

# CORPORATE GOVERNANCE ENUMERATION OF CONCEPTS, THEORIES AND REPORTS

## Abstract

Corporate Governance is about transparency and accountability, the openness, honesty and fairness in the management of an organization by its board in order to ensure sustainable efficiency and disclosure it is necessary to mandatorily follow the principles of Corporate Governance. To develop a strong base of CG rules, policies and norms, studying the backdrop and the evolution of CG in India is necessary. Various Countries have attempted to develop CG norms according to their business environment to create ethical way of conducting business. In the run of learning more about CG, the reports, theories, and models available are to be analyzed and understood to develop a strong CG of India. In this chapter enumerating the reports, theories, and models are considered to create strong base.

**Keywords:** Corporate Governance, Theories, Reports, Models

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## I. INTRODUCTION

Corporate governance is the structure that regulates and governs all operations of a corporation. Global prominence and attraction have evolved in the idea of corporate governance. It has become a way of pursuing organizational success and a driving force for improving efficiency, increasing stakeholders' resources and business values. The production and allocation of capital in different pockets influences corporate governance. <sup>(Fama and Jensen 1983)[1]</sup>

The concept of corporate governance (CG) describes its function and duties and privileges in the sense of the organization. It stresses the openness, honesty and fairness in the management of an organization by its board in order to ensure sustainable efficiency and disclosure. Three primary corporate governance elements, including owners, the board and management, exist. Other players in corporate governance include staff, consumers, creditors, marketers, regulators and the general community <sup>[2]</sup>.

Corporate governance is described as maintaining a balance between economic and social interests and between person and community goals in the words of the President of the Cadbury Committee (1992) <sup>[3]</sup>. To facilitate effective use of resources and ensure transparency in the management of the available resources, the governance structure is required. The primary goal of corporate governance is to balance as closely as possible the interests of individuals, businesses and communities. Corporate governance benefits are available. Companies are allowed to raise investment. States are urged to improve their economies and to stop bribery and maladministration in the economy. It is characterized by the World Bank from two separate viewpoints (2009). The focus is focused on a corporate partnership with shareholders, directors, boards and other stakeholders. In this respect, corporate governance is of major concern for the Board of Directors and their capacity to reach long-term and durable values by managing those priorities. With a public policy viewpoint, corporate governance refers to the creation of rules for the sustainability, development and growth of the business and also promotes it to minimize the difference between private and social concerns.

CG is about the theory and ethical practice of companies. The organization and the operational, its history, strategy and how the group manages the various parties involved are related to the administration of the company <sup>(Band.R, 1981) [4]</sup>. The most critical facets of corporate governance are to provide reports about the financial performance, ownership and governance of the organization promptly and specifically. It raises the knowledge of the organization, practices and policies of the organization. This allows the organization to draw customers around the globe and to raise the interest and trust of stakeholders <sup>(Ruigrok et al., 2006) [5]</sup>.

## II. BACKGROUND

The legalization as well as privatization and comprehensive financial liberalization of India and its associated innovations have made India's successful corporate governance extremely significant. Cases of fraud and abuse will make capital market reform unproductive. Therefore, impartial and successful corporate governance changes are important to preserve the integrity of the financial market and promote investment flows to businesses. A number of different institutions, for example the India Protection and Exchange

Board (SEBI) and the Minister of Corporate Affairs, the Government of India have been involved in the various reforms the important roles of India (MCA) <sup>(Patibandla, M, 2006)</sup>

### III. KEY COMPONENTS OF CG

#### 1. CG Administration and Management

- Generally, however there is a philosophical distinction between the two terms management and leadership are used interchangeably. The following points to be notes in administration and Management of CG.
- The basic distinction lies in the focus of activities: the management is political and the management is task-oriented. The administration deals with the implementation of activities in order to accomplish pre-defined priorities and goals.
- The emphasis of governance is wider than administration, as it encompasses policy structuring and promoting accountability and disclosure.
- Control concentrates on organizational control, management and oversight of the administrative personnel and managers' actions and ensuring that they are accountable for the effective application of predetermined policies.
- Government relies on the external responsibility of promoters and administrators, including those concerned. The external responsibility rests in those involved.
- There is a common thread which establishes irrefutable ties between the two, although they are distinctive in their concepts.
- It should be remembered <sup>(Dalton.D.R. et al., 1998)</sup> that better governance leads to better management <sup>[6]</sup>.

#### 2. Importance in corporate governance: It is important to refer to the following lines in order to illustrate the importance of corporate governance:

Major institutional investors would pay a premium of up to 40 percent in firms with superior corporate governance policies <sup>(Mc Kinsey, 2002)</sup>. It is understood that if a country does not have a reputation for good corporate governance it is going to flow elsewhere.

If investors are not secure in the amount of publication, the money would flow elsewhere. If a country chooses loose accounting and reporting practices, money transfers to other nations.

All companies in this country are influenced by the consequences, irrespective of how consistent a single company's activity is. It is the duty of today's more influential investors to determine which companies and businesses are going to have time tests and carry the pressure of more competition <sup>(Pearce.J.A et al., 1992) [9]</sup>.

