National Research Journal of Business Economics
Volume-2, Issue-1, Year-2015
PP: 16-31 ISSN No: 2349-2015

A Study of Corporate Governance Practices for Maintaining Financial Integrity in India

Mamta Mishra
Associate Professor, The Entrepreneurship School, Gurgaon, Haryana, India.

Abstract

The paper takes a look at the existing literature on corporate governance and traces the origin of corporate governance and drivers for its growth in recent times. It reviews some of the governance mechanisms and their adequacy in protecting shareholder interest. Corporate governance provides shareholders with a range of mechanisms to check managerial greed, opportunism and earnings manipulation. The paper reviews the mechanisms of audit committee and whistle blowing in particular and their applicability in the context of Indian companies. It also traces the evolution of corporate governance in India to the present day scenario with the introduction of the Companies Act, 2013. The Companies Act 2013, which calls for sweeping changes in corporate governance and auditing norms, has increased the scope of responsibilities for audit committees. It is expected that as companies scramble to comply with the provisions of the new Companies Act, the role of audit committees in public companies will acquire a new dimension. In the times to come, audit committees may emerge to be an indispensable mechanism in preventing managerial intervention in financial reporting and ensuring sanctity of the audit process.

Keywords: India; corporate governance; audit committees; Companies Act 2013.

Introduction

Countries across the world are experiencing a rise in corporate crimes as never before. Financial scams and accounting scandals continue to dominate headlines, as law makers and regulators jostle to introduce and enforce tighter rules and regulations. The 2014 Global Economic Crime Survey by PwC identifies economic crime as a pervasive global threat, with businesses and organizations the world over bracing themselves to face the challenge. The PwC survey throws up some of the most commonly reported economic crimes.

Table 1

Types of Fraud Consistently Reported	No. of Respondents Reporting the Fraud
Asset Misappropriation	69%

Procurement Fraud	29%
Bribery and Corruption	27%
Cybercrime	24%
Accounting Fraud	22%

Source: PwC 2014 Global Economic Crime Survey

Of the crimes reported by the survey respondents, accounting fraud registered the largest increase from 16% in 2011 to 22% in 2014 (Bramwell 2014). The spate of corporate crimes, particularly those resulting from financial misconduct, earnings manipulation and reporting malpractices have intensified the need for corporate governance.

The Organization for Economic Co-operation and Development (OECD) defines corporate governance as:

> Procedures and processes according to which an organisation is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making.(OECD 2005)

The buzz around corporate governance has grown louder over the last two decades but it reached reverberating levels after corporate failures and financial scams rocked the U.S. in 2001– 2002, effects of which were felt across the globe. The alarming rise in corporate failures and accounting scandals caused a paradigm shift in the way companies are getting governed. The last two decades have witnessed a plethora of laws, rules, regulations and recommendations on the ways to conduct a business. Corporate governance in simple language can be described as the ethical and moral way to conduct business. It is a reflection of a company's culture, policies, its relationship with stakeholders and its commitment to values (Bhanumurthy & Dessai 2010). Recognized as an indispensable tool for investor protection , the code for corporate governance varies between different countries depending upon cultural, social, legal and regulatory practices.

The financial crisis in 2008 saw some of biggest names on Wall Street go bust. This further emphasized the need for transparency in financial systems and accountability by companies in which public money is invested. The Sarbanes-Oxley (SOX) Act was one of the greatest landmark legislations passed by the US Senate in 2002. SOX was perceived by many as America's answer to the huge public outcry that followed the massive debacles of Enron and WorldCom.

Corporate scams and financial reporting malpractices are not restricted to any particular region or country. Like its western counterparts, India too has had more than its fair share of corporate frauds. The UTI scam of 1990s, Ketan Parekh securities scam, the collapse of Global Trust Bank and the recent Satyam fiasco which unfolded in early 2009 are glaring examples of auditing and governance failure. Aptly described as “India’s Enron”, Satyam has become an important case study in many business schools, highlighting the loopholes in systems of internal control and corporate governance. Both Satyam and Enron have been primarily responsible for overhauling the systems of corporate governance in India and the U.S. respectively.

The Securities and Exchange Board of India (SEBI), which functions as the capital markets watchdog in India has drawn a lot of flak in recent times from domestic and foreign investors alike for its poor enforcement of corporate governance norms in listed companies. As per SEBI’s own admission, nearly 20% of companies listed on stock exchanges in India do not comply with the basic reporting norms. Lack of penal action against companies for non-compliance with the terms of the listing agreement seems to have encouraged more flagrant violation of norms. As per a recent report, the International Monetary Fund is the latest complainant and has highlighted the lack of compliance with listing obligations as a key weakness in its recent financial sector assessment report on India (Livemint 2013).

The paper takes a look at the existing literature on corporate governance and traces the origin of corporate governance and drivers for its growth in recent times. It reviews some of the governance mechanisms and their adequacy in protecting shareholder interest. Corporate governance provides shareholders with a range of mechanisms to check managerial greed, opportunism and earnings manipulation. The paper reviews the mechanisms of audit committee and whistle blowing in particular and their applicability in the context of Indian companies. It also traces the evolution of corporate governance in India to the present day scenario with the introduction of the Companies Act, 2013. The Companies Act, 2013 calls for sweeping changes in corporate governance and auditing norms. With additional stringent provisions to ensure corporate responsibility and punitive measures prescribed for non-compliance, investors can expect Indian companies to be more accountable and transparent in their dealings and follow international best practices of financial disclosure. However, it remains to be seen whether the new laws and regulations will be successful in addressing the existent lacuna in the system which gets exposed when personal greed and selfish motives take over corporate responsibility and shareholder wealth maximization motives.

