*THINK INDIA JOURNAL*

ISSN:0971-1260
Vol-22- Issue-35-December-2019

# Current Corporate Governance- A Scenario

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**Abstract**

Corporate governance is the arrangement of procedures, customs, approaches, laws, and establishments influencing the manner in which an organization is coordinated, regulated or controlled. Corporate governance additionally incorporates the connections among the numerous partners included and the objectives for which the company is administered.

The chief partners are the investors/individuals, the board, and the top managerial staff. Different partners incorporate work (representatives), clients, loan bosses (e.g., banks, investors), providers, controllers, and the network on the loose. A significant topic of corporate governance is to guarantee the responsibility of specific people in an association through components that attempt to decrease or dispose of the head operator issue. It is an arrangement of organizing, working and controlling an organization so as to accomplish long haul vital objectives to fulfill investors, banks, representatives, clients and providers, and agreeing to the legitimate and administrative necessities, aside from meeting ecological and nearby network needs.

Report of SEBI advisory group on Corporate Governance characterizes corporate governance as the acknowledgment by the board of the basic privileges of investors as the genuine proprietors of the enterprise and of their own job as trustees in the interest of the investors. It is about pledge to values, about moral business direct and about making a differentiation between close to home and corporate assets in the governance of an organization.

Issues including corporate governance standards include:

Inward controls and inside examiners

 

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The freedom of the substance's outer reviewers and the nature of their reviews

Oversight of the planning of the substance's fiscal reports

Audit of the pay game plans for the CEO and other senior administrators.

**Keywords:** Corporate governance, corporation, stakeholders.

## 1. INTRODUCTION

In the course of recent decades, the speculation world has seen a huge quantities of outrages identifying with organizations which are credited to disappointment of administration. This has been caused because of a blend of variables which can be primarily characterized into three corporate sins.

•The official executives of the organization lost the feeling of business morals and income turned into the main thought process. Executives were not set up to show misfortunes which prompted the utilization of unscrupulous practices like manufacturing books of records to show higher income.

•Other chiefs went about as a manikin in the hands of official executives, favoring inappropriate fiscal reports and supporting uncalled for training. Supervisors granted themselves enormous rewards and investment opportunities, frequently to the detriment of different investors.

•Auditors plotted or neglected to prevent official executives from utilizing inappropriate bookkeeping strategies. In the process they lost their freedom which they gave up it as a byproduct of high review charges.

The zone of corporate administration has obtained increased consideration in the most recent decade as a result of different prominent outrages and crumples refered to from the USA (Enron, World com, Tyco), the UK (the breakdown of Maxwell distributing gathering), Germany (the instances of Holtzman, Berliner Bank, and HIH), Korea (the across the board banking trouble in 1997), Australia (Ansett Airlines and One Tel), France (Credit Lyonnais and Vivendi), and Switzerland (Swissair), India (Satyam and Reebok). The world response to these corporate wrongs was enormous which prompted the improvement of law and codes for better corporate administration. Cadbury Committee report 1992 (UK), Greenbury report 1995 (UK), The Combined code 1998 (UK), Turnbull report 1999 (UK), OCED standards of corporate administration 1999 and so forth were a portion of the global activities to manage corporate-undertakings. Particularly the breakdown of Enron in the USA in 2001 expanded the significance of corporate administration both in the USA and in different pieces of the world.

## 2. OBJECTIVE OF THE RESEARCH

To analyze corporate governance practice of BSE-30 companies for last five years with reference of mandatory disclosure described by SEBI for Indian companies.

To find out importance of corporate governance in Indian companies from the view point of the Company Secretary.

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To find out the awareness of functioning of Corporate Governance amongst investors who are fundamental analyst. To evaluate the importance of corporate governance as a parameter for investor before investing.


## 4. CORPORATE GOVERNANCE-THE CONCEPT

Corporate governance to the most widely recognized type of business association, one which is contracted by a state and given legitimate rights as an element separate from its proprietors. This type of business is portrayed by the constrained risk of its proprietors. The way toward turning into a partnership, called fuse gives the organization separate legitimate remaining from its proprietors and shields those proprietors from being by and by obligated if the organization is sued.