#### 3. Corporate Governance Committees in India: Since the 1990s, several committees to overhaul the governance of corporations in India have been set up on several occasions. These committees' recommendations are outlined in the following form ([www.mca.gov.in](http://www.mca.gov.in)) [11].

- The Confederation of Indian Industries (CII) set up a task force in 1995 under the leadership of Mr. Rahul Bajaj, a renowned industrialist. It is relevant that in 1998 the

CII published the code, called Beneficial Corporate Governance. It looked at many facets of corporate administration and first attacked candidate managers and proposed diluting interest of government in Indian corporations.

- Under the President of Mr. Koramangalam Birla Commission was set up by SEBI. The committee dealt with aspects of protection of investors' rights, encouraging transparency and setting international requirements for dissemination of information.
- The Corporation Act of 1956 has been amended by the Company Relations Department (DCA). The revised Legislation recommends an annual overhaul in order to allow changes to the Companies Act. In 1999 the Act established provisions concerning the nomination of shareholder facilities and equity acquisitions, as well as the creation of an educational and investor security fund.
- The Department of Corporate Affairs formed a committee called the Naresh Chandra Committee in 2002. The committee addressed numerous aspects, including the arrangement between statutory auditors and businesses, the rotation of statutory auditing firms and partners, the process for nominating auditors, the setting of audit fees and a correct and equitable financial statement of the business.
- In 2002, SEBI formed a committee called the Narayan Murthy Committee. Its report concentrated largely on the audit committee and made obligatory recommendations in the annual reports of the organization (in relation to audit committee responsibilities, quality of financial disclosure, requiring boards to evaluate and disclose business risks).
- (Second) Naresh Chandra committee's report on the reforms to independent and Non-Executive Director's criminal provision (2003): the Naresh Chandra committee recommended, in its second report addressed to government in 2003, drastic amendments to Naresh Chandra committee's criminal provisions.
- Act on corporations. Act on companies. The Committee proposed exemption to, and exemption from, civil and criminal responsibility for independent and non-executive directors.
- On 2 December 2004, under the presidency of Dr. Jirani, the Ministry of India set up an Expert Committee to review the inputs and suggestions obtained in the concept document and provide the government with guidelines for simplifying modern company law. The Committee addressed the Government with its report on 31 May 2005.

#### 4. Corporate Act Amendments

- Bill of Corporations 2009 was introduced by the Indian Parliament ([www.mca.gov.in](http://www.mca.gov.in)). The Companies Bill's regulations apply to the Auditor and Audit Committee's eligibility, jurisdiction and duties, the appointment and training of the board of directors of the company, the independent directors and the Board of Trustees.
- Businesses Bill 2012 and some more recent developments: The Indian market world encountered a comprehensive shock in January 2009, with harmful disclosures of the financial practices of Satyam regarding board incompetence and widespread theft. Satyam Controversy played a catalytic role for Indian government and for all interested in re-examining, revitalizing and reforming corporate governance structures. Many corporate changes have been promoted to fix some of the vulnerabilities found in the Satyam Controversy by regulators, business associations

and other impacted societies. The Corporate Governance Policy Task Force of the CII launched proposals at the end of 2009.

- A variety of corporate governance guidelines have also been made by the Institution of Corporate Secretaries of India (ICSI). In September 2009, the SEBI Committee on Divulcation and Accounting Principles released a resolution covering the following recommendations. Appointment to the Chief Financial Officer's Audit Committee, after a detailed review of the candidate's skills, credentials and history. Audit partner rotation every five years
- Follow are the international financial reporting quality Standards Half-year interim monitoring of balance sheets. Simplify the time limits for filing separate financial records by classified organizations required by the Listing Agreement.
- SEBI updated the Listing Agreement in 2010, adding clauses on the election of the Chief Financial Officer to the Audit Committee and other issues related to financial disclosure. For the first time, the notion of independent directors is included in the bill. Each listed public company shall have at least a third of the total number of independent managers and the Central Government can recommend the least amount of independent managers for all levels or classes of public corporations.

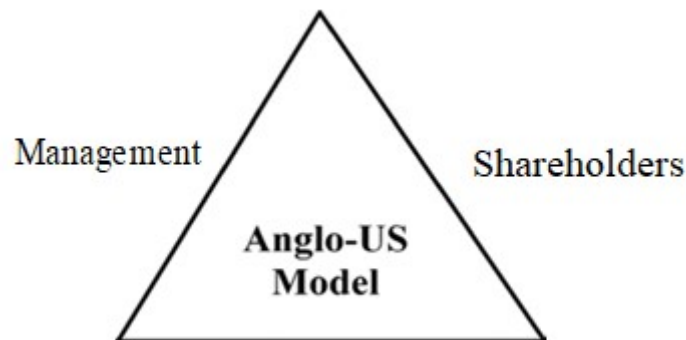
#### IV. VARIOUS CORPORATE GOVERNANCE MODELS

Below are briefly discussed the popular models of corporate governance, followed by multinational corporations (Jeswald W. Salacuse, 2002)<sup>13</sup>.

- Model Unitary boards, Anglo-American
- German model: Two-tier model board Model
- Model Japanese: business network model

It is important to remember that India has adopted the unitary board model, as practiced by the United Kingdom.

