practices in contributing to economic viability and stability in economics. The principles are intended to assist governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance.

### **Sarbanes - Oxley Act**

Sarbanes-Oxley Act is a US law passed in 2002 to strengthen corporate governance and restore investor confidence. The Act was sponsored by US Senator Paul Sarbanes and US Representative Michael Oxley. Sarbanes-Oxley law passed in response to a number of major corporate and accounting scandals involving prominent companies in the US. These scandals resulted in a loss of public trust in accounting and reporting practices. In July 2002, the Sarbanes- Oxley Act popularly called 'SOX' was enacted. The Act made fundamental changes in virtually every aspect of corporate governance and particularly in the matters of auditor independence, conflict of interest, corporate responsibility and enhanced financial disclosures.

SOX is wide ranging and establishes new or enhanced standards for all US public company Boards, Management, and public accounting firms. SOX contains 11 titles, or sections, ranging from additional corporate board responsibilities to criminal penalties. It requires

Security and Exchange Commission (SEC) to implement rulings on requirements to comply with the new law. SOX consists of new standards for Corporate Boards and Audit Committee, new accountability standards and criminal penalties for Corporate Management, new independence standards for External Auditors, a Public Company Accounting Oversight Board (PCAOB) under the Security and Exchange Commission (SEC) to oversee public accounting firms and issue accounting standards.

### **A Chronological Review of Other International Developments**

#### *Hampel Report (1998)*

The Hampel Committee was constituted in UK in 1995. The task of this committee was to consolidate the recommendations of the Cadbury Report in 1992 (focusing on financial reporting) and the Greenbury Report in 1995 (focusing on directors' remuneration), and prepare a 'Combined Code' on corporate governance. The Code, published in 1998, was attached to the listing rules of the stock exchange with the requirement that in order to be listed, companies must either declare their adherence to its provisions or explain any deviation from them.

#### *Blue Ribbon Report (1999)*

Blue Ribbon Committee was set up by the Securities and Exchange Commission (SEC), US, in 1998. In February 1999, the Committee published the Report on Improving the Effectiveness of Corporate Audit Committees (the Blue Ribbon Report). The recommendations of the Blue Ribbon Committee were adopted and declared to be mandatory by the NYSE, the American Stock Exchange (Amex), Nasdaq and the American Institute of Certified Public Accountants (AICPA). The recommendations are not mandatory for foreign issuers: these are subject to their own national laws.

#### *CalPERS' Global Governance Principles (1999)*

With the goal of encouraging a continual debate on best governance practices globally, in 1997 CalPERS' Board adopted a set of Global Governance Principles. In late 1999, the CalPERS Investment Committee analyzed other newer global governance principles and with the goal of supporting a single set of global governance principles, the Investment Committee revised CalPERS' Global Governance Principles to parallel the International Corporate Governance Network's statement on Global Governance Principles.

The International Corporate Governance Network

(ICGN) was founded with the objective to facilitate international dialogue and thereby helping companies to compete more effectively. The ICGN welcomed the OECD Principles as a remarkable convergence on corporate governance common ground among diverse interests, practices and cultures. While the ICGN considered the OECD Principles the necessary bedrock of good corporate governance, it held that amplifications were required to give them sufficient force.

*The European Corporate Governance Institute (ECGI) (2002)*

The European Corporate Governance Institute (ECGI) was founded in 2002. It has been established to improve corporate governance through fostering independent scientific research and related activities. ECGI is founded on the ground that corporate governance is the basis of accountability in companies, institutions and enterprises, balancing corporate economic and social goals on the one hand with community and individual aspirations on the other. A proper governance framework is of fundamental importance in strengthening the performance of economies, in particular those in development and transition, and helping to discourage fraud and mismanagement.

The ECGI produces high quality independent scientific research while remaining close to the concerns and interests of corporate, financial and public policy makers. It draws on the expertise of scholars from numerous countries and brings together a critical mass of expertise and interest to bear on this important subject. The ECGI intends to make a major contribution to the debate on the formulation of policy and development of best corporate governance practice, based on impartial and objective research and the collective expertise of its individual and institutional members.

