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Corporate Governance : A Response Towards Changing Indian Scenario

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Abstract
The article explores the evolving landscape of corporate governance in India, emphasizing its significance in today's dynamic and complex environment. It presents a conceptual framework for understanding corporate governance as a moral and ethical obligation, rooted in the philosophical tenet that businesses serve as trustees of stakeholders' interests. The study highlights the need for robust governance structures particularly in the context of global liberalization and privatization. By reviewing existing governance models and literature, it aims to develop a scoring model for evaluating the governance practices of cement companies in India, derived from corporate disclosures in their annual reports. Furthermore, the article discusses the imperative for greater awareness and adherence to governance standards to enhance corporate performance and foster economic growth. The conclusions drawn suggest the necessity for stricter governance norms to ensure transparency and accountability, ultimately positioning India as a potential superpower in the global economy.

INTRODUCTION:

Set the tone

The art of Corporate Governance is a parallel consign of 'Dharma (nature)' in human existence. Logically, 'Fire' has a 'Dharma' to burn; 'Air' has 'Dharma' to blow; signifying the quintessence of 'Code of Conduct (COC)'. Rapid transformation in stakeholder expectation', stipulate corporations universally to pursue self-ordained COC. **OECD (Organization for Economic Cooperation and Development) documents published in 1999, defined Corporate Governance as 'Corporate Governance is the system by which organizations are directed and controlled'.** Corporate governance is scripted to entail integration of value creation for shareholders in a translucent comportment truly reflective of the position of corporate apparition. Milton Friedman (1962) visualized that corporate governance is to conduct the operation of an entity in accordance with owners (promoters) vision and shareholders' mission (capitalism) , leading to maximization of wealth ,in compliance with the fundamental rules of the economy it operates ; which are necessarily embodied in the legal framework of the land. The moral Compass of Corporate Governance need to be looked in light of pronouncement by Mahatma Gandhi (the father of the nation) ,**"Businessmen are Trustees".** Good Corporate Governance is a philosophical issue and matter of attitude, which gets more significance in this VUCA (Volatile, Uncertain, Complex, and Ambiguous) scenario.

In the context of ancient Indian philosophy, epics and legal texts , "dharma" encompasses not only religious duty but also social and moral order. Mahabharata, Ramayana, Bhagavad Gita, Manu Smriti , Yajnavalkya Smiriti, Vishnu Smriti etc. upholds the importance of 'dharma' as the source of governance. "Dharma is the foundation of governance, for it ensures the protection of all beings." (Mahabharata, Shanti Parva, Chapter 109, Verse 12). Ramayana emphasized on governance as King's primary duty, "The king's duty is to uphold dharma, for it ensures the prosperity of all." (Ayodhya Kanda, Chapter 100, Verse 15). "Dharma is the foundation of governance, for it ensures the well-being of all." (Bhagavad Gita Chapter 4, Verse 7). Kautilya's Arthashastra emphasizes the importance of "dharma" in governance, highlighting its role in maintaining social harmony and promoting the common good. "Dharma is the ultimate governance, for it ensures the well-being and harmony of all members of society." (The Kautilya Arthashastra translated by R P Kangle, 2010).

"The key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. Rights and equitable treatment of shareholders, interests of other stakeholders, roles and responsibilities of the board, disclosure and transparency are the main principles to be followed in adopting effective corporate governance strategies for the companies." Such effectiveness of strategies can be measured through a 'Governance Index' . A company's "Corporate Governance Index" expresses the opinion about the extent to which a company adopts and conforms to codes and guidelines of good corporate governance practices that clearly serve the interests of its financial stakeholders. (Corporate Governance Ratings, Reha Cirak,2007)

During the 1990s, a number of corporate scandals in the USA (viz., Lehman Brothers, AIG Insurance, Xerox, Arthur Anderson, Enron, WorldCom, Tyco, etc.), and also elsewhere in the world, triggered the gun towards 'governance lapses' in respective entities. To protect stockholder and stakeholder interests, SOx (Sarbanes- Oxley) legislation was promulgated in 2002. Prior to that in 1992, Cadbury Report on financial governance was published. The Cadbury Committee advocated "a mechanism for accountability, emphasizing the need to raise reporting standards". Voluntary and mandatory disclosures can help in understanding corporate performance (Bhasin and Junaid 2013). OECD (2006) prescribed for a clear, concise, precise reporting governed by the substance over form principle. Moreover, good governance requires the board to constantly monitor the firm to ensure consistent growth in the firm value to add value to the shareholders wealth (Shleifer & Vishny,1997).

