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CORPORATE GOVERNANCE IN INDIA: SOME ISSUES AND CHALLENGES

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Abstract

Corporate governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken. In other words, when investments take place across national borders, the investors want to be sure that not only is their capital handled effectively and adds to the creation of wealth, but the business decisions are also taken in a manner which is not illegal or involving moral hazard.

Corporate governance therefore calls for three factors:

a) Transparency in decision-making
b) Accountability which follows from transparency because responsibilities could be fixed easily for actions taken or not taken, and
c) The accountability is for the safeguarding the interests of the stakeholders and the investors in the organization.

Corporate governance depends upon two factors. The first is the commitment of the management for the principle of integrity and transparency in business operations. The second is the legal and the administrative framework created by the government. The need for good corporate governance has been realized because of the big scams which has been unearthed during the post liberalization.

The problem of corporate governance has got more currency during the post-liberalization. So, the present paper has been designed to analyze the developments which are taking place in the governance of the corporate sector. The paper concludes that much distance is yet to be covered to develop a proper model to put a check on the actions of the corporate sector.

Key words: Corporate Governance, Accountability, Public Sector Units, Multinational Corporations, Indian Business Units

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Introduction

The word „corporate governance" has become a buzzword these days because of two factors. The first is that after the collapse of the Soviet Union and the end of the cold war in 1990, it has become the conventional wisdom all over the world that market dynamics must prevail in economic matters. The concept of government controlling the commanding heights of the economy taken the park shut. This, in turn, has made the market the most decisive factor in settling economic issues. This has also coincided with the thrust given to globalization because of the setting up of the WTO and every member of the WTO trying to bring down the tariff barriers. Globalization involves the movement of four economic parameters, namely, physical capital in terms of plant and machinery, financial capital in terms of money invested in capital markets or in FDI, technology, and labor moving across national borders. The pace of movement of financial capital has become greater because of the pervasive impact of information technology and the world having become a global village.

When investments take place in emerging markets, the investors want to be sure that not only are the capital markets or enterprises with which they are investing, run competently but they also have good corporate governance. Corporate governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken. In other words, when investments take place across national borders, the investors want to be sure that not only is their capital handled effectively and adds to the creation of wealth, but the business decisions are also taken in a manner which is not illegal or involving moral hazard.

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b) Accountability which follows from transparency because responsibilities could be fixed easily for actions taken or not taken, and

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Implementation of corporate governance has depended upon laying down explicit codes, which enterprises and the organizations are supposed to observe. The Cadbury"s code in United Kingdom was the starting point, which led to a number of other codes. In India itself we have the Kumaramangalam Birla Committee recommendations (2000) and Narayana Murthy Committee recommendations (2003) as a result of the committees headed by them at the behest of the SEBI. Earlier we had the CII coming up with the code for corporate governance recommended by the committee headed by Shri Rahul Bajaj. The codes, however, can only be a guideline. Ultimately effective corporate governance depends upon the commitment of the people in the organization.

Corporate governance depends upon two factors. The first is the commitment of the management for the principle of integrity and transparency in business operations. The second is the legal and the administrative framework created by the government. If public

governance is weak, we cannot have good corporate governance. Unfortunetely, public governance system in India provides excellent scope for currupt practices in business. The need for good corporate governance has been realized because of the big scams which have been unearthed during the post-liberalization. The famous scams took place during the recent past includes the following:

- We had first the Harshad Mehta"s Securities scam involving a large number of banks and resulting in the crashing of the stock market for the first time after the economic reforms in 1991.
- This was followed by transnational companies in 1993 when they started consolidating their ownership by issuing equity allotments to their respective controlling groups at steep discounts to their market price.
- The next scam of the decade was during 1993-94, when 3911 companies raised over Rs. 25,000 crores disappeared overnight and did not set up their projects. Due to these vanishing companies, investors lost a lot of their hard earned money.
- Another scam took place in 1995-96 when some plantation companies emerged and moped up Rs. 50000 crores from the investors and ran away.
- There were many others scams like UTI scam, Ketan Parekh scam, Sameer Gupta scam etc., in which investors lost crores of their hard earned money. So, there was a need in India to induct global standards so that at least while the scope for scams may still exist, we can reduce the scope to the minimum (N. Vittal, 2002).