*King Committee On Corporate Governance (2002)*

The King Report on Corporate Governance for South Africa (the "King Report 2002") has been developed as an initiative of the Institute of Directors in Southern Africa. It represents a revision and update of the King Report first published in 1994, in an attempt to keep standards of corporate governance in South Africa in step with those in the rest of the world. All companies listed on the Johannesburg Stock Exchange have to comply with the provisions of the Report.

*Higgs Report : Review of the role and effectiveness of non-executive directors (2003)*

In April 2002 the Secretary of State (UK), Patricia Hewitt, and the Chancellor, Gordon Brown, appointed

Derek Higgs to lead a short independent review of the role and effectiveness of non-executive directors. Derek Higgs published his report on 20th January 2003. The report reviewed the role and effectiveness of non-executive directors in the UK. The report includes: guidance for non-executive directors, guidance for chairmen and a proposal for a revised combined code. The Government warmly welcomed the recommendations of the Higgs Review.

*ASX Corporate Governance Council Report (2003)*

On 15 August 2002, the ASX Corporate Governance Council was formed in Australia with the objective of developing and delivering an industry-wide, supportable and supported framework for corporate governance. In March 2003, the ASX Corporate Governance Council released "Principles of Good Corporate Governance and Best Practice Recommendations". Compliance with the recommendations was not mandatory, except for the recommendations dealing with Audit Committees, but from 2004 listed entities are required to report in their annual report on whether they have complied during the year the subject of the report, or if not, the reasons for that.

*The Combined Code on Corporate Governance (2003)*

This UK based code supersedes and replaces the Combined Code issued by the Hampel Committee on Corporate Governance in June 1998. It is derived from a review of the role and effectiveness of non-executive directors by Derek Higgs and a review of audit committees by a group led by Sir Robert Smith.

## **CORPORATE GOVERNANCE - DEVELOPMENTS IN INDIA**

In India, a small beginning was made by the Confederation of Indian Industry (CII) in the field of good corporate governance which is explained below. Thereafter, various committees have been constituted to give recommendations in this regard viz.. Kumar Manglam Birla Committee, Naresh Chandra Committee, Narayana Murthy Committee etc. All these efforts focused the attention of the Indian corporate sector, on the imperative need to evolve new norms of governance to sustain and develop Indian industries on healthy lines and to constitute the corporate boards in such a manner that they manage the affairs of the corporate body with better accountability to shareholders and achieve transparency of operations with disclosure of both financial and non-financial data through annual and other periodical reports.

### *Confederation of Indian Industry (CII)*

In 1996, CII took a special initiative on Corporate Governance, the theme of such initiative was to develop and promote a code for Corporate Governance to be adopted and followed by Indian Companies, be it in the Private Sector or Public Sector, Banks or Financial Institutions, all of which are corporate entities. A National Task Force was set up with Mr. Rahul Bajaj, as the Chairman and including members from industry, the legal profession, media and academia. This Task Force presented the draft guidelines and Code for Corporate Governance in April 1997 at the National Conference and Annual session of CII. After reviewing the various suggestions and the developments which have taken place in India and abroad, the Task Force finalized the Desirable Corporate Governance Code.

### *Kumar Manglam Birla Committee*

The SEBI appointed a Committee on Corporate Governance on May 7, 1999 under the chairmanship of Shri Kumar Manglam Birla, to promote and raise the standards of corporate governance mainly from the perspective of the investors and shareholders and to prepare a code to suit the Indian corporate environment. Such committee submitted its interim & final report in 1999/2000. The Committee made a number of recommendations towards corporate governance which include constitution of audit committee, composition of Board of Directors, role of independent directors, & remuneration standard and financial reporting etc. On the basis of such recommendations clause 49 (pre-amended) of the listing agreement was issued by the SEBI.

Such clause dealt with a number of aspects, such as, constitution of Board of listed companies comprising executive, non-executive and independent directors, code of conduct for such Board of directors, constitution of audit committee, meetings of audit committee, powers and role of audit committee. Clause 49 of listing agreement also deals with unlisted subsidiary companies of holding companies and its management. Certain types of disclosures of corporate affairs, remuneration of directors, management discussion and analysis report, information to shareholders, CEO/CFO certification, report on corporate governance in annual reports of listed companies, compliance certificate etc.