Literature Review

Origin and Emergence of Corporate Governance

Academic research on corporate governance has grown tremendously since the early 1990s. As per Balgobin (2008), research papers on corporate governance published in peer-reviewed journals have increased from 641 in 1985-96 to 9,717 in 1996-2006. The period 1993-2007 witnessed maturation of corporate governance research as a discipline in itself

(Durisine & Puzone 2009). However, most research conducted takes into perspective the US setting, with cross-national setting largely ignored.

As a research area, corporate governance gained momentum and became a prominent theme after the publication of the Cadbury committee report in the UK in 1992 (Subramanian & Swaminathan 2008). The report titled “Financial Aspects of Corporate Governance” provided a major fillip to the development of corporate governance norms worldwide. The Cadbury report gave recommendations on mitigating financial reporting risks and corporate failures through management of accounting systems and company boards. The report, which is seen as a pioneering initiative in the area of corporate governance provided a base for the development of later codes.

Researchers in this area have put forth numerous definitions of corporate governance. However, the essence of the various definitions has revolved upon maximizing shareholder value and ensuring fair play to the other stakeholders of a company. Shleifer & Vishny (1997), in their acclaimed survey of literature, state that corporate governance is concerned with the ways in which capital providers to firms ensure return on their investment.

As per Bose (2009), good corporate governance practices are a pre-requisite for ensuring sustainable growth in a scenario of intense competition in emerging markets and also embody parameters of fairness, accountability, disclosures and transparency to maximize value for the stakeholders. Chakrabarti (2005) in his study identifies a key issue in corporate governance is to ensure that the managers actually act on behalf of the owners of the company, who are the stockholders and pass on the profits to them. Value maximization for shareholders being the crux of corporate governance is also endorsed by Bhanumurthy & Dessai (2010), who state that corporate governance is about maximising shareholders value legally, ethically and on a sustainable basis, while ensuring fairness to every stakeholder.

Researchers in the area of corporate governance have highlighted a number of factors which have caused governments and regulatory bodies to enforce a stricter code of conduct for companies. As per Sarkar (2009), origin of corporate governance can be traced to the agency conflict that always seems to prevail between the managers and owners of a company. A similar view is also endorsed by Chakrabarti (2005). Separation of ownership and control in public companies gives rise to conflict between the shareholders and managers who seem to be interested in pursuing their own distinct interests. In his study, Sarkar(2009) states that managers may tend to behave opportunistically to further their own personal causes ignoring the needs of shareholders who look for value maximization of the firm. Board of directors of a company can act as one of the most instrumental mechanisms in bridging the interest gap between shareholders and managers.

The agency conflict which has to a large extent been addressed by corporate governance is also discussed by other researchers. Roe (2004) identifies two dimensions in the institution of corporate governance –vertical and horizontal. The vertical dimension is between senior managers and distant shareholders in public firms where there is no dominant shareholder. Governance is concerned with minimizing managerial opportunism and maximizing shareholder wealth. Vertical dimension to governance is most typical in countries like the U.S. and the U.K., where ownership of firms largely stays diffused in nature. This is in contrast to the horizontal dimension to governance which is prevalent in companies with concentrated ownership structure and plays out between dominant and dispersed stockholders. In horizontal dimension, focus of governance is on preventing value shift from the minority to the dominant stockholder. This is mostly observed in continental Europe, Latin America and Asian countries including India where businesses are largely family owned, and key managerial positions are held by family members with significant ownership rights (Roe 2004).

Though corporate governance in its nascent form can be argued as having originated from the agency conflict, the last two decades have witnessed colossal changes in corporate governance standards across the world. Researchers have identified some key drivers instrumental in the development of corporate governance. As per Kaur & Mishra (2010, p. 1), “corporate governance has been gaining momentum across the world due to miserable corporate failures, unethical business practices, insufficient disclosure and transparency, inefficient management and social concerns”. They have in their study identified poor internal control, lack of incentives, poor external monitoring system and ineffective top leadership as factors responsible for the failure of corporate governance. Gollakota & Gupta (2006) highlight different factors for the rise of corporate governance in the West and East. They suggest that the spate of corporate scandals in the U.S. has been the force behind the enactment of the SOX Act. In East and South East Asia, financial or economic crisis has been the primary factor for development of governance standards. However, In India, initiatives by professionally driven companies, like Infosys, have been responsible for the improvement in corporate governance.

Swain (2009) mentions that the major driving forces for the emergence of corporate governance in India include globalization, unethical business practices and security scams, privatization, ownership/capital structure, institutional investors, board characteristics, firm performance and executive compensation. Despite these overwhelming factors which more than justify the need for effective governance, the most important factor for the increased focus on corporate governance has been identified by Bhalla (2012) as the large dependence of companies on financial markets as the pre-eminent source of capital. As per Bhalla (2012), capital markets can function with resilience and vibrancy only if backed by a strong system of corporate governance.