The Cadbury Committee (1992) defined Corporate Governance, as a system of structuring, operating and controlling a company with the following specific aims:

- Fulfilling long-term strategic goals of owners
- Taking care of the interests of employees
- A consideration for the environment and local community
- Maintaining excellent relations with customers and suppliers; and
- Proper compliance with all the applicable legal and regulatory requirements

Corporate governance refers to the "the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how risks and return from the activities they undertake are allocated." (Blair, 1995).

In summary, corporate governance talks about ....

►The **Boards of directors** and their responsibility for the governance of companies
►**Shareholders**' role in governance is to appoint the **directors** and the **auditors** and to satisfy themselves that an appropriate governance structure is in place
►**Responsibilities of the board** include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their **stewardship**
►Board's actions are subject to **laws, regulations and the shareholders** in general meeting

Objective of the study

Corporate Governance is one of the most relevant area of concern in today's world. Literature reviews indicate, most of the studies are made to establish a relationship between (1) 'corporate governance' and 'Firm performance' , (2) 'Corporate Governance' and 'Stock Market Performance', (3) Corporate Risk and Corporate Governance' etc. For the purpose, researchers identified corporate risk (Dependent variable) against parameters (independent variable) to explore the relationships. **The purpose of the instant study is to prepare a scoring model against the most impactful Governance parameters, which will indicate the relative strength of the entity against the peers in the area of Governance**. The score will be derived from the corporate disclosures in the Annual Report made by the Cement Companies in India.

Corporate Governance Theories

The Governance theories that have been applied in the literature (in chronology of propagation time) to study 'Corporate Governance Indexing mechanism' includes:

a. Signalling Theory -Michael Spence (1973) indicates disclosure is a signal that conveys the company's intentions to external parties. A company with strong risk management practices may disclose more risks to signal its transparency and credibility to investors and stakeholders. Both present and future investors can peruse such signals for making timely and appropriate investment decision. **The authors think , signal to and from society is the two-way track for addressing governance issues**.

b. Legitimacy Theory - Richard Dowling & Frank Pfeffer (1975) suggests that companies disclose information to maintain their legitimacy in the eyes of society. **Legitimacy Theory proposes that organizations seek to maintain or enhance their legitimacy by engaging in activities that align with societal expectations and values**. Perceived right of the organization to exist and operate within a society. There exists an implicit agreement between an organization and society, where the organization provides benefits in exchange for societal approval and support. Provision relating to CSR (Corporate Social Responsibility) as introduced in Companies Act 2013 is fallout of such legitimacy approach. Organizations engage in activities that demonstrate their commitment to societal values and expectations.

c. Agency Theory -Michael Jensen & William Meckling (1976), which focuses on the relationship between principals (shareholders) and agents (managers), highlighting the **potential conflicts of interest due to information asymmetry and the need for disclosure to align these interests**. A company may disclose more risks to reduce the perception of management opportunism, thus aligning the interests of managers with those of shareholders.

d. Institutional Theory-John Meyer & Brian Rowan (1977), DiMaggio & Powell (1983) examined how **organizations respond to and are shaped by their institutional environment, including social, cultural, and political norms, values, and expectations**. Disclosure requirement and information reported to conform to institutional norms and expectations. The risk and mitigation strategy and practices followed by the entity requires to be in line with industry requirement to gain legitimacy.

e. Resource Dependence Theory -Jeffrey Pfeffer & Gerald Salancik (1978) theory suggests that organizations are dependent on their environment for resources, and disclosure is a way to manage these dependencies and reduce uncertainty. By appropriate disclosure on risk and managing therefor the entity can assure the stakeholders of its resilience and reliability. **Resource Dependence Theory can be interpreted as a precursor for ESG**. The theory's emphasis on external resources, environmental sustainability as organizations seek to reduce their dependency on natural resources and minimize their environmental impact. The theory's focus on interdependence with stakeholders and the environment ; aligns with the social aspect of ESG, which considers the impact of organizational activities on society and stakeholders.