Problems in Implementing Good Corporate Governance in India

The corporate governance studies in carried out in US and UK focus on the role of the Board as a bridge between the owners and the management. In an environment in which ownership and management have become widely separated, the owners are unable to exercise effective control over the management or the Board. The management becomes self-perpetuating and the composition of the Board itself is largely influenced by the likes and dislikes of the Chief Executive Officer (CEO). Corporate governance reforms in the US and UK have focused on making the Board independent of the CEO. There is now increased recognition of the part that the independent Board can play an important role in providing a strategic vision to the company. The Compensation Committee of the Board has been strengthened to exercise greater control over CEO compensation following widespread complaints that top management pay is disproportionate to performance. There is also a great deal of discussion in the literature on the role of the Board in firing non-performing management and in managing the CEO succession. Perhaps the most powerful and well established of the Board committees is the Audit Committee. Apart from acting as a deterrent against financial improprieties and frauds, the Audit Committee also enables the Board to keep a pulse on the financial health of the company.

The available literature on corporate governance reveals that some efforts have also been made to improve the performance of the Governing Boards. However, a close analysis of the ground reality in India would force one to conclude that the Board is not really central to the corporate governance malaise in India. The central problem in Indian corporate governance is not a conflict between management and owners as in the US and the UK, but a conflict between the dominant shareholders and the minority shareholders. The Governing Boards could not resolve this conflict. One can in principle visualize an effective Board, which can discipline the management. Though in theory, management exercises only such powers as are delegated to it by the Board. However, the Board is indeed powerless to check the managements. It is indeed self evident that the remedies against these abuses can lie only outside the company itself. It is useful at this point to take a closer look at corporate governance abuses by dominant shareholders in India. The problem of the dominant shareholder arises in three large categories of Indian companies. First are the public sector units (PSUs) where the government is the dominant (in fact, majority) shareholder and the general public holds a minority stake (often as little as 20 per cent). Second are the multinational companies (MNCs), where the foreign parent is the dominant (in most cases, majority) shareholder. Third are the Indian business groups where the promoters (together with their friends and relatives) are the dominant shareholders with large minority stakes, government owned financial institutions hold a comparable stake, and the balance is held by the general public. The governance problems posed by the dominant shareholders in these three categories of companies are slightly different.

Public Sector Units (PSUs)

The governance structures of PSUs date back to the days when they were typically wholly owned by the government and were merely an extended arm of the state. These structures allowed the administrative departments in the concerned ministry to exercise virtually complete control over the functioning of these enterprises. It is now evident that these structures are incompatible with the efficient and successful operation of the PSUs in an increasingly competitive and deregulated economy. It is interesting, however, to observe how totally irrelevant the Board really is in the governance of the PSUs today. The Board has no role to play in any of the areas where US and UK reformers have sought to strengthen the Board. The Board has very little say in the selection of the CEO or in the composition of the Board. The government as the majority shareholder takes these decisions through the concerned ministry with the help of the Public Enterprises Selection Board. The Board cannot fire the CEO nor can it change his compensation package. As far as audit is concerned, again the dominant role is that of the Comptroller and Auditor General (CAG) of India. There is very little that an Audit Committee could add to what the CAG does. In many PSUs, the Board may still be powerful on paper because the delegation of financial and operating powers to the CEO is very limited. Many operating decisions have to be brought to the Board for decision-making. This does not however make for an effective Board because it pushes

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the Board into "managing" rather than "directing". There is a clear difference between directing and managing, and the Board‟s legitimate function is directing. The current governance structure allows the Board to play a highly obstructive role if it chooses by opposing the CEO on operational matters. What it does not allow the Board to do is to play a meaningful strategic role since all strategic decisions are taken by the dominant shareholder through the concerned ministry.