Corporate governance is a widely acclaimed tool for enhancing investor confidence and promoting wider participation in capital markets. A strong system of corporate governance is also essential as businesses look to go global and tap international markets (Mintz & Krishnan 2009). This would apply more to emerging market economies like India where companies are now looking beyond domestic frontiers to enter previously unchartered territories and tap new markets for funds. In their study, Singh, Kumar, & Uzma(2010) have identified four limbs which constitute most corporate governance models:

- Presence of independent directors on board
- Audit committees with appropriate powers to oversee the financial reporting, accounting and auditing process
- Transparency and disclosures
- Certification of accounts and related statements by CEOs and CFOs

Sharma & Sachdeva (2011) have in their research highlighted the importance of regulatory framework as the foundation for ensuring good corporate governance in a country. The role of the stock market regulator as an enforcer of governance norms has also been acknowledged in previous researches. In India, the capital market regulator SEBI has mandated certain norms for corporate governance which need to be complied with by all listed companies.

Company Boards and Audit Committees

Several empirical studies conducted in the U.S. and other countries have attempted to explain the influence that company boards exert on the quality of financial reporting and level of earnings management in firms. Most studies conclude about a negative association between board independence and earnings management (Klein 2002; Xie at al. 2003). However, with new regulations delegating board functions to specific committees, there have been increasing attempts in recent times to explore the association between audit committees and the likelihood of managers manipulating earnings.

Corporate governance norms in most developed and developing countries require the constitution of a board audit committee to oversee the financial reporting and auditing process. Professional accounting and auditing bodies endorse the constitution of an audit committee as it lends greater credibility to financial statements and enhances public confidence in the integrity of the external auditor. Puri et al. (2010) mention that audit committees act as a communication channel between the board of directors and external auditors. The impact of audit committees on earnings quality has been researched by many academicians but their studies have been largely restricted to developed economies. Evidence from emerging markets is scant, with most research in developing countries like India, having concentrated on the impact of corporate governance reforms on firm performance and market value (Srinivasan & Srinivasan 2011; Mohanty 2003; Black et al. 2006; Claessens & Fan 2002).

Most corporate governance systems in different countries call for independent non-executive directors on the board of audit committees. Independent directors on the audit committee strongly contribute towards ensuring auditor independence (Lam 1999; Beattie et al. 1999; Raghunandan et al. 2001). As per Lin (2011), presence of a majority independent board or an audit committee could constrain tunnelling through asset transfer between related parties. They mention that additional evidence from China supports the notion that more outsiders on the board help prevent tunnelling through operational activities. Johnson et al. (2000) define tunnelling as transfer of the resources of a company to its controlling shareholders at the cost of the company and other stakeholders.

An independent audit committee can be a restraining force for managers from manipulating earnings to maximize their own personal interests. Ajit et al. (2013, p. 8) define earnings management as “the discretionary use of judgement by managers in financial reporting and in structuring transactions to misinform stakeholders about the underlying economic position and performance of the entity”. Earnings management negatively impacts shareholder wealth and portrays a false picture of the company’s actual performance to gullible prospective and current investors. Of all the mechanisms available for prevent earnings management, there appears to be a significant relationship between the presence of audit committees and the level of earnings management in firms. Empirical studies conducted by researchers predict a negative relationship between earnings management and the audit committee’s independence, its size, expertise and frequency of meetings (Lin & Hwang 2010; Xie et al. 2003). A similar finding was made by Garcia-Meca& Sanchez-Ballesta (2009) that audit committee independence is a major corporate governance mechanism in preventing earnings management. However, evidence on the effectiveness of audit committees in constraining earnings management seems to be lacking from an Indian perspective.

The Satyam case in India was a glaring example of siphoning of funds and tunnelling of resources through related party transactions, which could not be prevented by Satyam’s audit committee and presence of independent directors on board (Bellman 2009). Satyam’s proposed investment of $1.6 billion to acquire Maytas group companies was cleared by the board in December 2008 without any documented deliberations. Despite the size of the investment and the totally unrelated business of the investee companies (they were into real estate), the proposal did not raise any eyebrows amongst board members. This shifts the focus back on the rationale of having independent directors on board and audit committees without the requisite financial acumen.

Role of Whistle - Blowers

Filatotchev & Allcock (1990) mention that shareholders have at their disposal a range of governance mechanisms to constrain managerial opportunism. A spate of financial frauds and corporate scams over the past decade or so has turned the spotlight on corporate whistle blowers, who have been instrumental in unearthing these crimes. The use of whistle blowing as a corporate governance and fraud detection mechanism has in recent times captured the attention of both multinational corporations and academicians alike. ACFE (2010) recognizes whistle blowing as a critical component of an effective fraud prevention and detection system.

Near and Miceli (1985) define whistle blowing as the disclosure by former or current members of an organization of illegal, immoral, and illegitimate practices prevalent in the organization to a person or authority capable of taking action against the same. A lot of countries have implemented laws and codes on corporate governance to support corporate whistle blowing. However, a survey of the existing literature throws up differences in internal whistle blowing systems across companies and countries (Hassink et al. 2007).

Bowen et al. (2010) shed light on the difference whistle-blowers can make in uncovering corporate misdeeds. The two biggest accounting frauds in the U.S. at WorldCom and Enron were exposed by whistle-blowers Cynthia Coopers and Sheron Watkins, who headed the internal-audit and finance divisions at both these companies respectively. The scams at Enron and WorldCom led to the passage of the Sarbanes-Oxley Act in 2002 by the U.S. Congress. The SOX Act mandates listed companies to provide for a system of internal reporting by employees and requires audit committees to establish whistle blowing procedures in companies (Sarbanes-Oxley 2002). SOX, besides providing for a mandatory whistle-blowing mechanism by companies also makes it unlawful for companies to retaliate or discriminate against employees who disclose “questionable accounting or auditing matters”.