The idea of corporate administration is picking up force in light of different factors just as the dynamic business condition. The standards of good administration are as old as great conduct, which needs no proper definition. In any case, in reference to the corporate world, it has been characterized by different people, some of whom is portrayed underneath just so as to fulfill that the imperative subtleties and soul of the term are not passed up a major opportunity. Sir Adrian Cadbury Committee, which investigated corporate administration issues in U.K., characterizes Corporate Governance "as the framework by which the organizations are coordinated and controlled. The fundamental target of corporate

 

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administration is to improve and expand investor esteem and ensure the enthusiasm of other partners". Further the Kumar Mangalam Birla advisory group comprised by SEBI has seen that, "Solid corporate administration is key money related revealing structure. "As per ICSI, "We may characterize 'corporate administration as a mix of rules, guidelines, laws and deliberate practices that empower organizations to pull in monetary and human capital, perform proficiently and consequently boost long haul an incentive for the investors other than regarding the yearnings of different partners including that of the general public.

Corporate administration is a multidisciplinary field of study it covers a wide scope of orders – bookkeeping, counseling, financial matters, morals, money, law, and the board. The principle capacity of corporate administration is to settle on understandings that depict the benefits and errands of investors and the association. If there should be an occurrence of differences in view of irreconcilable situation, it is the obligation of corporate administration to unite everybody. It likewise has the capacity of setting measures against which partnerships work can be overseen and directed.

Great administration is fundamental to the very presence of an organization. It moves and fortifies financial specialist's certainty by guaranteeing organization's promise to higher development and benefits. It looks to accomplish following targets:

(i)That an appropriately organized Board fit for taking autonomous and target choices is set up in charge of issues;

(ii)That the Board is adjusted as respects the portrayal of sufficient number of non-official and autonomous executives who will deal with the interests and prosperity of the considerable number of partners;

(iii)That the Board embraces straightforward techniques and rehearses and lands at choices on the quality of satisfactory data.

(iv)That the Board has a successful apparatus to sub serve the worries of partners;

(v)That the Board keeps the investors educated regarding important advancements affecting the organization;

(vi)That the Board successfully and consistently screens the working of the supervisory group; and

(vii)That the Board stays in successful control of the issues of the organization consistently. The general undertaking of the Board ought to be to take the association forward, to boost longer gains and partners' riches.

(vii)That the Board stays in successful control of the issues of the organization consistently. The general undertaking of the Board ought to be to take the association forward, to boost long term gains and partners' riches.

## 5. PRINCIPLES OF CORPORATE GOVERNANCE

Primary standards of Corporate Governance are: Right and Equitable treatment of Shareholders, Consistency, Responsibility, Accountability, Disclosure, Fairness, Transparency, Roles and Responsibilities of Board, Interest of Stakeholders Integrity, Ethical

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Behaviour Mechanisms and Control. Companies influence mobilizing of their own assets, just as assets of other partners in the worth chain. Hence consistency of the policies creates the correct expectation in the worth chain and encourages the worth chain to be stronger overall. In this way, leaders at all levels should assume the duty to step up and be liable for their decisions. Every choice requires thought of the interests of different stakeholders. The individuals who are esteemed to be reasonable in their choices are able to build up longer term connections which are basic for long term practical improvement. Trust must be picked up with transparency. Along these lines, straightforwardness and viable correspondence are critical for long haul achievement. As every chief inside the corporation has a significant job in setting up the notoriety of the corporation, organization of these standards all through the corporation is significant for having effective Corporate Governance.

**Civil liberties and unbiased treatment of shareholders**

Enterprises should regard the benefits and privileges of the shareholders and help investors to practice those rights. Organizations can encourage investors practice their privileges by effectively imparting data that is reasonable and accessible and urging investors to take an interest in general meetings.