Multinational Corporations (MNCs)

Government regulations have required most MNCs in India to operate through subsidiaries, which are not 100 per cent, owned by the parent. In the 70s, the government enacted a law limiting foreign ownership in most industries to 40 per cent while allowing 51 per cent in a few high technology areas. This law was liberalized in the 90s and now 51 per cent is permitted in most industries while 74 per cent or even 100 per cent ownership is allowed in some cases. These regulations have created severe corporate governance problems in several key areas. In the 70s, MNCs were forced to issue shares to the Indian public to comply with the law. The controls that then existed on pricing of public issues meant that these issues were at substantial discounts to the market price. In the 90s when the law permitted higher foreign ownership, these MNCs raised the foreign stake by issuing shares at very deep discounts to the market price. This obviously meant a large loss to the minority shareholders. This and other similar shares issued by MNCs were made with the explicit consent of the shareholders in general meeting. The parent companies with their dominant shareholding were able to get the resolutions passed with impressive majorities. In fact when the government introduced regulations to prevent such preferential issues, the MNCs protested against what they called an assault on "shareholder democracy".

Another corporate governance problem arises where the foreign parent has two subsidiaries in India in one of which it holds a higher stake (say 100 per cent) while in the other it holds a smaller stake (say 51 per cent). The manner in which the MNC structures its business in India between these two subsidiaries is riddled with problems as far as the minority shareholder is concerned. There have been allegations in some cases that the most profitable brands and businesses have been transferred from the long established 51 per cent subsidiary to the newly formed 100 per cent subsidiary at artificially low prices. This implies a large loss to the minority shareholders of the 51 per cent subsidiary who have after all contributed to in equal measure to the investments that were made in the past to build up these businesses to their current dominant position. Yet another problem is the payments that parent companies increasingly demand for all the services that they provide to their subsidiaries. One well-known example involves a company where the parent has recently started collecting royalties for the use of a brand. In this case, India is actually the principal market for this brand and the Indian company had assiduously cultivated the brand through

decades of advertising paid for in part by the minority shareholders. Minority shareholders could only watch in dismay as the royalties knocked off a sizeable chunk of the earnings of the company.

Indian Business Groups

The situation in this category of companies is more complex than in the PSUs and the MNCs where there are clearly defined dominant shareholders. In the Indian business groups, the concept of dominant shareholders is more amorphous for two reasons. First, the promoters‟ shareholding is spread across several friends and relatives as well as corporate entities. It is sometimes difficult to establish the total effective holding of this group. Second, the aggregate holding of all these entities taken together are typically well below a majority stake. In many cases, the promoter may not even be the largest single shareholder. What makes the promoters the dominant shareholders is that a large chunk of the shares is held by state owned financial institutions, which have historically played a passive role. The few cases where they have involved in corporate governance issues, they were widely seen as acting at the behest of their political masters and not in pursuance of their financial interests. So long as the financial institutions play a passive role, the promoters are effectively dominant shareholders and are able to get general body approval for all their actions.

This allows the promoters to play all the games that dominant shareholders play in PSUs and MNCs - structuring of businesses and transfer of assets between group companies, preferential allotments of shares to the dominant shareholder, payments for "services" to closely held group companies and so on. But there are a number of new games too. A large parallel black economy has developed in India as a result of which transactions are carried out in cash and are not recorded in the books of accounts. Some industries were at one stage so strongly permeated by the black economy that it was almost impossible to carry on business without using black money. Though there have been several honorable exceptions, many Indian business groups have succumbed to the lure of black money. The literature on black money views it primarily as a means of cheating the government of its legitimate dues. However, exclusion from the company‟s books means that it is also cheating the minority shareholders. Quite often when a company makes losses in its books, the true picture of the business is much healthier because of the profits pouring in the form of black money. It is a standard joke among bankers in India that there are many financially sick companies but no financially sick promoters.