A survey of the existing studies on whistle-blowing does not shed much light on the role of audit committees in promoting internal whistle-blowing mechanism in companies, despite there being a legislative intent for the same. Prior research on whistle blowing seems rather confined to who are the whistle-blowers, intent behind whistle-blowing action, effectiveness of whistle-blowing systems, consequences of whistle-blowing and the protection granted to whistle-blowers (Dyck et al. 2010; Susmanschi 2012)

The existing literature on whistle-blowing does not seem to derive any evidence from India. Absence of a legal status to whistle-blowing has stopped companies from coming forward and a implementing a mechanism for employees to report wrongdoings in the organization. Some of the few corporates in India to have a whistle blowing policy in place are Heritage Foods, Maruti, HCL, Wipro, Infosys, Dabur and ICICI Bank. Whistle-blowing cases in India have so far remained confined to cases of bribery, theft of company resources, sexual harassment and usage of official position for unfair advantage. There has been a marked absence of whistle-blowing in bringing to light any suspicious accounting or auditing practices, which generally has the top management involved in it.

Also, the general perception that the costs of implementing and running a whistle blowing mechanism could well exceed its perceived benefits has prevented companies from voluntarily adopting a whistle-blowing policy as per the requirements of Clause 49 of SEBI’s listing agreement. Narayanaswamy et al. (2012) point out that a key difference in the substance of corporate governance models between India and the U.S. is the marked absence of whistle blowing mechanisms in India in exposing malfeasance by management. Indian media is yet to report the role of any corporate whistleblower in bringing to light wrongdoings by the company management, whereas there have been many such instances in the U.S. (Narayanaswamy et al. 2012, p. 595).The role of an audit committee includes ensuring presence of a mechanism to address complaints by whistle blowers. However, it seems India Inc. has a far way to go to match up with the governance codes prevalent in the U.S. and the role of audit committees in enforcing whistle blowing may well remain confined to the paper till then.

The Companies Act, 2013 seeks to address the existing lacunae in India's corporate governance norms by requiring all listed companies to provide for a vigil mechanism for reporting of genuine concerns by employees (The Institute of Company Secretaries of India 2013). The new Companies Act relegates responsibility for operation of the whistle blowing mechanism to audit committees, with whistle blowers being provided access to the audit committee chairman in exceptional cases (EY 2013). As the provisions of the new Companies Act get operational, the role of the audit committee and internal auditor are likely to get more diversified and the institutionalization of whistle blowing may add a new dimension to India's corporate governance norms.

Impact of Corporate Governance Reforms on Firm Performance

The impact of corporate governance practices on the performance of companies has been studied by researchers from the standpoint of governance norms prevalent at both the country level and company level. There is a fair amount of literature available on the impact of a country's corporate governance reforms on its stock market, behaviour of share prices of companies and firm values. At the country level, stricter legal and regulatory regimes are associated with higher growth and performance (La Porta et al. 1998).Dedman (2003) and Bebchuk et al. (2009) conducted studies for governance practices in the U.K. and the U.S. respectively. They find that strong governance norms produce higher valuation and rates of return.

However, the findings do not appear very consistent with one another and there seem to be discerning views about the impact similar reforms can produce in different countries. Most studies conducted to judge the impact of the SOX Act conclude about a hostile attitude adopted by companies towards SOX requirements. Litvak (2007) suggests that the implementation of the SOX Act had a net negative effect on companies to which the Act applied, with the most adverse reaction faced from companies already operating in an environment of high-quality regulation. Negative reaction to the SOX Act was also highlighted by Asthana et al. (2009), Zhang (2007) and Block (2004). Regulatory overkill can be a dampener for companies with good standards of governance already in place, as in most cases the costs of implementing the new regulations remain higher than their perceived benefits. Bruno & Claessens (2010) state that rigorous laws and regulations will have a positive impact on company performance only if their benefits exceed the costs, including direct implementation costs and indirect costs emanating from adopting the more stringent rules.

In their study, Black & Khanna (2007) find that the positive reaction of large Indian firms to adoption of clause 49 of SEBI's listing agreement was in contrast to the mixed reaction to SOX Act by both U.S. firms and cross-listed firms. Clause 49 of the listing agreement draws a lot of similarities with the SOX Act, including board independence, audit committee rules and CEO/CFO certification of financial statements and internal controls. However, the announcement by SEBI in May 1999 of the new clause 49 was marked by a 4% increase in the share price of large firms over a two-day event window, which grew to 7% over a five-day event window (Black & Khanna 2007, p. 2).

Srinivasan & Srinivasan (2011) argue that good governance practices of companies are rewarded in the form of market returns or reduction in the cost of capital or better valuation of firms. This is backed by a 2002 McKinsey investor opinion survey, that investors prepared to pay a premium for shares, would be ready to pay up to a 25% premium for well-governed Chinese companies and 23% premium for well-governed Indian firms (Barton et al. 2004). Mohanty (2003) in his study finds that institutional investors hold a higher percentage of shares in firms, which are better-governed. A similar view is given by Black et al. (2006) who find that firms with strong corporate governance tend to have higher market value. Claessens& Fan (2002) state that many professional firms have turned to self governance, because they realise that better governance can lead to cheaper finance. Country-specific studies also provide evidence of the link between good corporate governance and improved financial parameters. Ashbaugh-Skaife et al. (2006) studied companies in the U.S. to conclude that good corporate governance can elevate a firm's credit rating. A research of Greek companies found that fulfilling corporate governance norms can increase the average stock return for firms (Alexakis at al. 2006). A similar finding was also made by Drobetz et al. (2004) for German companies.