f. Stakeholder Theory - Edward Freeman (1984) posits that companies should consider the interests of all stakeholders, not just shareholders, when making disclosure decisions. Unlike agency theory, **stakeholder theory argues that managers in the organization are not only responsible for the interests of the shareholders, but also serve the network of relationships to include suppliers, employees and business partners**. Stakeholder theory goes beyond the orientation of the shareholders, which means that decisions are made regarding the different companies beyond the shareholders of the company. A company may disclose risks that are of particular concern to employees, such as health and safety risks, to demonstrate its commitment to these stakeholders.

g. Management Entrenchment Theory- Michael Jensen (1986) explains how managers may prioritize their own interests over those of shareholders, leading to agency problems. This is contrary to good governance practices. **This theory highlights the conflict between managers (agents) and shareholders (principals), where managers may prioritize their own interests over shareholder value**. This may impact the Organisation heavily because business decisions like production decision, Project selection and investments etc. are in the interest of managers only. They may resort to window dressing to hide reality and stakeholders will suffer their value of investment. It can be mentioned here that such personal

motivations are reined by Companies Act 2013, which placed restriction on executive compensation with a role to be played by 'remuneration committees' as a prescription for good governance.
As evident from the study of the Governance Theories, decreased in shareholder and business value is the impact of poor governance.

Snapshot on Governance impact

Theory	**Focus**	**Key Contribution to Governance**
Agency Theory	Conflict & control	Aligns interests via monitoring, incentives
Resource Dependence Theory	External resources	Board composition as strategic access to resources
Resource-Based View	Internal capabilities	Governance supports resource leverage and dynamic capabilities
Stewardship Theory	Trust and alignment	Governance as empowerment, not just control
Institutional Theory	Norms and legitimacy	Explains adoption of governance norms and compliance behaviour
Management Entrenchment Theory	Conflict & control	Erroneous decision due to vested interest of Managers

LITERATURE REVIEW

Studies on Corporate Governance Literature reveals specific Governance Models (Ungureanu, Mihaela 2012), Cross-country Comparison of the Evolution of Corporate Governance from a Shareholder to a Stakeholder Perspective ,(Jacques 2014). The leading Models are –

1. Anglo – Saxon Model (USA, UK) : This model emphasizes entrepreneurship and private ownership with a dominance of independent shareholders. Shareholders exert control primarily through financial means, and regulations encourage transparency and accountability. It features a significant degree of capital dispersion.
2. Continental-European Model (Germany, Italy): This model indicates a high concentration of capital, with major shareholders often involved in strategic decision-making. Managers are accountable to a broader group of stakeholders, including employees and business partners. It has dual governance structure (2-tier Board), which includes both an executive board and a supervisory board.
3. China Model : Shareholder rights on disclosure of Related Party Transactions, protection of Minority Interest and other disclosures like Continental European Model are the hallmarks of Chinese governance model. A 2-tier Board and stress on Corporate Social Responsibility also incorporated in the model.

Overall, these models reflect the different historical, economic, and cultural contexts of their respective regions, each with distinct advantages and challenges in governance efficiency.

4. For developing countries (Dr. Muhammad Bagram et.al, 2024) explored the corporate governance and issues affect economic development w.r.t four developing countries viz. Pakistan, Mexico, Brazil, and Bangladesh. The study identifies the constraints faced in establishing good corporate governance and recognizes the cultural contexts that affect these practices. The research emphasizes the significant associations between governance quality, economic growth, and poverty reduction, including a lack of awareness among stakeholders regarding their rights and responsibilities, which negatively impacts corporate performance. The authors noticed that family-owned companies and weak enforcement of laws often lead to governance failures. There is a call for better awareness and adoption of governance practices to improve economic conditions and corporate performance in these developing regions. The findings suggest a need for a strategic approach to enhancing corporate governance, which could involve cultural change, legal reforms, and better stakeholder engagement to create an environment conducive to good governance

The theoretical underpinnings are effectively perused by researchers in the study of Governance.