- **British: Unitary Board Model:** The Anglo-American model is primarily represented by private equity and increasingly non-affiliated institutional investors (known as outside shareholders or outsiders). A well-developed legal structure (Mihaela Ungureanu, 2012)<sup>14</sup> has been used to describe the rights and obligations of three main players - the board, administrators and shareholders.
- **The British Main Players Model:** The Anglo-US model involves management, administrators, shareholders (particularly institutional investors), government departments, stock exchanges, self-government organisations and consultants. But the three key actors are the board, administrators and owners. The goals and relationships of these actors are as follow (Figure-1.1) they are a "corporate governance triangle." Interest and Interaction of Key Players



**Figure 1: Board of Directors**

It should be remembered that the Anglo-US model has been established which assumes the ownership-control segregation of the majority of publicly owned firms in the sense of the free market system. The essential legal differentiation serves a valuable market and social function. The owners supply capital and maintain their property while, in general, escaping legal responsibility for the actions of the firm. Investors escape legal obligation by relinquishing ownership of the Company's management and the paying management to serve as their representative in the company's sector. The cost of such division of ownership and control is defined as Agency Costs (Simon Deakin et al.,<sup>2005</sup>)[15].

**1. Model: Two-Tier Model Board German Model:** The German model has three singular features that make it distinct from the other ones. Two of these components concern: a) the board's structure and b) shareholders' interests. Firstly, the German model prescribes two boards with different members. Consequently, the composition of the German firms is two-tiered, consisting of a board of directors (which is entirely composed of insiders, that is, company directors) and a supervisory board (which consists of workers' representatives).

And shareholders' representatives). Both Boards are fully independent and none of them are eligible to function concurrently on the management and supervisory boards of an organization. Secondly, the Supervisory Board's size is constitutionally defined and cannot be adjusted by shareholders. Third, the limits of voting rights, irrespective of the shareholder's status (Mishra.C et al., 2001), could be applicable to the shareholder to vote for a certain proportion of the company's overall equity capital. [16].

Main players for German Model: Corporations are also shareholders in Germany, often owning long-term stakes in other companies, but between these two companies there is no industrial or commercial association. This is a little similar but not parallel to the Japanese style. This is also different from the Anglo-American paradigm, in which no banks or firms are the main financial owners. In comparison, the German model is distinct from both Anglo-US and Japanese models, leading to obligatory incorporation into the broader German supervisory boards with labour/employee members.

**2. Model Japanese: Business Network Model:** A large number of associated banks and stock holding of firms is defined by the Japanese model. The banking system is distinguished by solid, long-term ties between the bank and the business. The regulatory,

industrial and public policy system has been developed to foster and endorse 'keiretsu' (industrial groups linked by trading relationships as well as cross-shareholdings of debt and equity). The boards consist almost entirely of insiders to a very limited extent of external feedback (in some firms, non-existent). Trigger and worsen by complicated voting processes by shareholders (Franklin Allen, 2007) [17]. Shareholder votes by shareholders.

**Main Players in Japan:** The Japanese corporate governance system, based on a major bank and a network or keiretsu of finance and industry, is multiparty. The banking system and the keiretsu are two separate but super positive components of the Japanese model. Virtually all Japanese businesses have strong links with a leading bank.

The Japanese bank offers bond issues, equity issues, arbitration accounts and associated advisory services to its company clients with loans as well as services. The key bank is normally a major shareholder in the business. In US laws against monopolies the provision of a single bank for this range of services (Noel Gaston, 2003)[18] forbids. These services are usually operated by a number of institutions: corporate banking - lending; investment banks - stock issues; advisory services - voting proxies and other services. Many Japanese businesses have close financial ties with a network of affiliates. The networks are known as keiretsu distinguished by cross-sections of debt and equity, trading in products and services and informal market relations. Government-led industrial policy also plays an important role in Japanese governance (Selarka and Ekta, 2005)[19].

## V. INTERNAL GOVERNANCE

Control structures are open, including the board, the participation of major owners, the financial framework, and the bundles of executive pay. The following are noted.

**1. Directors' Council:** Management powers are passed into the Management Board of a corporation containing all managers chosen for their interests by shareholders. Such a company's board of managers has broad managerial powers, exercise its power and jurisdiction to carry out the actions necessary to promote the interests of the organization and its owners under certain limitations enforced by public authorities (Roe, 2004)<sup>21</sup>. The Board of Directors of a corporation is empowered to exercise certain control to carry out all the operations and things to which it is entitled. Which ensures that the Board of Directors has the powers of the company under two terms, as set out below.

- No action is to be taken out by the Organization at the Annual General Meeting of the AGM and at the Annual General Meetings of the AGM and
- (ii) According to the provisions of the Federal Acts regulating corporations, or any code of practice made at any meeting of the General Body, the Board of Directors shall exercise its competence.