However, more often than not it has been observed that the financial performance of a firm and its future prospects/outlook have largely been the determinants of its share price and valuation. Stock prices react favourably to earnings surprises and positive news on the company's front. Retail investors are generally unaware of the governance practices of a company and are willing to invest in it, swayed by the general market sentiment that the company is poised to scale greater heights in the long run. The market sentiment which influences a firm's stock price is a factor of the company's earnings per share, dividend and net asset value per share (Uddin 2009). This view is also supported by Nirmala et al. (2011) who have identified dividend, P/E ratio, leverage and the profitability of a firm as the determinant factors of a company's share price. A company with acclaimed standards of governance can serve as a corporate role model for its accounting, reporting and management practices. However, policies of corporate governance have rarely been the primary reason behind a company's strong valuation.

Corporate Governance in India

India's model of corporate governance seems to be largely drawn from the "Anglo-American" model of corporate governance, prevalent in the U.K. and the U.S. The Anglo-American model which is globally accepted as the most favourable model on governance is centred on the protection of shareholder interest. The model also known as the "Anglo-Saxon" model envisages separation of ownership and control, with shareholders appointing directors and the day-to-day management of the company entrusted to managers who in turn are picked by the directors. The Board which comprises of executive and independent directors has often a minority stake in the company.

However, the feasibility of India following the Anglo-American model of governance has often been debated upon. A prime reason for this could be the differences in the way businesses are structured in India as compared to the U.S. or the U.K. In India, businesses are primarily family-owned and controlled. A Credit Suisse survey in 2011 pointed out that 67% of all listed companies in India were family controlled. The study ranked India at the first position in terms of housing the largest concentration of family businesses within Asia. Even in instances where family holding has been diluted post incorporation, control has largely remained vested with the promoter individual/family. A conspicuous example to this effect would be the case of the erstwhile Satyam Computer Services Ltd., whose promoter-chairman Ramalinga Raju's stake in the company as on January 2009 (at the time when Satyam got exposed) was a mere 3.6%, down from 25.6% in 2001 (Singh et al. 2010). Minority-stake held by the promoter was never a hindrance in conducting affairs of the company and implementing crucial decisions, as was evident in the Satyam debacle.

The Indian ownership model of companies puts minority shareholders at a disadvantage, whose interests often get harmed by actions taken by promoters to fuel their personal gains. In their study, Narayanaswamy et al. (2012) find that 36% of the firms constituting the Bombay Stock Exchange (BSE) 500 Index had more than 50% stock ownership by founding families in the year 2010. Wipro (80%), DLF (79%), Sun TV (77%), Fortis Healthcare (76%), TCS (74%) and Reliance Communications (68%) are some well-known Indian companies with more than a significant stock holding by promoter families. Further, the absence of class action lawsuits in India has been a serious drawback for minority shareholders in voicing their grievances. Shleifer &Vishny (1997) mention that at times majority controlling stockholders appropriate corporate wealth at the cost of minority shareholders. Without adequate institutional protection for the minority shareholders, there exist considerable opportunities for tunnelling (Claessens & Fan 2002). India's governance model differs from the U.S. through the absence of class action law suits in India's litigation environment (Narayanaswamy et al. 2012). However, the Companies Act, 2013 seeks to address this shortcoming by introducing class action suits for minority shareholders.

Evolution of Corporate Governance in India

Prior to the 1990s, India's focus on corporate governance was rather limited. Liberalisation in the Indian economy post 1991 reforms opened up the doors to global investors. As geographical borders shrank, companies expanded their footprints on a global scale. Rapid growth in size of Indian companies brought along with it the dilemma of effective management. Increased participation of retail investors in a vibrating capital market turned the pressure on companies to be more accountable for their business practices, financial reporting and social and environmental obligations.

Public companies were required to comply with few governance and disclosure standards as set forth under the Companies Act, 1956, listing agreement and the accounting standards issued by the ICAI (Afsharipour, 2009). The listing agreement of SEBI contains rules, policies and procedures that companies need to follow for them to remain listed on any stock exchange in India.

The first major step towards corporate governance was a voluntary initiative undertaken by the Confederation of Indian Industries (CII) under the chairmanship of Mr. Rahul Bajaj. A task force was constituted by CII which submitted its report in 1998 titled "Desirable Corporate Governance: A Code". The report outlined a series of voluntary measures which could be adopted by listed companies to increase business transparency and ultimately protect investor interest. The CII code was in essence shareholder-focussed, marking a move towards the Anglo-American model of governance. However due to its voluntary nature, enforcement of the code could not be guaranteed except by a few large companies. The CII code laid the foundation for subsequent developments in the area of corporate governance.

A landmark event in India's move towards corporate governance reforms was marked in the year 2000 through SEBI's introduction of clause 49 in the listing agreement of stock exchanges. The amendment to the listing agreement was an outcome of the recommendations proposed by the Kumar Mangalam Birla Committee on corporate governance. Key recommendations made by the committee included composition and functions of the board, presence of audit committees and transparency and disclosure requirements.

Clause 49 of the listing agreement became a turning point in the evolution of corporate governance norms in India as it required listed companies to abide by the declared code.