- ❑ Governance studies traditionally stockholder-centric approach , not stake-holder centric (Parker 2007), Ungureanu, Mihaela (2012), Jacques (2014).
- ❑ Fama & Jensen (1983) ,explores the role of boards in reducing agency problems, emphasizing separation of ownership and control
- ❑ Shleifer & Vishny (1997), discusses agency theory's contribution to understanding corporate governance mechanisms and investor protection
- ❑ Core, Guay, & Larcker (2003), examines how agency theory underpins compensation contracts aimed at aligning interests of managers and shareholders.
- ❑ Toms and Filatotchev (2004) examined managerial accountability w.r.t resource dependency theory.
- ❑ O'Connell (2007) emphasized stewardship-related research in financial reporting, what he called "stewardship reporting". Roberts et al., (2005)
- ❑ Claessens & Yurtoglu (2013), applied Agency theory to governance issues in emerging markets, such as concentrated ownership and weak investor protection

Most researches in India under the Governance domain talked about Board structure, Legal aspects of Governance , Role of Board Committees , Board as driver of Corporate Governance and related performance.

Focus Area	**Typical Variables Studied**	**Example Study**	**Methodology**
Board Structure	Independence, diversity, duality	Balasubramanian et al. (2010)	Econometric modelling
Ownership and Promoter Control	Promoter shareholding, institutional ownership	Sarkar & Sarkar (2000)	Panel data regression
CSR and ESG Governance	CSR score, BRSR, environmental reporting	Jain & Jamali (2016)	Mixed methods (content analysis + regression)
Legal Reforms	SEBI LODR, Clause 49, Companies Act 2013	Reddy & Locke (2011)	Quantitative panel study
Disclosure and Transparency	Financial disclosures, risk reporting, governance index	Sidhartha & Neha (2014)	Content Analysis
Performance Impact	ROA, ROE, Tobin's Q, market-to-book	Sinha & Mukherjee (2013)	Econometric analysis
Family Business Governance	Succession, board independence, RPTs	Chakrabarti et al. (2008)	Quantitative Event-Study
Internal Controls & Audit	Audit committee, internal audit, fraud detection	Bhasin (2016)	Conceptual + descriptive empirical
Board structure and firm performance	Board size, performance	Chatterjee, C.(2011)	Content Analysis+ OLS Regression
Corp. Governance global practices	Globalization and convergence in corporate governance	Khanna, T., & Palepu, K.(2004)	Case Study

Disclosure information in entirety provide knowledge about the way organizations functioning, however, in the absence of scoring index i.e CGI (Corporate Governance Index) methodology, it is not possible to make comparison among entities based on a set parameter how each one is handling the governance issues.

Governance Index is a measure of strength with respect to Companies response towards this vital factor. Global Studies indicate better Governance enhance Shareholder value, Firm Performance , Stakeholder trust on entities and its Management.In India Companies inform their Governance status through Annual Report published, without disclosure of specific scores.

- The authors (Sarker , Sarker & Sen 2012) constructed a Corporate Governance Index for 500 large listed firms in the Indian corporate sector for the period 2003 to 2008 using information on four important corporate governance mechanisms namely, the board of director, ownership structure, audit committee, and the external auditor.
- Study made by Halder & Rao (Corporate Governance Index for Indian Companies) for developing Corporate Governance Index perused the datum for large listed entities for the period 2008-2011, used six important governance mechanisms viz. Board of Directors, Audit Committee, Board Committees, disclosure practices.
- Corporate Governance: An Empirical Study of Indian Companies (2010) also considered 'Composition of Board, Number of Executive Directors, Independent Directors, Nominee Directors, Audit Committee Meeting frequency, Promoter Holding, 'Director Holding' parameters.
- Technological innovation is another frontier for improving governance and transparency. The adoption of digital platforms, including blockchain-based supply chains, advanced ERP systems, and real-time emissions tracking tools, has helped larger firms enhance compliance and internal control systems (KPMG, 2022).

The CGI concept and its application grown heterogeneously across the globe. The article "Corporate Governance Scorecards" written by Ralitza Germanova, Corporate Governance Officer, IFC Laos Securities Commission, outlines the development and implementation of Corporate Governance (CG) Scorecards, a tool designed to assess and promote the adoption of CG codes. Originating from Germany and adapted by the OECD/World Bank / IFC, these scorecards have been applied in various countries, including Palestine, Jordan, Thailand, Malaysia, the Philippines, Indonesia, Vietnam, ASEAN, Mongolia, Kenya, Rwanda, and the Balkans.