The idea that the board directors are shareholder stewards, and that all owners should behave in their interest (Cadbury, 1992) is widely agreed when conducting such functions [22]

**2. Presence of Major Shareholders:** The management position of the major shareholders

in controlling and disciplining management is becoming important in companies with scattered shareholdings because it alleviates the problem of free retention in monitoring. As monitoring returns are higher because of higher stakes in ownership, concentrated stakes in ownership provide incentives for monitoring. It should be remembered that major shareholders could be individuals, corporations and institutional shareholders, for example banks, mutual funds, insurance companies, and common funds. The shareholders will monitor management using a combination of two mechanisms: a) the market-oriented exit mechanism and (b) an outside-market electoral system. Instead, these shareholders should use their power to express their opinion about management and advocate for reform without exercising the exit option (Hirschman, 1970)<sup>23</sup>.

3. **Financial Arrangement:** The ownership structure, especially the role of major shareholders, has consequences for the efficiency of management as regards the company's financial structure, i.e. its debt-to-equity ratio and its ownership structure. The burden of the Agency's loans is largely attributed to interest disputes between lenders and debt holders. As regards the issue of "asset replacement," and the problem of "underinvestment," those disputes are primarily evident (Watson and Ezzamel, 2005)<sup>[24]</sup>. The problem of asset replacement is known as the risk shift issue, whereby shareholders have incentives to overinvest to maximize their return, commit themselves to even higher amounts of debt, and pursue riskier projects after conclusion of a debt contract than those that had been demanded at the time of debt contracts. Corporate finance and governance consider corporate finance and administration in general. Debt is an important method of solving agency issues in organizations marked by division of ownership and management (Myers 1977)<sup>[25]</sup>.
4. **Executive Pay Packages:** The Board of Directors and the major shareholders in their respective supervisory positions prioritize the disciplinary function of the management process. The Executive Pay Plan provides an accountability system aimed at aligning the needs of management and shareholders. The harmonization is accomplished by matching management compensation with an observed and verifiable success metric, which is closely linked to the consistency of management decisions. The success of the company is calculated either on the basis of accounts such as contingent elements of the pay plan connected to the company's earnings or market value compensation in the form of equity shares, executive stock awards or share price based incentives (Jensen and Meckling 1976) <sup>[26]</sup>.

## VI. FOREIGN MECHANISMS

Foreign governance frameworks include

- the business sector and monitor
- Commodity industry rivalry.
- Market for Corporate Control

In the event a group of dissident shareholder can participate in proxy action by offering the board of director's alternative candidates or by persuading other shareholders to act in alliance with them and delete current members of the board, if the Board of directors is not deemed to satisfy their fiduciary duties to shareholders' satisfaction. The challenge of proxy wars is that funding and a fragmented shareholder base (Allen and Gale, 2000) are



difficult to rally and address the free rider problem [27].

In the expectation of an improved value, the rewards of the existing owners to release the raider by keeping their shares should be effective.

The lack of a liquid stock market to give bidders access to vast capital volumes in order to satisfy the takeover offer. Integrating management and employing multiple anti-acquisition tactics, such as poison pills, the stalled election of managers and dual-class recapitalization, and administrative lobbying government interference to avoid brutal take-overs from taking regulatory and regulation steps (Shleifer, Vishny, 1997)[28].

**1. Product Industry Rivalry:** Mechanisms of government, such as the corporate control market, executive pay deals and large-scale shareholder advocacy, have their own setbacks. Dynamic product competitiveness is required for business productivity. The corporate governance system is intended to ensure that such expropriations (Alchi, 1950) are regulated [29] by means of a combination of oversight and supervision. In these situations, governance is important to the recovery of slackness. A suitable governance framework will ensure that managers do not expropriate benefit at the detriment of shareholders. Lastly, while commodity and market factor rivalry can be the most effective factors for economic efficiency, they may be sluggish to serve as a testing force for economic efficiency (Jensen, et al., 1983)[30].

The characteristics of good government. The main principles of good governance are presented below.

- Strong Board Practice
  - Effective work on the board is like this.
  - Roles and officials specifically identified
  - Tasks and duties of well-established directors
  - The board is well managed.
  - Composition and combination of skills of the Board
  - Proper procedures of the board
  - Compensation of management according to best practice
- 2. Assessment and preparation of the board carried out Control of the surrounding industry, the main elements of the control system are as follows.**
- Establish the Committee for Independent Audit
  - Present system in risk assessment
  - External inspections protocols
  - Interior audit feature
  - Conduct an external independent audit
  - Information control system set up
  - Establishing a transparent disclosure function The transparent disclosure elements are described below.
  - Non-financial details
- 3. IFRS financials Preparation of high quality Annual Reports Disclosures focused on**

shareholders' rights defined well the well-defined rights of shareholders is listed below. Minority shareholders' rights are formalized The General Assembly is well structured. Policy on associated parties outstanding transaction agreement Transparent and explicit dividend policy.

#### 4. Board Involvement

- Major commitments of the Board are the following.
- The Board deals with corporate governance concerns and creates an Enterprise Strategy Committee.
- The organization could have corporate governance champion
- Implementation of a corporate governance reform plan
- Adequate funds shall be deposited in
- Formalizing and delivery of company practices and processes to suited workers
- Code of Corporate Governance growth
- The company is publicly regarded as a corporate governance pioneer.