The years 2001 and 2002 witnessed some high-profile corporate scams in the U.S. SOX was passed by the U.S. Senate as a response to the Enron and WorldCom debacles. The Act literally overhauled the norms on corporate governance and brought about massive changes in accounting practices, financial disclosures, corporate responsibility, insider activities and standards for auditors' independence.

India reacted to the U.S. corporate scandals and the SOX Act implementation though committees formed by the SEBI and the Ministry of Corporate Affairs (MCA). The Naresh Chandra Committee was formed by the MCA in 2002 whilst SEBI mooted the Narayan Murthy Committee in 2003. The committees came out with a host of recommendations on the lines of the SOX Act, which included higher responsibilities for audit committees and the board, transparent disclosure to shareholders, strengthening of corporate audits, CEO/CFO certifications of internal controls and disciplinary mechanism for auditors (Narayanaswamy et al. 2012). The Murthy Committee recommendations were implemented through further changes in clause 49 of the listing agreement, though intense corporate lobbying resulted in diluting certain provisions which were made voluntary in nature.

However, none of the reforms seemed adequate enough to prevent India from witnessing a ‘Satyam’ in the early part of 2009.

India Inc. has recently witnessed the passage of the Companies Act, 2013. The Act calls for sweeping reforms in corporate governance and auditing norms. Punitive measures have been prescribed for non-compliance which should prove a deterrent for companies to stray off the right path. The Companies Act, 2013 is an attempt to align India’s corporate governance practices with some of the best standards globally.

Conclusion

Corporate governance as a research area has attracted lot of attention in recent times, especially with countries implementing newer and more stringent regulations to check corporate crimes and safeguard investor interest. India Inc. too seems to have woken up to the fact that corporate governance is not something that they can afford to take lightly if they want to remain competitive in the global market place. The 2008 crisis, which saw global markets tanking to an all-time low caused an exodus of foreign funds from Indian capital markets. Recovery has been slow and investors have become very wary and cautious while parking their funds, especially in risky emerging market economies. With the government liberalizing FDI policies to boost a sagging economy, Indian companies cannot afford to lose out on this opportunity by warding off foreign investors through opaque business practices. There is a need to harmonize transparency and disclosure standards of Indian companies along global lines, for India to be viewed as a safe investment centre.

The Companies Act, 2013 which replaces the archaic Act of 1956 is an assertive way forward in bringing some of the best global practices to India. Class action law suits, whistle blowing mechanism and auditor rotation to ensure independence are mandatory features introduced for the first time in Indian legislation. The implementation of these measures by India Inc. and their efficacy in raising the bar on ethics and governance needs to be tested with time.

Audit committee roles in India have so far been understated due to a dominating presence of promoters on the board of most family owned companies. It is expected that with the passage of the new Companies Act, the responsibilities of audit committees would increase manifold. Apart from overseeing the financial reporting and auditing process, audit committees would also oversee the implementation of whistle blowing mechanisms in companies.

The importance of audit committees in enhancing the financial reporting process has been researched by a lot of academicians, but their studies have been largely restricted to developed economies. Evidence from emerging markets is scant, with most research in developing countries like India, having concentrated on the impact of corporate governance reforms on firm performance and market value. It is expected that as companies scramble to comply with the provisions of the new Companies Act, the role of audit committees in public companies will acquire a new dimension. In the times to come, audit committees may emerge to be an indispensable mechanism in preventing managerial intervention in financial reporting and ensuring sanctity of the audit process.

References

1. ACFE 2010, *Report to the Nations on Occupational Fraud and Abuse*, Association of Certified Fraud Examiners, Austin, viewed 29 March 2014, http://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/rttn-2010.pdf
2. Afsharipour, A 2009, 'Corporate Governance Convergence: Lessons from the Indian Experience', *Northwestern Journal of International Law and Business',* vol. 29, pp. 335-402.
3. Ajit, D, Malik, S & Verma VK 2013, '*Earnings Management in India'*, SEBI DRG Study, viewed 3 March 2014, <http://www.sebi.gov.in/cms/sebi_data/DRG_Study/EMiM.pdf>
4. Alexakis, CA, Balios, D, Papagelis, G & Xanthakis, M 2006, 'An empirical investigation of the visible effects of corporate governance: The case of Greece', *Managerial Finance*, vol. 32, no. 8, pp. 673-684
5. Ashbaugh-Skaife, H, Collins, DW & LaFond, R 2006, 'The effects of corporate governance on firms' credit ratings', Journal of Accounting and Economics, vol. 42, no. 1, pp. 203-243.
6. Asthana, S, Balsam, S & Kim, S 2009, 'The Effect of Enron, Andersen, and Sarbanes-Oxley on the U.S. Market for Audit Services', *Accounting Research Journal*, vol. 22, no. 1, pp. 4-26.
7. Balgobin, RN 2008, 'Global governance practice: The impact of measures taken to restore trust in corporate governance practice internationally', *Journal of Corporate Governance*, vol. 7, no. 1, pp. 7-21.
8. Barton, D, Coombes, P & Wong, SY 2004, 'Asia's Governance Challenge', *McKinsey Quarterly*, vol. *2*, pp. 54-61.
9. Beattie, V, Brandt, R & Fearnley, S 1999, 'Perceptions of auditor independence: UK evidence', *Journal of International Accounting, Auditing and Taxation*, vol. 8, no. 1, pp. 67-107.
10. Bebchuk, L, Cohen, A & Ferrell, A 2009, 'What matters in corporate governance?', *Review of Financial Studies*, vol. 22, no. 2, pp. 783-827.
11. Bellman, E 2009, *Satyam Probe Scrutinizes CFO, Audit Committee*, The Wall Street Journal, viewed 2 March 2014, <http://online.wsj.com/news/articles/SB123187406703678043>
12. Bhalla, J 2012, 'Corporate Governance : Perception of Executives in India', *Review of Management*, vol. 2, no. 1, pp.35–43.
13. Bhanumurthy, I & Dessai, SPS 2010, 'Corporate Governance in India : Clause 49 of Listing Agreement', *SSRN Electronic Journal*, viewed 24 February 2014, <http://ssrn.com/abstract=1660285>.
14. Black, BS, Jang, H & Kim, W 2006, 'Does corporate governance predict firms' market values? Evidence from Korea', *Journal of Law, Economics, and Organization*, vol. 22, no. 2, pp. 366-413.
15. Black, BS & Khanna VS 2007, '*Can Corporate Governance Reforms Increase Firms' Market Values? Evidence from India'*, European Corporate Governance Institute*,* Finance Working Paper No. 159/2007, viewed 15 March 2014, < http://ssrn.com/abstract=914440>
16. Block, SB 2004, 'The latest movement to going private: An empirical study', *Journal of Applied Finance*, vol. 14, no. 1.
17. Bose, I 2009, 'Corporate governance and law-role of independent directors: Theory and Practice in India', *Social Responsibility Journal*, vol. 5, no. 1, pp. 94–111.