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Regulatory Measures to tackle Corporate Misgovernance

Protection under Company Law

The following protections are available under company law:

Protection of Minority Shareholders

Company law provides that a company can be wound up if the Court is of the opinion that it is just and equitable to do so. This is, of course, the ultimate resort for a shareholder to enforce his ownership rights. Rather than let the value of his shareholding be frittered away by the enrichment of the dominant shareholder, he approaches the court to wind up the company and give him his share of the assets of the company. In most realistic situations, this is hardly a meaningful remedy as the break-up value of a company when it is wound up is far less than its value as a "going concern". It is well known that winding up and other bankruptcy procedures usually lead only to the enrichment of the lawyers and other intermediaries involved. Company law also provides for another remedy if the minority shareholders can show that the company‟s affairs are being conducted in a manner prejudicial to the interests of the company or its shareholders to such an extent as to make it just and equitable to wind it up. Instead of approaching the Court, they can approach the Company Law Board (now proposed to be renamed as the Company Law Tribunal). The Company Law Tribunal, which is a quasi-judicial body can make suitable orders if it is satisfied that it is just and equitable to wind up the company on these grounds, but that such winding up would unfairly prejudice the members. In particular, the Tribunal may regulate the conduct of the company‟s affairs in future, order the buyout of the minority shareholders by the other shareholders or by the company itself, set aside or modify certain contracts entered into by the company, or appoint a receiver. The Tribunal could also provide for some directors of the company to be appointed by the Central Government, or by proportional representation. The Tribunal normally entertains such complaints only from a group of shareholders who are at least one hundred in number or constitute 10 per cent of the shareholders by number or by value. The powers given to the Company Law Tribunal are perhaps more effective remedies than the power of winding up which is vested in the Courts, though one may wonder whether these powers are too sweeping. However their scope is limited to very extreme cases of misgovernance where it is just and equitable to wind up a company.

Special majority

Another safeguard in the company law is the requirement that certain major decisions have to be approved by a special majority of 75 per cent or 90 per cent of the shareholders by value. This may not be an effective safeguard where the dominant shareholders hold a large

majority of the shares so that they need to get the approval of only a small chunk of minority shareholders to reach the 75 per cent level. Even otherwise, it may not be a sufficient safeguard if the process of conducting shareholder meetings is not conducive to broader participation by a large section of the shareholding public. The Indian system does not allow for postal ballots. Effective participation by small shareholders is possible only if there is a cost effective way of waging a proxy campaign. This would enable dissenting shareholders to collect proxies from others and prevent measures, which are prejudicial to the minority shareholders.

Information disclosure and audit

Company law provides for regular accounting information to be supplied to the shareholders along with a report by the auditors. It also requires that when shareholder approval is sought for various decisions, the company must provide all material facts relating to these resolutions including the interest of directors and their relatives in the matter. Disclosure does not by itself provide the means to block the dominant shareholders, but it is a prerequisite for the minority shareholders to be able to exercise any of the other means available to them. Disclosure is also a vital element in the ability of the capital market to exercise its discipline on the issuers of capital.

Protection under Securities Law

Historically, most matters relating to the rights of shareholders were governed by the company law. Over the last few decades, in many countries, the responsibility for protection of investors has shifted to the securities law and the securities regulators at least in case of large listed companies. In India, the Securities and Exchange Board of India (SEBI) was set up as a statutory authority in 1992, and has taken a number of initiatives in the area of investor protection.

Information disclosure

As discussed above, the company law itself mandates certain standards of information disclosure both in prospectuses and in annual accounts. SEBI has added substantially to these requirements in an attempt to make these documents more meaningful. Some of these disclosures are important in the context of dealing with the dominant shareholder. One of the most valuable is the information on the performance of other companies in the same group, particularly those companies, which have accessed the capital markets in the recent past. This information enables investors to make a judgment about the past conduct of the dominant shareholder and factor that into any future dealings with him.