#### 5. Theoretical Outlook For Corporate Governance

- As seen below, six corporate governance hypotheses exist.
- The philosophy of stakeholder agency control
- Social contract philosophy in the validity theory of capital dependency
- Agency Philosophy

The managers may not agree that the agent behaves in the agency partnership against the best interests of the directors. In these conditions, administrators will create sufficient incentives to encourage officers to match their practices with the interests of managers, and the directors will incur higher surveillance costs to restrict agents' aberrant behaviors (Welch and Emma, 2003)[31].

- 6. Firm Performance:** One characteristic of contemporary businesses is the division of management and possession. The composition of publicly traded entities is generally large. Thus, both owners cannot be counted in to decide the company's activities. The alternative approach is in this case to nominate the board (managing board members) for the management of the firm. The partnership between owners and administrators, such as CEOs and other members of the board, is an organization's relationship in the listed business (Deegan 2004)<sup>32</sup>. Managers must thus coordinate their management practices with shareholders' interests because they are the shareholders' representatives. Under the philosophy of the agency, executives are not to be trusted and may be identified as self-interested persons who run the company instead of customers in their own interests. Should the interest of management be distinct from investors, the costs of conflict of interest must be paid by shareholders. Benefit disputes between shareholders and management lead to a loss of faith in managers among shareholders. The added operations reporting expense (Ehikioya, B.I, 2009)<sup>33</sup> is also payable by owners. The Agency model suggests that people have access to detailed information.

## **VII. ELEMENTS OF GOOD CORPORATE GOVERNANCE**

The key elements of Good Corporate Governance are listed below.

### **1. Control Environment**

Elements of control environment are as follows.

- Establishment of independent audit committee
- Risk management framework present
- Internal control procedures
- Internal audit function
- Conduct of audit by independent external auditor
- Management information system established
- Compliance function established

### **2. Good Board Practices**

The practices of good board are as follows.

- Clearly defined roles and authorities
- Well defined duties and responsibilities of directors
- Board is well structured
- Appropriate composition of board and mix of skills
- Appropriate board procedures
- Director remuneration in line with the best practice
- Board self-evaluation and training conducted

### **3. Transparent Disclosures**

The elements of transparent disclosures are listed below.

- Disclosure of financial information
- Non-financial information
- Preparation of financials according to IFRS
- Publications of high quality annual report
- Web based disclosures

### **4. Well defined Shareholders Rights**

The well-defined rights of shareholders are listed below.

- Minority shareholder's rights are formalized
- Well organized general assembly
- Policy on related party transactions
- Policy on extraordinary transactions
- Clearly defined and explicit dividend policy

### **5. Board Commitment**

The following points are important commitments of the board.

- The board discusses corporate governance issues and creates corporate governance committee
- The company may have corporate governance champion
- Creation of a corporate governance improvement plan
- Appropriate resources are committed
- Formalized policies and procedures of the firm and distribution of the same to relevant staff

## VIII. THEORETICAL PERSPECTIVE OF CORPORATE GOVERNANCE

There are six theories relating to Corporate Governance as given below.

- Agency Theory
- Stewardship Theory
- Stakeholder Theory
- Resource Dependency Theory
- Social Contract Theory
- Legitimacy Theory

1. **Agency Theory:** In the agency relationship, the principals may not believe that the agent will act in the best interest of principals. Under this circumstance, the principals will establish appropriate incentive mechanisms to motivate agents to align their activities with the interests of principals and the principals will pay more monitoring cost to limit the aberrant activities of agents (Welch and Emma, 2003)<sup>31</sup>.

One feature of contemporary listed companies is the separation of control and ownership. Public listed companies typically have a wide spread ownership structure. Thus, it is impossible to call on all the shareholders to determine firm operation. In this case, the alternative solution is to appoint a board of directors (the executive members of a board of directors) to manage the company. In a listed company, their Relationship Between shareholders and executives, such as Chief Executive Officer (CEO) and other executive members of the board, is an agency relationship (Deegan, 2004)<sup>32</sup>. The executives must therefore align their managerial activities with the interests of the shareholders since they work as agents of the shareholders. Under the agency theory, the executives may be not trusted and they may be identified as self-interested people who manage the firm in their own interests rather than that of the shareholders.

If the Interest of executives differs from that of owners; the shareholders have to bear the cost of conflict of interest. The conflict so interest between shareholders and executives lead to the shareholders having little trust in the executives. Hence shareholders have to pay the extra cost of monitoring managerial activities (Ehikioya, B. I., 2009)<sup>33</sup>.

The agency model assumes that individuals have access to complete information and the investors possess significant knowledge of whether or not Governance activities confirm to their preferences and the board has knowledge of investors' preferences. Therefore, according to the view of the agency theorists, an efficient market is considered as a solution to mitigate the agency problem (Clarke, 2004)<sup>34</sup>.

The various governance mechanisms have been discussed by agency theorists in relation to protecting the interests of shareholder and minimizing agency costs. It is to be noted that the mechanisms that have received substantial attention, are the governance structures (Davis,etal.,1997)35.

2. **Stewardship Theory:** The Stewardship Theory presents a different model of management where the managers are considered as good stewards who will act in the best interest of the owners. The fundamentals of stewardship theory are based on social psychology which focuses on the behavior of executives of the firm. The steward's behavior is pro-organizational and collectivistic rather than individualistic self-serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization (DonaldsonandDavis,1991)36.