18. Bowen, RM, Call, AC & Rajgopal, S 2010, 'Whistle-blowing: Target firm characteristics and economic consequences', *The Accounting Review*, vol. 85, no. 4, pp. 1239-1271.
19. Bramwell, J 2014, *PwC Survey: No Let Up In Fraud at US Companies*, AccountingWeb, viewed 15 March 2014, < http://www.accountingweb.com/article/pwc-survey-no-let-fraud-us-companies/223092>
20. Bruno, V& Claessens, S 2010, 'Corporate Governance and Regulation: Can there be too much of a Good Thing?', *Journal of Financial Intermediation*, vol. 19, no. 4, pp. 461-482.
21. Chakrabarti, R 2005, 'Corporate Governance in India-Evolution and Challenges', *ICFAI Journal of Corporate Governance*, vol. *4*, pp. 50-68.
22. Claessens, S & Fan, J 2002, 'Corporate Governance in Asia: A Survey', *International Review of Finance*, vol. 3, no. 2, pp. 71-103.
23. Dedman, E 2003, 'Executive turnover in UK firms: The impact of Cadbury', *Accounting and Business Research,* vol. 33, no. 1, pp. 33-50.
24. Drobetz, W, Schillhofer, A & Zimmermann, H 2004, 'Corporate governance and expected stock returns: Evidence from Germany', European Financial Management, vol. 10, no. 2, pp. 267-293.

25. Durisin, B & Puzone, F 2009, 'Maturation of corporate governance research, 1993–2007: An assessment', *Corporate Governance: An International Review*, vol. 17, no. 3, pp. 266-291.
26. Dyck, A, Morse, A & Zingales, L 2010, 'Who blows the whistle on corporate fraud?, *The Journal of Finance*, vol. 65, no. 6, pp. 2213-2253.
27. EY 2013, *Whistle-blowing: Impact of Companies Act 2013*, viewed 4 February 2014, http://www.ey.com/Publication/vwLUAssets/Whistle-blowing-Impact-of-Companies-Act-2013/$FILE/EY-Whistle-blowing-Impact-of-Companies-Act-2013.pdf
28. Filatotchev, I & Allcock, D 2010, 'Corporate governance and executive remuneration: A contingency framework', *The Academy of Management Perspectives*, vol. 24, no. 1, pp. 20-33.
29. Garcia-Meca, E & Sanchez-Ballesta, JP 2009, 'Corporate Governance and Earnings Management: A Meta-Analysis,' *Corporate Governance: An International Review*, vol. 17, no. 5, pp. 594-610.
30. Gollakota, K & Gupta, V 2006, 'History, ownership forms and corporate governance in India', *Journal of Management History*, vol. 12, no. 2, pp. 185-198.
31. Hassink, H, de Vries, M & Bollen, L 2007, 'A content analysis of whistle-blowing policies of leading European companies', *Journal of business ethics*, vol. 75, no. 1, pp. 25-44.
32. Johnson, S, La Porta, R, Lopez-de-Silanes, F & Shleifer, A 2000, 'Tunnelling',Discussion paper no. 1887, Harvard Institute of Economic Research.
33. Kaur, G & Mishra, R 2010, 'Corporate Governance Failure in India : A Study of Academicians Perception', *The IUP Journal of Corporate Governance*, vol. 9, nos. 1 & 2, pp. 99-112.
34. Klein, A 2002, 'Audit Committee, Board of Director Characteristics and Earnings Management', *Journal of Accounting and Economics*, vol. 33, no. 3, pp. 375-400.
35. Lam, J 1999, 'Enterprise-wide risk management and the role of the chief risk officer', white paper, IQPC Enterprise Risk Management Conference, Toronto, 25 March.
36. La Porta, R, Lopez-de-Silanes, F, Shleifer, A & Vishny R 1998, 'Law and Finance', *Journal of Political Economy*, vol. 106, pp. 1113-1155.
37. Lin, JW & Hwang, MI 2010, 'Audit Quality, Corporate Governance, and Earnings Management: A Meta-Analysis', *International Journal of Auditing*, vol. 14, no. 1, pp. 57-77.
38. Lin, Y 2011, *Overseeing Controlling Shareholders: Do Independent Directors Constrain Tunneling in Taiwan?*, viewed 3 March 2014, <http://works.bepress.com/cgi/viewcontent.cgi?article=1001&context=yu_hsin_lin>
39. Litvak, K 2007, 'The effect of the Sarbanes-Oxley Act on non-US companies cross-listed in the US', *Journal of corporate Finance*, vol. 13, no. 2, pp. 195-228.