Promoters' contribution and lock in

Another aspect of the SEBI regulations is that in most public issues, the promoters (typically the dominant shareholders) are required to take a minimum stake of about 20 per cent in the capital of the company and to retain these shares for a minimum lock-in period of about three years. At first sight, it might appear to deal with a problem closer to the US and UK predicaments where the management has only a minuscule stake in the company. This however is not so at all. The SEBI regulations provide an exemption to those companies where there is no identifiable promoter group, that is to say, no dominant shareholder. In other words, if these regulations were copied by US and UK regulators, they would not make much of a difference to most of the companies in those countries as these companies would typically fall in this category of not having an identifiable promoter group.

The SEBI regulations deal with a corporate governance problem very different from the US and UK problems. It affects those promoters who might have planned to have a very small equity stake and still be dominant shareholders because of large blocks of passive shareholders. Such promoters would be in the position to exercise effective control while having very little stake in the company itself. Most of their rewards would come not from dividends or from appreciation in share values, but from one-sided deals, which help them transfer profits to other entities owned by the promoters themselves. Apart from this category of promoters, the SEBI regulations may not be much of a constraint for most dominant shareholders. Many of them might even otherwise plan to have a stake of more than 20 per cent (probably as high as 51 per cent) to exercise unquestioned control.

Pricing of preferential share allotments

Another area in which SEBI has intervened to tackle the dominant shareholder is the pricing rule that it has imposed on preferential allotments. Company law itself provides that new issue of shares must be rights issues to existing shareholders unless the shareholders in general meeting allow the company to issue shares to the general public or to other parties. As has been pointed out earlier in this paper, the requirement of shareholder approval is quite meaningless when there is a dominant shareholder. Many dominant shareholders (both Indian and foreign) responded to the liberalization of the Indian economy by making preferential allotments to themselves at a small fraction of the market price. In 1994, SEBI issued new guidelines on preferential allotment that prohibited preferential allotments at a price lower than the average market price during the last six months. This regulatory intervention illustrates very nicely the problems that the regulator faces in dealing with governance abuses by the dominant shareholder. There are many situations where it may be in the interests of the company as a whole (and not just the dominant shareholders) to issue equity at below the six monthly average prices.

One situation could be where the stock market as a whole has fallen sharply over the last six months and the six monthly averages is far above the prevalent market price. There

have been many occasions where the Indian stock market index has fallen by about 50 per cent during a period of six months. One possible regulatory solution to this problem might be to use an average over a significantly shorter period than six months. At the extreme, one may even consider just the closing price on the day on which the allotment is made. However, regulators consciously chose a longer average because they feared perhaps rightly that prices could be easily manipulated for one day or for a few days but not for a longer period like six months. There is an interesting parallel with issues of convertible bonds in international markets where there is a call option to the company. This option is typically based on the market prices for 30 or more consecutive trading days and not just one trading day. This suggests that the six-month period mandated by the regulator is perhaps excessive. But it also suggests that free contracting parties see some merit in the idea of an average price over a period of about a month or two as compared to just the closing price on a given day. In other words, the regulatory problem created by averaging can be reduced but cannot perhaps be eliminated.

Another situation where compromises may be desirable on price is when the company is making a private placement of equity to large investors in an arms‟ length transaction. The private placement may be to avoid the costs of a public issue or because the company does not satisfy the entry norms for a public issue. It is well known that a company making a large additional issue of equity (whether by public issue or by private placement) has to price its equity significantly below the ruling market price. Many public issues for example are typically made at discounts of 15-20 per cent to the ruling market price. The prohibition on making preferential issues at a discount would effectively rule out such private placements altogether. At the same time for reasons of size or otherwise, a public issue may be infeasible. The regulatory intervention on preferential allotment may thus have the wholly unintended consequence of denying the company access to the capital market completely. Again, one can think of modifications in the regulations that would exempt arms‟ length transactions defined in some suitable way, but no such definition can be wholly satisfactory. In short, this example shows very well how regulatory interventions designed to discipline the dominant shareholder always run the risk of attempting to micro-manage the affairs of the company. This is a dilemma that simply will not go away.