Stewardship Theory sees a strong relationship between managers and the success of the firm. Therefore, the stewards protect and maximize shareholder wealth through firm performance. When the position of the CEO and Chairman is held by the same person, the power to determine strategy is the responsibility of a single person. Thus, the focus of stewardship theory is on firms' structures that facilitate and empower rather than monitor and control.

3. **Stakeholder Theory:** A stakeholder is any group of individuals who can affect or be affected by the activities of the firm, in achieving the objectives of the firm (Freeman,1984)37. A similar view has been put forward by the World Business Council for Sustainable Development (1999). This theory identifies stakeholders as the representatives from labour organizations, academia, church, indigenous peoples, human rights groups, government and non-governmental organizations, shareholders, employees, customers/consumers, suppliers, communities and legislators.

According to Ans off, 196538, the objectives of the firm are achieved through balancing the conflicting interests of these various stakeholders. Therefore, a fundamental aspect of stakeholder theory is to identify the stakeholders to whom an organization is responsible. It is to be noted that any stakeholder is relevant if their investment is subject to risk from the activities of the organization (Clarkson,1995)39.

Corporate governance systems are in a state of transition due to internationalization of capital markets, resulting in convergence of the shareholder value-based approach to corporate governance and the stakeholder concept of corporate governance towards sustainable business systems. It can be seen that the stakeholder theory is an extension of the agency perspective where responsibility of the board of directors is increased from shareholders to other stakeholders' interests (Smallman,2004)40.

Therefore, an arrow focus on shareholders has undergone a change and it is expected to take in to account broader group of stakeholders covering interest groups linked to the social, environmental, ethical considerations (DonaldsonandPreston1995)41.

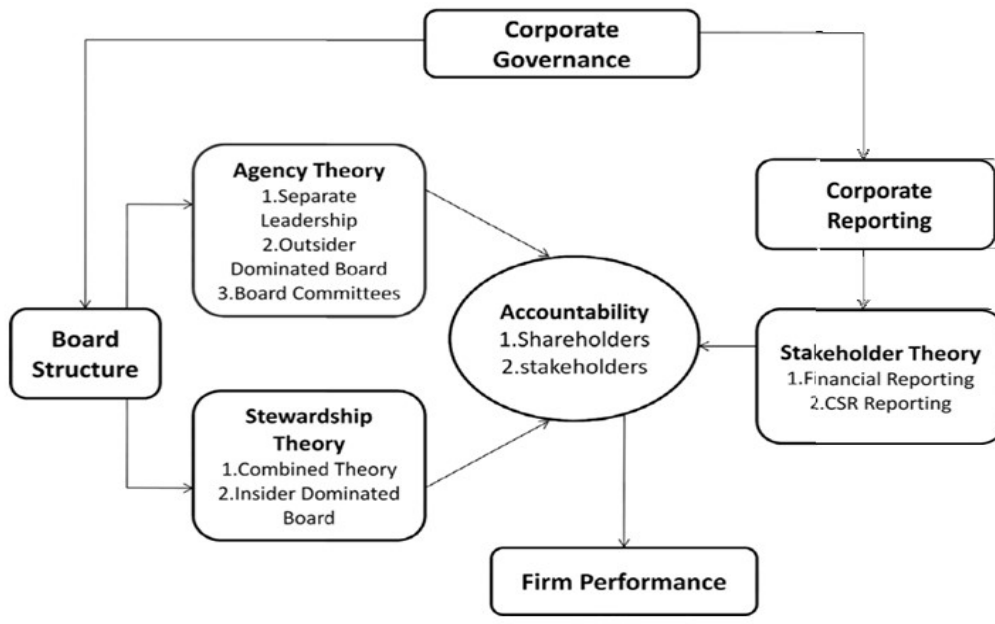
As a result, the stakeholder theory supports the implementation of CSR and endorses risk management policies to manage diverse interests.

- 4. Resource Dependency Theory:** Successful organizations possess internal structures that match environmental demand. The board size and composition is a rational organizational response to the conditions of the external environment. Furthermore, the directors may serve to connect the external resources with the firm to overcome uncertainty because coping effectively with uncertainty is essential for the survival of the company (Hillman, et al., 2000)<sup>42</sup>. According to the Resource Dependency Theory, directors bring the resources such as information, skills, key constituents (suppliers, buyers, decision makers of public policy and social groups) and legitimacy that will reduce uncertainty (Gales and Kesner, 1994)<sup>43</sup>. The potential result of linking the firm with external environmental factors and reducing uncertainty is the reduction of transaction cost associated with external linkage. This theory supports the appointment of directors to multiple boards because of their opportunities to gather information and network in various ways.
- 5. Social Contract Theory:** Social Contract Theory sees the society as a series of social contracts between members of society and society itself. There is a school of thought which sees social responsibility as a contractual obligation the firm owes to society. The integrated social contract theory was developed by (Donaldson and Dunfee, 1999)<sup>44</sup> as a way for managers to make ethical decision making. The former refers to the communities and the expectation of the business to provide support to the local community and the latter refers to a specific form of involvement. That investors decide whether or not they have access to full information.
- 6. Legitimacy Theory:** Another theory reviewed in corporate governance literature is legitimacy theory. It is defined as a generalized perception or assumption about the actions of an entity (Suchman, 1995)<sup>45</sup>. Similar to social contract theory, legitimacy theory is based upon the notion that there is a social contract between the society and an organization. A firm receives permission to operate from the society and it is ultimately accountable to the society for how it operates and what it does because society provides corporations the authority to own and use natural resources and to hire employees (Ramanathan, 1976)<sup>46</sup>.