The Corporate Governance Scorecard for Palestine employs a scoring methodology that weighs mandatory provisions at 75% and voluntary ones at 25%. The scorecard is ratified by the board of directors or relevant committees.

In Nigeria, the CG Scorecard was developed with IFC assistance to assess compliance with the CG Code and to identify strengths and weaknesses in CG practices. It is a mandated, web-based tool requiring sign-off by board members and senior management.

The document also discusses the Rwanda ESG Scorecard (2020) and other scorecard issues, such as the platform for completion, review periods, evidence-sourcing, data management, privacy, and reporting. The ratings were composed of 43 items (under four sub-index with weightage as 53%, 18%, 16% and 13% respectively), with a maximum value of 100 and were obtained by summing the below referred four sub-indices.(Lefort & Gonzalez, 2008

a. Composition and performance of the Board,
b. Shareholders rights,
c. Ethics and conflicts of interest and
d. Other information related to CG.

Each of the above sub-index comprised of a series of factors with the same weights. The composition and performance of the board sub-index captured board independence, mission, voting process, management structure, shareholders' agreements and resolutions proposed for its adoption. The sub-index related to ethics and conflicts of interest attempts to measure conflicts of interests and related party transactions, company operations with its directors and managers, significant transactions between the company and significant shareholders, and ownership composition. The final sub-index deals with other related information with CG. It attempts to measure a company's public commitment to good corporate practices. An Empirical Examination of the Relationship between Corporate Governance Ratings and

Listed Companies' performance by Georgeta Vintilă1 & Ştefan Cristian Gherghina indicates 63 variables, divided in four categories: Audit, Board Structure, Compensation, and Shareholder Rights. Also, each category is divided in more subsections, including variables expressed as questions. For the U.S. companies, the Audit area comprise Audit Fees (21.25%), Controversies (57.5%), and Other Issues (21.25%). The Board Structure comprise Board Composition (25%), Committee Composition (15% spread evenly among Nomination, Compensation, and Audit Committees independence questions), and Board Practices (60%). The Shareholder Rights comprise One Share One Vote (10%), Takeover Defences (50%), Voting Issues (17%), and Voting Formalities (23%). The Compensation category comprise Remuneration-Executive Short Term (3%, which focuses on whether a company discloses performance measures, hurdle rates and pay-out thresholds for short-term cash incentive plans), Remuneration-Executive Long Term/Equity (32%), and Remuneration-Other (65%). The relevant questions in each Sub-Index is as follows, the questionnaire being factored in the governance scoring model:

Shareholders Rights -Sub-Index
- How independent is the Board?
- What is the Board's mission?
- How is the Board's functions structured?
- Is the Board effective?
- How does the Company establish Board autonomy?

Composition and Performance of the Board Sub-Index
- How does the Company describe its shareholding voting Process?
- How does the Company encourage alignment between Board and Manager interest with Shareholder interests?
- How does Company address pyramidal structures that reduce the concentration of control?
- How does the Company provide information on its agenda and Shareholders' agreements?
- What resolutions does the Company propose for adoption?

Ethics and Conflicts of Interest Sub-Index
- How are conflicts of interests and related party transactions measured?
- How are Company operations with its Directors and Managers scrutinized?
- Does the Company have significant transactions with shareholders or a certain concentration of ownership?
- What is the Company's ownership composition?

Other Information related to CG Sub-Index
- What is the Company's public commitment to good corporate practices and transparency?
- Does the Company use international accounting principles?
- What is the Company's policy in relation to breaches of CG practices?
- How does the Company disclose its financial performance?
- What practices of good governance does the Company have in place?

Journey in India

As mentioned , Governance is a deep rooted culture in Indian society since country's oldest treatise describes the same and explained it's importance in social life. However, at times some incidents in corporate life triggered actions for further strengthening of governance against the shortcomings observed.

Governance reforms have become the corner stone of corporate sector development in India in recent years. As Indian companies begin to access international capital and as foreign investors begin to acquire stakes in Indian companies, the design of a well laid out governance structure has become increasingly important for growth of corporate sector. India's journey towards good governance practices was initiated long back. Despite couple of hiccups in the form of lapses of governances observed e.g consecutive

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Security scam by Harshad Mehta (1992) and Ketan Parekh (2001) , Satyam (2009), Speak Asia (2011), Sharda Group (2013) etc. ; are black spots in the history of governance in India.
After investors and lenders suffered losses due to unscrupulous management and poor financial reporting, Securities and Exchange Board of India recognized the need for improved governance standards to maintain investor confidence and ensure fair market practices. The following major steps are initiated as good governance practice measures.