Insider trading

Securities regulators around the world have framed various regulations to deal with the problem of insider trading. The existence of regulations does not necessarily mean that they are enforced. In South Africa, for example, a recent report on insider trading pointed out that in the quarter century that the insider trading law has been in existence in that country, there has not been a single prosecution (King, 1997). The situation is not very much better in many other countries. However, in the United States and the United Kingdom there have been a large number of well publicized and successful actions against insider trading. Most

instances of insider trading have nothing to do with the dominant shareholder. Many of them involve small trades by junior employees who come to know of price sensitive information. In a few instances, insider trading may be indulged in by directors and other senior employees. In the context of this paper, however, the interesting cases are large scale trades by the dominant shareholder. Market gossip has long speculated on the prevalence of such trades in the build up to large mergers especially between group companies. Some promoters have merged small companies in which they have a large stake into a larger more widely held company at a swap ratio which is highly unfavorable to the widely held company. These allegations have been difficult to prove in most instances as the promoters can act through numerous friends, relatives and other fronts. When SEBI recently initiated action for insider against a large multinational in a somewhat different situation, the action proved to be highly controversial and the ultimate resolution of this case remains uncertain.

Take-overs

Instead of directly exploiting all the privileges that his controlling block gives him, the dominant shareholder can choose to sell his entire holding to somebody else. In a well functioning market for corporate control, he can expect to get a premium over the market price equal to the present value of all the privileges that the dominant shareholder can enjoy in future. The take-over regulations in India require that a slice of this cake be shared with other shareholders. The acquirer of a controlling block of shares must make an open offer to the public for at least 20 per cent of the issued share capital of the target company at a price not below what he paid of the controlling block. Of course, if more than 20 per cent of the shareholders want to sell at that price, the acquirer is bound to accept only 20 per cent on a pro-rata basis.

The Effect of Good Corporate Governance

In a liberalized financial market, investors have different avenues for investment. In such an environment, more open and transparent companies with good business prospects are likely to be better able to attract potential investors to invest in their companies. This will be particularly true if these companies have access to equity or bond markets, since such direct financing does not require collateral, and will also tend to be of longer maturity than bank lending. In addition, the cost of capital for such firms should be lower, since the better is corporate governance; the better investors are able to price risk.

A strong system of corporate governance equips potential investors with the information and confidence necessary for them to invest their funds directly to companies. This applies equally to foreigners, who will become more willing to invest in a country, and, in particular, to the corporate sector, where good corporate governance prevails. In this way,

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Investment will increase, thereby boosting productivity and growth across the economy. In these different ways, good corporate governance can lead to higher economic growth, although to reap the maximum benefits, it is also necessary that the financial system is sound.

In addition to this, strong corporate governance can reduce the likelihood of a domestic financial crisis, in which investors lose confidence in the assets, which they own. Recent researches have found an inverse relationship between the good corporate governance and the severity of the crises. However, this relationship should not be over-emphasized. Some countries with good corporate governance have had crises. Other countries with poor corporate governance have avoided them. In fact, the evidence indicates that corporate governance is only one of a number of factors that influence the probability of a crisis.

In short, we can say that good corporate governance can deliver a number of benefits, such as, better allocation of resources overtime, increased ability of Indian firms to raise funds from abroad and compete internationally, and stronger foundations for further issuing of capital.