**Reliability, accountability and liability**

Individuals who settle on choices in an enterprise must be held accountable for their choices and systems. Financial specialists consider people running the organization responsible for their activities via completing usual inquiries to ascertain the activities of the board. In a corporation ,managerial obligation implies that the administration be responsible for their conduct and have implies for rebuffing the carelessness. It also implies setting up a framework that puts the enterprise on the right way when things turn out badly.

**Revelation, Fairness and Simplicity**

Straightforwardness is the proportion of how simple it is for outcasts to discover out and break down an organization's monetary and non-budgetary fundamentals. The organization must be reasonable and adjusted and consider the interest of the entirety of the organization's partners. Organizations ought to make all data accessible in proper and precise official statements to give untouchables a genuine image of what's going on inside the corporation. Organizations ought to explain and make openly known the roles and duties of board and the executives to provide shareholders with a degree of responsibility.

**Integrity and Ethical Behaviour**

Moral and dependable basic leadership isn't just significant for public relations, yet it is additionally a basic component in chance administration and staying away from claims. Enterprises ought to expand an implicit rules for their chiefs and administrators that advances moral and capable basic leadership. Numerous partnerships set up Compliance and Ethic Programs to reduce the hazard that the firm strides outside of moral and lawful limits.

**Welfare of other Stakeholders**

Corporations should recognize that they have legal and otherobligations towards all legitimate stakeholders.

 

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**Role and Responsibilities of the Board**

“The board needs assortment of aptitudes and comprehension to bargain with various business issues and the capacity to survey and challenge management execution. Board is required to have a reasonable level of commitment to satisfy its obligations and obligations. Corporate Governance models offer ascent to issues like suitable blend of executive and non-official chiefs."

**Machinery and Controls**

Corporate Governance instruments and controls are intended to decrease the wasteful aspects that emerge from moral risk and un alluring determination. For instance, to screen supervisors' conduct, a free outsider (the outer evaluator) validates the precision of data gave by the board to financial specialists.

## 6. Four P’s Of Corporate Governance

Corporate Governance is a joined system whereby individuals officially arrange themselves for a particular reason, and they apply significant procedures always to accomplish anticipated execution for Sustainable Development.

"The intensity of data is currently in hands of PEOPLE. Presently individuals can evaluate corporate PERFORMANCE on many parameters. Intensity of data has additionally expanded challenge, which is presently not restricted to drawing in clients, however it is progressively gathered in pulling in ability and agents, without which companies can't work. Along these lines it is important that organizations must have all around characterized PROCESS to reliably accomplish anticipated outcomes consistently. Corporate techniques and authoritative practices are taken as given, and business morals has become a focused achievement factor. Great individuals partner with the Corporates which have a well-characterized PURPOSE as vision and partner arrangements and true endeavors are put to satisfy those responsibilities in since quite a while ago run."

In evolving worldview, 4Ps (People, Purpose, Process and Performance) have gotten basic for corporate supportability.

### 7. Need for and Importance of Corporate Governance

The need for corporate governance has arisen because of the increasing concern about the non-compliance of standards of financial reporting and accountability by boards of directors and management of corporate inflicting heavy losses on investors. Many large corporations are transnational in nature. This means that these corporations have impact on citizens of several countries across the globe. If things go wrong, they will affect many counties, some more severely than others. It is, therefore, also necessary to look at the international scene and examine possible international solutions to corporate governance difficulties. Corporate governance is needed to create a corporate culture of consciousness, transparency and openness. It refers to a combination of laws, rules, regulations, procedures and voluntary

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practices to enable companies to maximise shareholder's long-term value. It should lead to increasing customer satisfaction, shareholder value and wealth. With increasing government awareness, the focus is shifted from economic to the social sphere and an environment is being created to ensure greater transparency and-accountability.

**It is integral to the very existence of a company and can be summarised in the following points:**

**a) Corporate scams:** Scandals in the corporate world, whether centred around corruption, bribery, fraud, or greed tend to have a significant impact on the economy as a whole. The need for corporate governance is, then, imperative for reviving investors' confidence in the corporate sector towards the economic development of society.