Year	Ref. Action for CG	Recommendations
1999	K M Birla Committee	Create a framework for Corporate Governance in India
2000	Narayan Murthy Committee	Role of independent directors (at least 50% of Board) , Audit Committee and enhance disclosure
2002	Naresh Chandra Committee	Prohibition of audit firms, partners, or their relatives from financial benefits from clients
		Barring audit firms from providing internal audit, accounting, and bookkeeping services to their audit clients
2004	SEBI	CEO/CFO certification , Clause 49
2009	MCA	Issue of voluntary guidance on Corporate Governance
2012	MCA	Issue of guiding principles in Corporate Governance to enhance governance frameworks, promoting ethical behaviour and effective management practices
2013	MCA	Introduction of new Companies Act 2013 replacing the Act of 1956
2014	SEBI	Revised Clause 49
2016	MCA	IND AS (Indian Accounting Standard) was adopted in line of global accounting standard IFRS
2017	Kotak Committee	Board composition, enhanced audit committee roles, and stronger shareholder rights
2019	MCA	National Guidelines on Responsible Business Conduct
2023	SEBI	LODR Regulations

While the measures to ensure good governance are continuously evolving , but in absolute term evaluation of the measures taken by a company raises the requirement for In India, a scoring mechanism ; which Agencies like ICRA, CRISIL, BSE etc. tried to develop through a purposive CG Index. The latest CGI was reported by CRISIL (2019), IIAS - Institutional Investor Advisory Services (2020), Bombay Stock Exchange (2020), ICRA (2020), S & P (2020) reproduced hereunder. The salient features of those studies include categorization under broad governance issues (1 to 7 as referred) detailed hereunder.

Agency	Score Indicator						
	1	2	3	4	5	6	7
ICRA			Y	Y	Y	Y	Y
S & P	Y		Y			Y	Y
CRISIL		Y	Y	Y	Y		Y
IIAS	Y		Y			Y	Y
BSE			Y	Y	Y	Y	Y

1 = Accounts Quality
2 = Transparency
3 = Board Composition
4 = Audit Committee
5 = Executive Compensation

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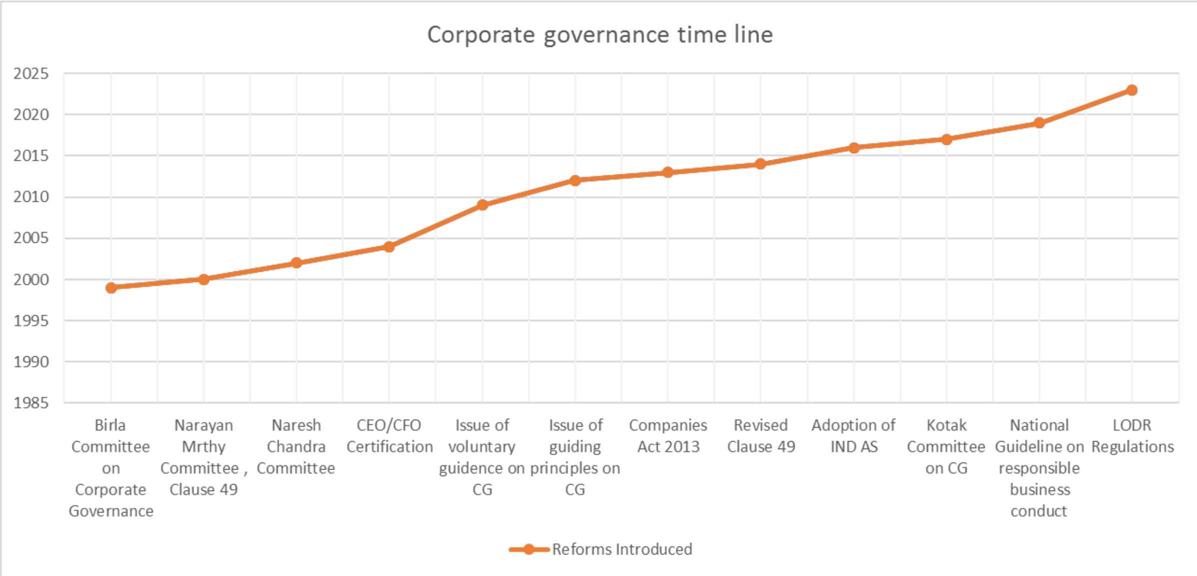
6 = Disclosure
7 = Shareholder Rights