Suggestions to improve Corporate Governance in India

The Sick Industries Companies Act (SICA) has become so convenient for the unscrupulous managements that we find in our country industries become sick, the industrialist do not become sick. The Board for Industrial and Financial Reconstruction (BIFR) has also been called the Bureau of Industrial Funeral Rites. It is high time we scrap the entire system. This will mean the abolition of SICA and organizations like BIFR there under. Mere tinkering with the system by making amendments is not going to improve the situation.

The entire banking system and the Banking Secrecy Act call for a review. Our banking system is such that if you borrow one lakh of rupees, you are afraid of the bank but if you borrow ten crores of rupees, the bank is afraid of you. The Narasimham Committee"s recommendation about putting this condition at the time of issuing new loans can cover only to some extent the moral hazard. It is high time that practice of disclosing the name of wilful defaulters is made more practical and timely. Publishing the names in the case of suits, which have been filed, is of no value at all because by that time the matter is all but over.

Laws like the Benami Transactions Prohibition Act and the Prevention of Money Laundering Act should be implemented effectively and vigorously. Agencies like the CVC can be used to ensure that corrupt practices are effectively punished because it is the atmosphere, which encourages proper corporate behavior. In India today we have a system where the level of public governance is very poor. There is no fear of punishment at all. In such a situation it is only a saint who will be observing strictly the rules of corporate governance.

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There are very honorable companies in India, which are following ethical practices but if the general environment is such that there is no fear of punishment, people are bound to be tempted to indulge in corrupt practices and moral hazards, which go totally against corporate governance.

In the ultimate analysis, it is the observance of corporate governance at the enterprise level or at the level of a body like the capital market will depend upon the top management in-charge of the organization or the body. It is necessary that they remember the three way tests for the ethics prescribed by Normal Vincent Peale and Kenneth Blanchard in their book, The Power of Ethical Management. The three-point test is as follows:

- Is the decision you are taking legal? If it is not legal, it is not ethical.
- Is the decision you are taking fair? In other words, it should be a win-win situation for both the parties entering into an agreement or if it is a general policy or a multi-level agreement, there should be equal risk and reward to all concerned. If it is not fair then the decision is not ethical.
- The third decision is if the decision you are taking is such that if it is known in the public through the media, will you feel ashamed? If you are feeling ashamed, then it is not an ethical decision. The embarrassment caused by the Tehalka.com expose was because those figuring in the tapes were found guilty of violating the ethics.

Conclusion

In the last few years, we have seen Indian companies voluntarily accepting international accounting standards though they are not legally binding. They have voluntarily gone for greater disclosures and more transparent governance practices than are mandated by law. They have sought to cultivate an image of being honest with their investors and of being concerned about shareholder value maximization.

With the recent spate of corporate scandals and the subsequent interest in corporate governance, a plethora of corporate governance norms and standards have sprouted around the globe. The Sarbanes-Oxley legislation in the USA, the Cadbury Committee recommendations for European companies and the OECD principles of corporate governance are perhaps the best known among these. But developing countries have not fallen behind either. Well over a hundred different codes and norms have been identified and their number is steadily increasing. India has been no exception to the rule. Several committees and groups have looked into this issue that undoubtedly deserves all the attention it can get.

In the last few years the thinking on the topic in India has gradually crystallized into the development of norms for listed companies. Minority shareholder exploitation, however, can very well be an important issue in many cases. Development of norms and guidelines are an important first step in a serious effort to improve corporate governance. The bigger challenge in India, however, lies in the proper implementation of those rules at the ground level. More and more it appears that outside agencies like analysts and stock markets

(particularly foreign markets for companies making GDR issues) have the most influence on the actions of managers in the leading companies of the country. But their influence is restricted to the few top (albeit largest) companies. More needs to be done to ensure adequate corporate governance in the *average* Indian company. Even the most prudent norms can be hoodwinked in a system plagued with widespread corruption. Nevertheless, with industry organizations and chambers of commerce themselves pushing for an improved corporate governance system, the future of corporate governance in India promises to be distinctly better than the past.

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