### *Naresh Chandra Committee*

The next development is constitution of a committee by 'Department of Company Affairs' (DCA), headed by Shri Naresh Chandra, called 'Naresh Chandra

Committee' on August 21, 2002, to examine various issues of corporate governance relating to statutory auditor- company relationship, rotation of statutory audit firm or partners, appointment of auditors and determination of audit fees, independence of auditing functions, certification of accounts and financial statements by management and directors role of independent directors etc. Many recommendations of the report were incorporated in the Companies (Amendment) Bill 2003, which is currently being reviewed.

### *Narayana Murthy Committee*

Thereafter, 'SEBI' constituted another committee called 'Narayana Murthy Committee' under the Chairmanship of N.R. Narayana Murthy comprising 23 persons, which included representatives from the stock exchanges, Chamber of Commerce, industry, investor associations and Professional bodies, for reviewing implementation of the corporate governance code by listed companies. Many of the recommendations made by such committee has been included in the revised Clause 49 of the Listing Agreement. The Narayana Murthy Committee attempted to promulgate an effective approach for successful corporate governance. The Committee submitted its final report on February 8, 2003.

The Committee observed :

"Corporate governance is beyond the realm of law. It stems from the culture and mindset of management, and cannot be regulated by legislation alone. Corporate governance deals with conducting the affairs of a company such that there is fairness to all stakeholders and that its actions benefit the greatest number of stakeholders. It is about openness, integrity and accountability. What legislation can and should do, is to lay down a common framework- the " form" to ensure standards. The 'substance' will ultimately determine the credibility and integrity of the process. Substance is linked to the mindset and ethical standards of management."

## **MINISTRY OF COMPANY AFFAIRS**

The Ministry of Company Affairs has also amended Companies Act at short intervals for bringing improvements in the corporations' functioning. Various provisions concerning corporate governance has been inserted in the Companies Act, 1956 through Companies (Amendment) Act, 2000, which came into force w.e.f. 13/12/2000. The Amending Act of 2000, increased

the duties and responsibilities of the directors in the companies as a step to improve the corporate governance. Subsequent to the passing of the Companies (Amendment) Act, 2000, Companies (Amendment) Act, 2002 and Companies (Second Amendment) Act, 2002 were passed. These Acts too have dealt with some aspects of corporate governance.

Companies (Amendment) Act, 2000, brought the emerging concepts of the audit committee and its role (sec.292A), 'Directors Responsibility Statement' in the directors report [sec217(2AA)], limitations in directorships in companies (Sec 274 & Sec 275), small shareholders to get representation through a director (Sec.252), additional disqualifications for directors, introduction of postal ballot for transacting certain items of business in the general meeting and providing for higher penalties (tenfold increase) for offences provided in various sections of the Companies act, 1956 etc.

### **THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)**

SEBI vide its circular no. SEBI/CFD/DIL/CG/1/2004/12/10, Dated October 28, 2004 has revised the existing clause 49, related to corporate governance. The above circular has also amended many of the exiting provisions of Clause 49 of the listing agreement and has introduced a number of new requirements. The major changes in the new clause 49 include amendments/additions to provisions relating to definition of independent directors, strengthening the responsibilities of audit committees, improving quality of financial disclosures, including those related to related party transactions and proceeds from public/rights/preferential issues, requiring Boards to adopt formal code of conduct and requiring CEO/CFO certification of financial statements, etc. Such a step, if properly implemented, will go a long way towards ensuring good governance practices in Indian Corporate Sector.

The implementation of the new Clause 49 covers the following entities:

- (1) All entities seeking listing for the first time, at the time of seeking in principle approval for such listing.
- (2) All companies which were required to comply with the erstwhile Clause 49 i.e. all listed companies having a paid-up share capital of Rs.3 crores & above or net worth of Rs.25 crores or more at any time in the history of the company.

The amended clause was directed to be complied with by all the listed companies, by 1st April, 2005.

However, pursuant to the fact that a large number of companies were not in the state of preparedness to fully comply with the requirements of the amended clause 49 of the listing agreement, the SEBI, by another circular no. SEBI/CFD/DIL/CG/1/2005/29 dated 29th March, 2005 extended the date for ensuring compliance with the amended clause 49 upto 31st December, 2005. So, now the revised clause 49 of the Listing Agreement is to be complied w.e.f. December 31, 2005. However, the circular dated 29/3/2005 only implies that SEBI will not take any punitive action against the companies if they are not able to comply with the amended Clause 49. Conversely, those companies which wish to comply with the amended Clause 49 can do so by the date mentioned therein.