**b) Wide Spread Shareholders:** In today's era, a company has a very large number of shareholders spread all over the world. The idea of shareholders' democracy remains confined only to the law and the Articles of Association which requires a practical implementation through a code of conduct of corporate governance.

**c) Changing Ownership Structure:** The pattern of corporate ownership has changed considerably, in the present-day-times with institutional investors and mutual funds becoming largest shareholders in large corporate private sector. These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate governance to build up its image in society.

**d) Globalization:** Desire of more and more companies to get listed on international stock exchanges also focuses on a need for corporate governance. There is no doubt that international capital market recognises only companies well- managed according to standard code of corporate governance.

**8. Issues in Corporate Governance**

Corporate governance has been defined in different ways by different writers and organisations. Some define it in a narrow perspective to include in it only the shareholders, while others want it to address the concerns of all stakeholders. Some talk about corporate governance being an important instrument for a country to achieve sustainable economic development, while others consider it as a corporate strategy to achieve a long tenure and a healthy imagine. But to all, corporate governance is a means to an end, the end being long term shareholder, and more importantly, stakeholder value. Thus, all authorities on the subject are one in recognising the need for good governance practices to achieve the end for which corporate are formed. Some governance issues are identified as being crucial and critical to achieve these objectives.

**Distinguishing the roles of board and management:** Constitutions of more and more companies stress and underline that the business is to be managed "by or under the direction of" the board. In such a practice, the responsibility for managing the business is delegated by the board to the CEO, who in turn delegates the responsibility to other senior executives. Thus, the board occupies the key position between the shareholders (owners) and the company's management (day-to-day managers of the company).

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**Separation of the roles of the CEO and chairperson:** The composition of the board is a major issue in corporate governance as the board acts as a link between the shareholders and the management and its decisions affect the performance of the company. All committees that studied corporate governance practices all over the world, starting with the Cadbury committee, have suggested various improvements in the composition of boards of companies. It is now increasingly being realised that the practice of combining the role of the chairperson with that of the CEO as is done in countries like the US and India leads to conflicts in decision making and too much concentration of power in one person resulting in unsavoury consequences. Combining the role of both the CEO and chairperson removes an important check on senior management's activities. This is the reason why many authorities on corporate governance recommend strongly that the chairman of the Board should be an independent director in order to "provide the appropriate counterbalance and check to the power of the CEO" (IFSA).

**Directors and executive's remuneration:** This is one of the mixed and vexed issues of corporate governance that came into the limelight during the massive corporate failures in the US between 2000 and 2002. Executive compensation has also in recent time become the most viable and politically sensitive issue relating to corporate governance. According to the Cadbury report: "The over- riding principle in respect of Board remuneration is that shareholders are entitled to full and clear statement of directors present and future benefits, and how they have been determined." Other committees on corporate governance have also laid emphasis on other related issues such as " pay-for performance", heavy severance payments, pension for non- executive directors, appointment of remuneration committee and so on.

**Disclosure and audit:** The OECD lays down a number of provisions for the disclosure and communication of "key facts" about the company to its shareholders. The Cadbury Report termed the annual audit as "one of the cornerstones of corporate governance". Audit also provides a basis for reassurance for everyone who has a financial stake in the company. There are several issues and questions relating to auditing which have an impact on corporate governance. There are, for instance, questions such as: (i) How to ensure independence of the auditor? (ii) Should individual directors have access to independent resource? Etc.

**Composition of the board and related issues:** A board of directors is a "committee elected by the shareholders of a limited company to be responsible for the policy of the company. Sometimes, full time functional directors are appointed, each being responsible for some particular branch of the firm's work".The composition of board of directors refers to the number of directors of different kinds that participate in the work of the board. Over a period of time there has been a change as to the number and proportion of different types of directors in the board of a limited company. The SEBI appointed **Kumar Mangalam Birla Committee's Report** defined the composition of the Board thus:

The Board of directors of a company shall have an optimum combination of executive and non- executive directors with not less than 50 percent of the board of directors to be non-executive directors. The number of independent directors would depend upon whether the chairman is executive or non- executive. In case of a non-executive chairman, at least one-

 

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third of the board should comprise independent directors and in case of executive chairman, at least half of the board should be independent directors.