Y indicates reported Parameters



Corporate Governance Index (CGI)
Corporate governance covers a numbers of internal and external mechanisms that reduce agency cost within a corporation and thereby lead to an increase in enterprise value, confidence level of Investors/prospective Investors and Stakeholders. Six important governance mechanisms are considered hereunder to capture the overall state of corporate governance of a company. Viz. (1) Shareholding pattern, (2) Board structure, (3) Business Model –transactions (4) Governance structure and management processes (5) Financial discipline and (6) Ethics (7) CSR and (8) BRSR. These pillars are again sub-divided to strengthen the base further. The corporate governance practices prevalent in an organisation reflect the distribution of rights and responsibilities among its different participants—such as the Board, management, shareholders and other financial stakeholders—and the rules and procedures laid down and followed for making decisions on corporate affairs. The '**Key Pillars and Indicators (KPI)** 'of CGI is indicated hereunder. Sub-Index parameters used for Scoring with maximum indicated score as 3. Total Score allotted 50 and based on actual status as per disclosure of the entity can be computed to ascertain CGI of the entity. The same can be replicated across business sectors.

1. Shareholding pattern
a. Promoter and Non-promoter holding
b. Institutional holding
c. Retail /Minority holding
d. Cross holding, which may affect minority interest

2. Board Structure
a. Competency level of members
b. Independency of Directors
c. Orientation of new directors about company's governance processes
d. Relative standing of existing governance practices as a form of self-assessment

3. Business Model –transactions
a. Transactions with Group entities / related parties
b. Dependency of revenue within group entities
c. Inter group movement of funds
d. Board's authority to handle such transactions

4. Governance structure and management processes
a. Policy monitoring/governance Board
b. Woking Board – hands on major areas e.g Financial decision, Acquisition etc.
c. Empowerment through Committee roles e.g Remuneration/Nomination Committee
d. Two way communication with Board

5. Financial discipline
a. Adherence to Accounting Standards and adequacy of disclosure
b. Changes in accounting policies
c. Disclosure of transactions between associates, related parties etc.
d. Quality of controls and review by Auditor

6. Ethics
a. Code of ethics
b. Cascading of ethics throughout the Organization
c. Monitoring of compliance
d. Whistle blower policy and protection for whistle blower

7. CSR Spent
a. Society's requirement vs. Company's vision to fulfil
b. Statutory compliance
c. Allocation of Spent as per Companies Act vs. Actual spent

8. BRSR Requirement
a. SEBI's mandatory guidance
b. Accuracy of disclosure
c. Identification of Business Risk and actions required

Scope for future research

The scoring matrix require legislative concurrence with or without medication. Once accepted as a framework, compliance by Corporates can be measured as per their score. The absolute number and comparison with peers will help users to understand relative strength and weakness in practising governance.

In future the researchers can measure the impact on Stock prices at the bourses, price volatility factor, Company's reputational impact with respect to companies who are declaring their CGI score and also open for benchmarking.

CONCLUSION

India is developing at a faster pace in comparison to its peers. Liberalization, Privatization and Globalization (LPG) has opened plethora of opportunity before corporate India nay India to become one of the super power in economic front, despite global turmoil and slowdown. Stricter governance norms and compliance will ensure transparency to prospective and present Investors (local or global). Companies with poor corporate governance practices came into limelight, with many such companies experienced an exodus of even independent directors from their Boards. As we extended the Rating mechanism for important corporate governance issues like related party transactions, accounting and reporting quality, stock exchange communication on significant deals etc. , it would be interesting to see that corporate governance rating as a tool for identifying the good and poorly governed companies which in turn should provide a test for the acceptability of the corporate among regulators, investors and society at large.