40. Livemint 2013, *The fight for corporate governance in India*, viewed 11 February 2014, <http://www.livemint.com/Opinion/hxFqnfbyCG5fRWD6PuiGfP/The-fight-for-corporate-governance-in-India.html>.
41. Mintz, S& Krishnan, S 2009, 'A comparison of corporate governance in China and India with the US', *The Business Review*, vol. 13, no. 1, pp. 60-67.
42. Mohanty, P 2003, 'Institutional investors and corporate governance in India', *National Stock Exchange of India Research Initiative Paper*, no. 15
43. Narayanaswamy, R, Raghunandan, K & Rama, DV 2012, 'Corporate Governance in the Indian Context', *Accounting Horizons*, vol. 26, no. 3, pp.583–599.

44. Near, JP & Miceli MP 1985, ‘Organizational Dissidence: The Case ofWhistleblowing’, *Journal of Business Ethics*, vol. 4, no. 1, pp. 1-16.
45. Nirmala, PS, Sanju, PS & Ramachandran, M 2011, ‘Determinants of share prices in India’, *Journal of Emerging Trends in Economics and Management Sciences*, vol. 2, no. 2, pp. 124-130.
46. OECD 2005, *Glossary of Statistical Terms : Corporate governance*, viewed 5 February 2014, < http://stats.oecd.org/glossary/detail.asp?ID=6778>.
47. Puri, R, Trehan, R & Kakkar, H 2010, ‘Corporate Governance through Audit Committee: A Study of the Indian Corporate Sector’,The *IUP Journal of Corporate Governance*, vol. *9*, nos. 1 & 2, pp. 47-56.
48. PwC 2014, *Global Economic Crime Survey 2014,* viewed 1 March 2014, < http://www.pwc.com/gx/en/economic-crime-survey>.
49. Raghunandan, K, Rama, DV & Read, WJ 2001, ‘Audit committee composition, “gray directors,” and interaction with internal auditing’, *Accounting Horizons*, vol. 15, no. 2, pp. 105-118.
50. Roe, M 2004, ‘The Institutions of Corporate Governance’, Discussion paper no. 488, Harvard Law School.
51. Sarbanes-Oxley Act 2002, *Public Law 107-204, 116 Stat 745*, viewed 15 February 2014, <https://www.sec.gov/about/laws/soa2002.pdf>
52. Sarkar, J 2009, ' Board Independence & Corporate Governance in India: Recent Trends & Challenges Ahead', *TheIndian Journal of Industrial Relations*, vol. 44, no. 4, pp. 576-592.
53. Sharma, JP & Sachdeva, G 2011, ‘Corporate Governance in India: Investors' Perspective’, *Indian Journal of Corporate Governance*, vol. 4, no. 2, pp. 1-14.
54. Shleifer, A & Vishny, RW 1997, ‘A Survey of Corporate Governance’, *The Journal of Finance*, vol. 52, no. 2, pp. 737-783.
55. Singh, JP, Kumar, N & Uzma, S 2010, ‘Satyam Fiasco : Corporate Governance Failure and Lessons Therefrom’, *TheIUP Journal of Corporate Governance* vol. 9, no. 4, pp. 30–40.
56. Srinivasan, P & Srinivasan, V 2011, ‘Status of Corporate Governance Research on India: An Exploratory Study’, Working paper no. 334, Indian Institute of Management, Bangalore.
57. Subramanian, S& Swaminathan, S2008, 'Corporate Governance in India : A Survey of the Literature,*The ICFAI University Journal of Corporate Governance*, vol. 7, no. 3, pp.31–45.
58. Susmanschi, G 2012, ‘Internal audit and whistle-blowing’, *Economics, Management, and Financial Markets*, vol. 7, no. 4, pp. 415-421.
59. Swain, KR 2009, 'Corporate Governance in India : The Case of HDFC Bank', *The ICFAI University Journal of Corporate Governance*, vol. 8, nos. 3 & 4, pp. 119-130.
60. The Institute of Company Secretaries of India 2013, *Backgrounder On the Companies Act, 2013*, viewed 12 February 2014, <https://www.icsi.edu/WebModules/LinksOfWeeks/Companies%20Bill%202012backgrounder.pdf>
61. Uddin, MB 2009, ‘Determinants of market price of stock: A study on bank leasing and insurance companies of Bangladesh’, *Journal of Modern Accounting and Auditing*, vol. 5, no. 7, pp. 1-7.
62. Xie, B, Davidson III, WN & DaDalt, PJ 2003, ‘Earnings management and corporate governance: The role of the board and the audit committee’, *Journal of corporate finance*, vol. 9, no. 3, pp. 295-316.
63. Zhang, IX 2007, ‘Economic Consequences of the Sarbanes–Oxley Act of 2002’, *Journal of Accounting and Economics*, vol. 44, no. 1, pp. 74-115.