### 9. What is "good" Corporate Governance?

Bad governance is being recognized now as one of the root causes of corrupt practices in our societies. Major donors, institutional investors and international financial institutions provide their aid and loans in condition that reforms that ensure "good governance" are put in place by the recipient nations. As with nations, corporations too are expected to provide good governance to benefit all their stakeholders. At the same time, good corporate are not born, but are made by the combined efforts of al stakeholders, which include shareholders, board of directors, employees, customers, dealers, government and the society at large. Law and regulation alone cannot bring about changes in corporate to behave better to benefit all concerned. Directors and management, as goaded by stakeholders and inspired by societal values, have a very important role to play. The company and its officers, who, inter alia, include the board of directors and the officials, especially the senior management, should strictly follow a code of conduct.

There are four broad theories to explain and elucidate corporate governance. These are:

- Agency theory
- Stewardship theory
- Stakeholder theory
- Sociological theory

**Agency theory:**

Recent thinking about strategic management and business policy has been influenced by agency cost theory, though the roots of the theory can be traced back to Adam Smith who identified an agency problem in the joint stock company. The fundamental theoretical basis of corporate governance is agency costs. Shareholders are the owners of any joint stock, limited liability Company, and are the principals of the same. By virtue of their ownership, the principals define the objectives of the company. The management, directly or indirectly selected by the shareholders to pursue such objectives, are the agents. While the principals generally assume that the agents would invariably carry out their objectives, it is often not so. In many instances, the objectives of managers are at variance from those of the shareholders. Such mismatch of objectives is called the agency problem; the cost inflicted by such dissonance is the agency cost. The core of corporate governance is designing and putting in place disclosures, monitoring, oversight and corrective systems that can align the objectives of the two sets of players as closely as possible and hence minimize agency costs.

**Stewardship theory:**

The stewardship theory of corporate governance discounts the possible conflicts between corporate management and owners and shows a preference for board of directors made u primarily of corporate insiders. This theory assumes that managers are basically trustworthy

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and attach significant value to their own personal reputations. The market for managers with strong personal reputations serves as the primary mechanism to control behaviour, with more reputable managers being offered higher compensation packages.

**Stakeholder theory:**

The stakeholder theory is grounded in many normative, theoretical perspectives including ethics of care, the ethics of fiduciary relationships, social contract theory, theory of property rights, and so on. While it is possible to develop stakeholder analysis from a variety of theoretical perspectives, in practice much of stakeholder analysis does not firmly or explicitly root itself in a given theoretical tradition, but rather operates at the level of individual principles and norms for which it provides little formal justification. Stakeholder theory is often criticized, mainly because it is not applicable in practice by corporations

**Sociological theory:**

The sociological approach has focused mostly on board composition and implications for power and wealth distribution in the society. Under this theory, board composition, financial reporting, and disclosure and auditing are of utmost importance to realize the socio-economic objectives of corporations.

**The Anglo-American model**

This is also known as unitary board model, in which all directors participate in a single board comprising both executive and non-executive directors in varying proportions. This approach to governance tends to be shareholder oriented. It is also called the 'Anglo-Saxon' approach to corporate governance being the basis of corporate governance in America, Britain, Canada, Australia and other Commonwealth law countries including India.

The major features of this model are as follows:

The ownership of companies is more or less equally divided between individual shareholders and institutional shareholders.

Directors are rarely independent of management.

Companies are typically run by professional managers who have negligible ownership stake. There is a fairly clear separation of ownership and management.

Most institutional investors are reluctant activists. They view themselves as portfolio investors interested in investing in a broadly diversified portfolio of liquid securities. If they are not satisfied with a company's performance, they simply sell the securities in the market and quit.