Traditionally, the profit maximization was viewed as a measure of corporate performance. But according to the legitimacy theory, the profit is viewed as inclusive measure of firm. The emphasis of legitimacy theory is that an organization must consider the rights of the public at large and not merely the rights of the investors alone. The failure to comply with societal expectations may certainly result in sanctions being imposed in the form of restrictions on firm operations, resources and demand for its products (Deegan, 2004)<sup>47</sup>.

## IX. CONTEMPORARY CG PRACTICES

Figure 2 displays the theoretical perspective on corporate governance in India. The figure above clearly illustrates the liability of owners, the composition of the board and other governance hypotheses. It specifically describes the relationship between corporate governance and corporate efficiency. Quelle: (Healy P. and Palepu (K.G., 2001)<sup>48</sup>



**Figure 2:** Theoretical Perspective of Corporate Governance

### 1. Effectiveness of the Business

- Corporate governance is influenced by a diminished business worth
- Owners are expropriated and distributed by insiders.
- Enhanced cash flows Four different ways to value for industry

Maybe it was, listed in corporate finance as described below.

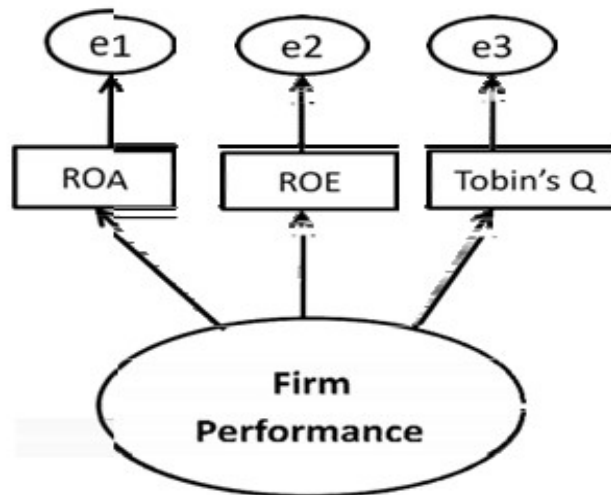
- Financial Reporting Strategy
- Financial structure strategy
- The strategy centered on capital
- The economic development strategy

The financial management strategy focuses on forecasting cash flows and spending levels before the effect of financing sources on the valuation of firms can be identified and measured. The approach to a capital structure means the effect on the valuation of the business of changes in the capital structure and how various influences positively or inversely influence the debt and equity portion of the corporate capital structure. The resource-based approach explains the company's worth as the product of the company's capital. The Sustainable Growth Strategy is a business efficiency, its expenditure and funding criteria, its finance sources and its financing and dividend strategies for sustainable development. Corporate wealth and optimizing corporate profit (Qureshi, 2007)49.

- ### 2. Measuring Business Efficiency:
- In order to assess the company's performance, it is important to define good performance components using performance metrics. To make the company's success meaningful, a performance measure should be observable, appropriate and important. It must also be relevant and the cost of accessing the information should not be greater than it's worth. The definition of firm success must be

distinguished from the wider framework of operational productivity. The performance produced a bright figure of three clustered overlaps reflecting the highest operational productivity. It should be remembered that this broadest field of operational efficiency is protected by the medium circle of business performance which includes the internal circle that is responsible for financial performance. Other factors relevant to the operation of the company include: the absence of internal pressure and errors, involvement in legitimate operations, procurement of capital and meeting specified goals. The business or the Corporate success is an organizational and financial quality sub-set (Oaklands, 1989) [50] corporate efficiency

Figure 3 demonstrates the business success of Return on Asset (ROA), Return on Equity (ROE) and Tobin's Q firms. The above number is automatic. In this study a similar model is built and the efficiency of the business is tested. Figure 3 Source: Computed from Analysis of Moment Structures (AMOS-20).



**Figure 3:** Firm Performance

Any of the main compulsory governance activities practiced by Indian firms in the present highly globalized corporate environment: (National Forum for Corporate Governance in India, NFCG-2012).

- **Proxy to vote**
  - A theory of share, one vote
  - Conference Advisory and Agenda
  - Special meetings
  - Processing by international owners
  - Resolution of shareholder disputes
  - Quorum
  - Freedom of the Board
  - Independent Management Share
- **Meeting frequency and documentation**
- **Manager appointment and voting**



- **Autonomous administrators' term limits**
  - Council commissions
  - Systematic review of members of the Board
  - Urgent knowledge disclosure
  - Information disclosure protocols
  - Primary remuneration
  - Relationships between investors
  - National and regional GAAP
  - Committee on Audit

## X. THE OECD VALUES

A multilateral development agency, 51, has highlighted the following practices in its Corporate Governance Handbook as best corporate management practice to be scrupulously pursued in order to strengthen and promote the economic opportunities of corporations around the world.