### **THE INSTITUTE OF COMPANY SECRETARIES OF INDIA (ICSI)**

The vision of ICSI is to be a global leader in development of professionals specializing in Corporate Governance. For promoting good corporate governance the mission of ICSI is to continuously develop high caliber professional ensuring good corporate governance and effective management and to carry out proactive research and development activities for protection of interest of all stakeholders thus contributing to public good. ICSI defines Corporate Governance as, " the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility, for sustainable development of all stakeholders" .

The ICSI conducts various programs throughout India covering several topics like corporate governance, company law, secretarial audit and compliances, securities laws and capital markets, financial markets etc, for development of corporate governance practices in Indian Corporate Sector. To achieve excellence in various secretarial practices for good corporate governance ICSI has issued following Secretarial standards :

- SS-1 Secretarial Standard on Meetings of the Board of Directors
- SS-2 Secretarial Standard on General Meetings
- SS-3 Secretarial Standard on Dividends

Further, to guide its members and others to comply with the Secretarial Standards and other regulations, ICSI has issued Guidance Notes on the following topics:

- Meetings of the Board of Directors
- General Meetings
- Passing of resolution by Postal ballot

- Dividend
- Buy Back of securities
- Board's Report

The Institute regularly brings out Publications covering various aspects of Company Law and role of Company Secretary. The institute has also taken initiatives to awaken Indian Corporate Sector in Corporate Governance. For this purpose, the Institute since 2001, is conferring 'ICSI National Award for Excellence in Corporate Governance' annually to the participating companies in order to promote corporate governance culture in Indian corporate sector.

### **THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA (ICAI)**

In the developed nations, high quality accounting standards reduce uncertainty and increase overall efficiency and investor confidence. The Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI) serve this objective. The ICAI has issued 29 Accounting Standards covering, *inter alia*, disclosure of accounting policies, valuation of inventories, amalgamation, interim financial reporting, financial reporting of interest in joint venture, related party disclosures etc. Such accounting standards are based on the generally accepted accounting assumptions of going concern, consistency and accrual basis.

### **NATIONAL FOUNDATION FOR CORPORATE GOVERNANCE**

Recently, the Ministry of Company Affairs has decided to have an umbrella agency of corporate governance which will set non-binding standards in line with the principles developed by the Organization for Economic Co-operation and Development (OECD). This is to advocate the 'spirit' of governance to the industry, which sometime gets lost as companies follow the market regulator's norms by the letter.

To achieve this objective, The National Foundation for Corporate Governance (NFCG) has been set up by the Ministry of Company Affairs, Government of India, in partnership with Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI) with the goal of promoting good corporate governance practices in India. NFCG will act as a nodal agency and will initially evolve corporate governance principles in three areas — institutional investors, independent directors and auditing. The government is now also working on setting up national centers for corporate governance at various Indian Institutes of Management.

The NFCG has constituted for achieving the following objectives :

- Creating awareness on the importance of implementing good corporate governance practices both at the level of individual corporations and for the economy as a whole. The foundation would provide a platform for quality discussions and debates amongst academicians, policy makers, professionals and corporate leaders through workshops, conferences, meetings and seminars.
- Encouraging research capability in the area of corporate governance in the country and providing key inputs for developing laws and regulations which meet the twin objectives of maximizing wealth creation and fair distribution of this wealth.
- Working with the regulatory authorities at multiple levels to improve implementation and enforcement of various laws related to corporate governance.
- In close coordination with the private sector, work to instill a commitment to corporate governance reforms and facilitate the development of a corporate governance culture.
- Cultivating international linkages and maintaining the evolution towards convergence with international standards and practices for accounting, audit and non-financial disclosure.
- Setting up of "National Centers for Corporate Governance" across the country, which would provide quality training to Directors and aim to have global recognition and acceptance.

NFCG is committed to creating awareness about the importance of implementing good corporate governance practices both at the level of individual corporations and for the economy as a whole. It organizes workshops, conferences, meeting and seminars to discuss and disseminate information about the best practices in the area of corporate governance. The foundation would provide a platform for quality discussions and debates amongst academicians, policy makers, professionals and corporate leaders, both from India as well as abroad. The Foundation organizes these programmes on its own as well as in collaboration with its partners.