The disclosure norms are comprehensive, the rules against insider trading tight, and the penalties for price manipulations stiff, all of which provide adequate protection to the small investors and promote general market liquidity. They also discourage large investors from taking an active role in corporate governance.

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**10. India and corporate governance**

Corporate governance has played a very important role in the present economic condition of India. India successfully started its move towards open and welcoming economy in 1991 by following the LPG policy. From then onwards it has seen an amazing upward trend in the size of its stock market, that is, number of listed firms was increasing proportionately If India wants to attract more countries for foreign direct investments, Indian companies have to be more focused on transparency and 'Shareholders value maximization'

Kumarmangalam Birla Committee described the concept of corporate governance instead of defining or giving a meaning of it. Three key constituents of corporate governance as the shareholders, the Board of Directors and the Management and has attempted to identify in respect of each of these constituents, their roles and responsibilities as also their rights in the context of good governance. Fundamental to this examination and permeating throughout this exercise is the recognition of the three key aspects of corporate governance; namely, accountability, transparency and equality of treatment for all stakeholders.

The pivotal role in any system of corporate governance is performed by the board of directors. It is accountable to the stakeholders and directs and controls the management. It stewards the company, sets its strategic aim and financial goals and oversees their implementation, puts in place adequate internal controls and periodically reports the activities and progress of the company in the company in a transparent manner to the stakeholders. The shareholders role in corporate governance is to appoint the directors and the auditors and to hold the board accountable for the proper governance of the company by requiring the board to provide them periodically with the requisite information, in a transparent fashion, of the activities and progress of the company. The responsibility of the management is to undertake the management of the company in terms of the direction provided by the board, to put in place adequate control systems and to ensure their operation and to provide information to the board on a timely basis and in a transparent manner to enable the board to monitor the accountability of management to it.

Naresh Chandra Committee 'Report of the Committee on Corporate Audit and Governance' describe: The fundamental theoretical basis of corporate governance is agency costs. Shareholders are the owners of any joint-stock, limited liability Company, and are the principals. By virtue of their ownership, the principals define the objectives of a company. The management, directly or indirectly selected by shareholders to pursue such objectives, are the agents. While the principals might wishfully assume that the agents will invariably do their bidding, it is often not so. In many instances, the objectives of managers are quite different from those of the shareholders. Such misalignment of objectives is called the agency problem, and the cost inflicted by such dissonance is the agency cost. The core of corporate governance is designing and putting in place disclosures, monitoring, oversight and corrective systems that can align the objectives of the two sets of players as closely as possible and, hence, minimise agency costs.

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**Narayan murthy Committee on 'Report of the SEBI Committee on Corporate Governance' commented on Corporate Governance in the following manner:**

·A corporation is a congregation of various stakeholders, namely, customers, employees, investors, vendor partners, government and society. A corporation should be fair and transparent to its stakeholders in all its transactions. This has become imperative in today's globalised business world where corporations need to access global pools of capital, need to attract and retain the best human capital from various parts of the world, need to partner with vendors on mega collaborations and need to live in harmony with the community. Unless a corporation embraces and demonstrates ethical conduct, it will not be able to succeed.

·Corporate governance is about ethical conduct in business. Ethics is concerned with the code of values and principles that enables a person to choose between right and wrong, and therefore, select from alternative courses of action. Further, ethical dilemmas arise from conflicting interests of the parties involved. In this regard, managers make decisions based on a set of principles influenced by the values, context and culture of the organisation. Ethical leadership is good for business as the organisation is seen to conduct its business in line with the expectations of all stakeholders.

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

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## 11. **Conclusion**

In this paper, we saw how important it is for a company to follow good corporate governance practices. The paper started going deep into the root cause of factors that affect corporate governance such as distinguishing the roles of board and management, composition of the board and related issues, choice of auditors and audit committee, directors and executives' remuneration etc. Then we looked at the brief history of corporate governance in India. India being an emerging economy needs to work more on regulating the corporate governance policies. The future of corporate governance is becoming a little clear now; the investors are promoted to behave more like owners rather than just traders. Independent directors have more defined roles and responsibilities.

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