### 1. Rights of owners

The interests of owners are the following.

- Owners' constitutional rights
- Right to share in the decision-making process
- Owners' AGM rights
- Monitoring transparency is disproportionate
- Markets for corporate regulation
- Voting cost/benefit

### 2. Equal Treatment by Shareholders

Here are the pieces of the shareholders' equal treatment.

- All investors will be handled fairly
- Insider dealing ban
- Board of Directors shows enthusiasm

### 3. Stakeholder Corporate Governance

The role of stakeholders is shown below.

- Valued stakeholders' interests
- Correction for rights infringement
- Efficiency improvement
- Knowledge control Access

### 4. Accountability and Transparency: The foregoing are the various facts of the evaluation and accountability of business management. Evaluation requirements:

- Requirements for accounting and auditing
- Impartial annual audits
- Equal and timely diffusion

## 5. Responsibilities of the Board

The different roles of the Board are set out below.

- Behaves of due care and attention
- Handle reasonably all owners
- Ensuring legal enforcement
- Capacity to perform essential activities
- Ability to judge the target
- Knowledge control Access

Corporate governance is important to create a corporate culture of awareness, integrity and openness within the enterprise. This involves a combination of rules, legislation, regulations and cooperative policies encouraging corporations to optimize their business. Shareholders' long-term worth (Fernando.A.C, 2011)<sup>52</sup>. Corporate governance is usually regarded as difficulties arising from ownership and control isolation. The topic above highlights that corporate governance reflects on the organizational structure of the organization, the rules regulating the board of directors, the creation of separate audit committees, the rules governing knowledge exchange and the oversight of management.

## XI. KOTAK COMMITTEE REPORT

Committee consisting of 21 members on CG headed by Uday Kotak, submitted the report to SEBI. The panel was constituted by SEBI in June 2017 and submitted report on October, 5<sup>th</sup> 2017. The Committee emphasizes on certain important recommendations which needs implementation by authorities along with SEBI. Thus, the Committee has recommended SEBI to gross up such recommendations with appropriate authorities/regulators.

The Report suggests certain amendments to the existing provision and certain new provisions that might be required to implement the sanctions and Recommendations (with more emphasis on Directors and constitution of board) Committee mentions that every listed entity should have a minimum of six directors on Boards. To progress gender diversity on boards, the Committee mentions every listed entity to have at least one independent woman director on its board of directors at least one woman as an independent director. Listed companies with more than 40% public shareholding, the chairperson role should be separated. Directors to attend all meeting, or else at least half of the total no. of meetings then it is subject to authorization by the shareholders at next annual meeting. The board shall meet five times a year Top 500 companies should have risk management board for cyber security.

## XII. DISCUSSION

The Meaning, definition and importance of concepts of CG is similar in any country from business perspective. The monograph presented discusses about the basic understanding about CG starting from its evolution, components of CG, Administration and management. After understanding the importance of CG in organizations, Governments started to view the necessity and framed committees to provide a code for companies and Board for transparent and ethical business based on various theories and models. Reports on CG were presented by various committees each one of it refined and addition of more ethical way of running

businesses. The journey of CG in building its identity and supporting theories, models and reports outline are enumerated in this monograph as a guide to understand need and necessity of Corporate Governance in business organizations.

### **XIII. CONCLUSIONS**

So far, CG research has elevated more questions than answers. What reasons the CG problems and what could be the solutions is difficult to define. (Mehran 2003 p.3). Necessity of CG norms raised due to lack of trust and commitment, at the same time companies with huge net worth and profits need to follow stricter norms than small firms. Nevertheless, investigators keep looking for resolutions to CG problem in the firms. Thus, this study contributes to a unique analysis which establish relative comparison between CG principles, mandatory requirement of revised clause 49 on growth and performance of PSUs and Private sector undertakings leading to find out reason why PSUs generally fall in performance than its counterpart Private sectors. . Indian CG reports for example Naresh Chandra Committee report, Birla committee report, SEBI guidelines have provided right and appropriate recommendations from time to time, but now the world is affecting towards digitalization and Innovation, Values of life and culture are left behind which is actually a robust base for any rule to be executed and followed permanently in spirit. Thus, through the above directed study a innovative research approach for recognizing and framing policies which should be value founded is recommended, developing a new corporate environment to fit in value based policies and to offer new compliance models with time frame and where such agreement will not break morals of any individual or companies should be confirmed. This study should provide a new measurement to study CG in the future, this is just a commencement and lot more have to be done in the coming years by more and more robust research. This study is not an end to itself it's only an attempt to critically review the existing reports of CG to explore new ways of bringing in all companies under CG regulations.

This study also provides as an encourage to more critical appraisals of existing CG policies and motivates for Innovative approaches of studying CG in new measurement to fit in to this changing corporate firm environment. Whatever changes takes place for example Kotak committee report is providing a completely different dimension and changes to SEBI regulations but, this study has not taken this report for the study because whatever changes happen to norms the requirement of investors remains the same. Thus, this study concentrates on ensuring Investor's interest and guidelines supporting their investment decision.

A very novel idea behind this study is to safeguard the interest of investors who are laymen (general public) to understand the implications of CG norms and its effect on Companies performance

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