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CG SCORING MODEL

Ref.	Criterion	Linkage	Rating Score	Score	Max.
1	Shareholder Composition	Shareholder pattern	More than 50% by Public	1	
			More than 70 % by Public	2	2
2	COO Compensation	Financial Discipline	More than 25% of Average Company Pay-out	1	
			Less than 10% of Average Company Pay-out	2	2
3	Board Composition	Board Structure	Maximum number of Independent Directors	2	2
			Less than 50% Independent Directors	1	
4	Legal and Compliance Spent and effects	Ethics	Major non-compliance disclosure	1	
			Minor Legal violation & contesting , results pending	2	
			Legal Expenses less than 1% of Turnover	3	3
5	Audit Committee composition	Board Structure	More than 75% Independent Directors	3	3
			Between 60 % to 75%	2	
			Less than 60%	1	
6	Investor activism	Business Model - transactions	Minority Participation in decision making - voting by less than 50%	1	

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			Minority Participation in decision making - voting by more than 50%	2	2
7	Institutional holding	Shareholder pattern	Less than 10%	1	
			More than 20%	2	2
8	Secretarial shortcomings in disclosure	Business Model - transactions	Rectification of disclosures	1	
			Ensuring accuracy in disclosure required	2	2
9	Minority Shareholding vs. Independent Directors	Board Structure	Per 10 p.c of Minority Interest representation by at least one Director	2	2
			Less than one Director per 10% of Minority Interest	1	
10	p.c of Entity Turnover against transactions with Related Parties	Business Model - transactions	Maximum upto 25% of Turnover	2	2
			Over 25% turnover from related parties - dependency risk	0	
11	Board Engagement Level (Attendance)	Governance Structure & Management process	More than 75% of the BOD Meetings	2	2
			Less than 60% of the BOD Meetings	1	

12	Disclosure of Performance parameters and Executive compensation	Governance Structure & Management process	Role of Remuneration Committee in specifying performance parameter setting and disclosure	2	
			Evaluation of performance against the set parameters and disclosures	3	3
			Linking of performance with remuneration and disclosure	4	
13	Separation of CEO and Chairperson Role (Kotak Committee)	Governance Structure & Management process	Non separation	0	
			Separated	2	2
14	MSME Payment compliance	Governance Structure & Management process	Disclosure on MSME payments disclosure within stipulated days of payment	3	3
			Provision for interest made in Accounts due to delayed payment	1	
15	CSR Spent	Governance Structure & Management process	Actual Spent in approved activities over the stipulated limit	3	3
			Actual Spent in approved activities upto the stipulated limit	1	
			Actual Spent in approved activities less than 50% of the stipulated limit	0	

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16	Retirement, Re-election and Continuity period criterion for Directors with Age bracket	Board Structure	Provisions under Companies Act and own set of guidelines for adherence	2	2
			More than 10 years tenure and age beyond 70 years	0	
			Re-election for more than 3 times in a row or more than 10 years continuous	0	
17	Resignation by Director/s before serving the stipulated period	Ethics	Resignation citing any reason other than health ground	0	
			Serving the full tenure	2	2
18	Management Shareholding information disclosure	Governance Structure & Management process	Annual Sign-off procedure with disclosure of holding	2	2
			Holding more than 5% in total by the top executives	0	
19	Whistle Blower Policy	Governance Structure & Management process	Period gap over 2 years for implementation post stipulation> 2 years	0	
			Period gap over 2 years for implementation post stipulation < 1 year	3	3
			Period gap over 2 years for implementation post stipulation> 1 but <2 years	2	
20	Promoter's pledging and disclosure of reason (result in increased governance & liquidity risk)	Governance Structure & Management process	No pledging disclosure with assumption for non-happening	3	3

			Disclosure of pledge with reason therefor	2	
			Release of pledge and disclosure	1	
21	Entity disclosed Policy on selection of Statutory Auditor	Governance Structure & Management process	Board's disclosed Policy for selecting Statutory Auditor	3	3
			No disclosed Policy but referred by any Board Member or Promoter	0	
22	Business Responsibility and Sustainability (BRSR)	Governance Structure & Management process	Appropriate Disclosure of Business Risk in BRSR and RM under Corporate Governance Reporting	5	5
			Incompleteness	2	
			Non Reporting	0	
					55
			Score Band	Grade	
			40 - 55	A	
			30 - 39	B	
			20 - 29	C	
			Upto 19	D	

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