### **CONCLUSION AND FUTURE OUTLOOK**

Good Corporate Governance is truly the need of the hour. The objective of corporate governance is not

only to protect but also to enhance shareholder value, keeping in view the interest of other stakeholders. It is rightly said that corporate governance is a philosophy which touches every facet of the functioning of a corporate and its stakeholders. It is not an end in itself but a means to practice and bring about corporate democracy at all levels of the corporate entity.

Given this, corporate governance is now being increasingly recognized as an important aspect of sustainable economic growth. Strong corporate governance is critical for promoting growth, improving access to low-cost capital, ensuring appropriate risk management, and increasing overall productivity and competitiveness of the economy. In a world of highly integrated capital markets, it becomes imperative for individual countries to take constant initiatives in this regard and benchmark their corporate governance practices to the best corporate governance practices. Global best practices because of their characteristics like, adequate disclosures, focused approach, compliance with the laws etc, become sine qua non in the corporates for healthy growth of capital markets. Such practices increases the confidence levels of investors and in turn help corporates to access capital markets for their financial needs.

The Indian economy is going through a major transformation – second phase of liberalization of the domestic economy as well as its globalization. On one hand these reforms have given freedom to management while on the other hand also put greater responsibilities on them. The present scenario demands serious and continuous strive towards “Excellence in Corporate Governance” by constantly improving and adopting business ethics at all levels.

According to Mr. Vinod Dhall, Former Secretary, Department of Company Affairs, Ministry of Finance-

“The importance of maintaining high ethical standards by the corporate sector for ensuring its long term sustainable growth has been universally accepted. It is now a fact that a majority of investors factor in corporate governance when making investment decisions. This is a powerful argument for companies to seek excellence in corporate governance. It is in this context that the development of best practices of corporate governance and rating of companies is increasingly becoming very relevant”.

Reviewing the progress made so far in India, many things have been done which have contributed in promoting the good corporate governance practices in

Indian Corporate Sector, such as, various rules and regulations have been incorporated in the laws and statutes related to the corporate sector, several seminars, conferences and meetings are also conducted on such topics by various forums and various articles have been written and published in this connection. But these are all efforts towards preaching the benefits of corporate governance. When it comes to implementing the rules in practice, it is observed that such rules and regulations have remained on papers only and many companies are just following such rules in a very formal way. The need of the hour is to take some confidence building measures unilaterally to demonstrate that corporate governance is being followed in spirit and does not need regular impetus through legislations. These measures should aim to improve investor confidence, display courtesy, motivate devotion towards work and organization, encourage team work with absence of self ego, and various other such traits.

In this connection it has been rightly said by Mr. G.N. Bajpai, Former Chairman, Securities & Exchange Board of India, that “Corporate Governance represents the moral framework, the ethical framework and the value framework under which an enterprise takes decisions. Therefore, it is necessary that the companies are not judged merely on the form part of corporate governance but also on the substance part of corporate governance. Corporates are required to be assessed on the basis of their ability of wealth creation, wealth management and wealth sharing”.

To make the mission of corporate governance meaningful the Board of Directors is desired to adopt a radical change in their perceptions. Company Directors in their new role as Corporate governors have to raise themselves above the personal urge and aptitude. They have to promote co-ordinations among various components of the organization for the long term survival, growth and prosperity of such organization. It has been rightly said that unless an atmosphere is generated to make the governing team enthusiastic and make them aspire for excellence, merely trying to ensure efficient corporate governance by amending the Companies Act or enacting clauses like Clause 49, revising and re-revising it are all going to be hallow and ineffective exercise.

To sum up, the progress made so far, it can be concluded that the corporate sector has reacted in a positive and pro-active manner to the new norms of governance. However, Indian companies’ pursuit towards achieving good governance is an on going



process, which demands continuous adoption of best practices for ensuring truth, transparency, accountability and responsibility in all the dealings with the employees, shareholders, consumers and the community at large. The philosophy of various Indian Companies on Corporate Governance is built on a rich legacy of fair

and transparent governance and disclosure practices. At the highest level, the companies should continuously endeavor to improve upon these aspects on an ongoing basis and adopt innovative approaches for leveraging resources, converting opportunities into achievements through proper empowerment and motivation.