

# To Our Readers



Modern day corporations, characterised by separation of ownership and control, have emerged as the most powerful institutions of contemporary society responsible for creating and distributing large part of wealth. The spate of corporate scandals in early eighties, viz. BCCI, Maxwell, Polly Peck followed by East Asian Crisis, etc. have indeed been eclipsed by the corporate collapses in the Western World beginning with Enron. The post-Enron era, however, gave real fillip to devise the structure for ensuring accountability of corporations to diverse stakeholders. Elsewhere in the world, the emergence of market-oriented mechanism combined with the liberalisation and privatization resulting into the huge flow of cross-border movement of funds enlivened the interest in the corporate governance.

Corporate Governance practices differ widely across the world. On a highly dispersed shareholding structures, like in the United States, normally it is the Board of Directors who is in charge of the responsibility of monitoring management. On the other hand, in countries like Germany or Japan, where shareholding is concentrated, internal corporate governance is practised. Corporate Governance for emerging market economy like India has an added dimension. Since early 1990's, the financial sector has seen a wave of liberalization and deregulation. The growth of capital market has been quite impressive on account of its development of infrastructure and liberalization of investments through domestic capital market by foreign participants.

The Corporate Governance debate was brought into sharp focus by the extensive study conducted by Sir Adrian Cadbury which culminated in the report submitted by the Cadbury Committee to London Stock Exchange in 1992. The Cadbury Committee Report also laid down "Code of Best Practices", spelling out the methods of governance needed to achieve a balance between the essential powers of the Board and their accountability.

The Task Force on Corporate Excellence Through Governance constituted by Department of Company Affairs recommended phased implementation of the Governance measures, keeping in view the size and capabilities of the companies and the requirements of the market place. The Companies Act, 1956 introduced the concept of Audit Committee by the introduction of Section 292A, which has enhanced the corporate governance structure in India. Naresh Chandra Committee on Corporate Audit and Governance, also constituted by the Department of Company Affairs, in its report made wide ranging recommendations to enhance the auditor's independence, provision relating to independent directors, role of audit committees, etc.

The Advisory Group on Corporate Governance: Standing Committee on International Financial Standards and Codes set up by Reserve Bank of India (RBI) in its report attempted to compare the status of corporate governance standards in India vis-à-vis the internationally recognised best standards and has suggested a course of action to improve corporate governance standards in India. The Consultative Group of Directors of Banks/Financial Institutions set up by RBI in its report studied the existing legal framework, governing constitution of the boards of banks and financial institutions, and benchmarked its recommendations with international best practices as enunciated by the Basel Committee on Banking Supervision.

The Securities and Exchange Board of India through its Committee chaired by Shri Kumarmangalam Birla was the first formal and comprehensive attempt to evolve a Code of Corporate Governance. The Code was further comprehensively revised by Narayanamurthy Committee Report which was based on the experience gained on the implementation of Corporate Governance Code.

ICAI being a founder member of the National Foundation of Corporate Governance, set up by the Ministry of Company Affairs is committed to implementation of principles of good and credible code of corporate governance. The growth of the Capital Market in India would only be sustained by practice of Good Corporate Governance by corporates not only in letter, but also in spirit.

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