INTRODUCTION

Three decades ago corporate governance was a relatively unknown subject to the public. There has been very little research on the subject outside the United States, Japan and Germany. Corporate sectors in a number of countries are dealing with problems arising because of questionable corporate practices. Companies of every size and design face a multitude of ethical issues including conflict of interests and morality.

“Corporate governance is to conduct the business in accordance with shareholder’s and owner’s desires, which generally will be to earn as much as possible, while conforming to the basic rules of the society embodied in law and social customs.”

However, over a period of time, the definition of corporate governance has widened. It is the current buzzword in India as well as the world over. It now includes not only the interests of the equity holders but also those of the other stakeholders including the society as a whole. The fundamental objective of corporate governance now is to enhance the long term shareholder value and at the same time protect the interest of the other stakeholders.

Corporate governance specifically gives the distribution of rights and responsibilities of the different participants in the organization such as board of directors, managers, shareholders and other stakeholders including the employees and investors. It also spells out the rules and procedures for making decisions on corporate affairs. It is also related to creating a leadership which is transparent, responsible and accountable as well.

The code of corporate governance cannot be imported from outside. It has to be developed on the basis of a country’s own experience. There should not be any compulsion on the corporate sector to adopt a particular code. Hence there should be an appropriate equilibrium mechanism to ensure that corporate governance is not built on the cost of the growth of the corporate sector. On the other hand it should have an appropriate control over what the management does for the other stakeholders.

In order to ensure better management systems and structures, the presence of good corporate governance is a must. It is well known that “Global institutional investors are prepared to pay high premiums for shares in the companies with good corporate governance models”. It is now widely believed that corporate governance is essential to the creation of a more internationally competitive corporate sector and for the longer
term growth of the economy and capital markets. Also, the rights of the shareholders need to be better organized and protected. Ancient India in its own right had a unique background of governance. In the older times the king was considered to be the representative of the people. The wealth of the king was not his personal wealth but considered as the wealth of the people. The principle of trusteeship was followed. However corporate governance reforms in modern India are of recent origin. While the progress in legislating and introducing the corporate reforms in the last decade is significant, the problem lies in its adherence. Many corporate governance policies have largely remained on paper only. Moreover the modern Indian corporate sector is governed by the Companies Act, 1956 as amended by an act of 2013 which more or less follows the UK model. The private companies are mostly dominated by the promoters and their family members and associates who have full influence over the management. There is a complete fusion of ownership and control in the Indian model of corporate organizations. There have been a large number of corporate scams in recent years. Prominent examples can be associated with Enron (USA), Worldcom (USA), Satyam Computers (India), Banco Espirito Santo (Portugal) and recently Sahara India and Kingfisher groups. The financial crisis triggered by the bankruptcy of Lehman Brothers in 2008 led the world to question the effective financial strengths of various corporate around the world. In India too first the Satyam computers, and then the Sahara group and very recently the Kingfisher Airlines have been found guilty of malpractices. Banks and other financial institutions also do not exert much control. In some cases, they appoint their nominees on the boards; yet, such nominees are more or less passive kind of participants in the board processes. This has negatively affected the securities markets and investors sentiments globally. Moreover, with the expansion of the business to global arenas, trading of shares, bonds, derivatives and other instruments continues to augment. Insider trading is another issue resulting in loss of wealth of a common retail investor. Apart from this, most organizations lack a vigorous whistle blowing system to encourage its employees to internally report illegal activities or wrong practices to its trustees and board of directors. As a consequence, corporate governance is now widely acknowledged as a tool of monitoring and evaluating the performance of a business. Corporate governance is also very important aspect as far as the investment decisions of investors are concerned. Theoretically it is pertinent to say that a company adhering to
corporate governance and good ethical values should attract more investment by investors in the stock market. It has been observed that institutional investors do give weight age to adherence to corporate governance while making their investment decisions. Retail investors have been taking interest in the share market and the number of investors has increased to a significant level over the years. But whether the investment decisions of retail investors are governed by the fact that companies are adhering to the corporate governance or whether the retail investors are aware of the concept of corporate governance and the practices associated with it.

In this regard, the following questions have been raised:

• Do the corporate bodies take appropriate measures to ensure that the company’s financial statements and the financial policies on which they are based present a true and fair view of the company’s financial position on which the stakeholders can trust?

• Do the corporate organizations disclose the nature, type and value of all material related party transactions?

• Are the stakeholders informed about all significant transactions the company enters into with related parties which directly or indirectly benefit them?

• Whether the companies have in place a code of ethics and the general level of adherence to this code?

Keeping in view the above issues the present study aims to investigate whether the corporate firms adhere to the corporate governance and if they adhere what are their ways of adherence. Secondly, as far as retail investors are concerned, are they aware of the corporate governance and do they give any weight age to the adherence of corporate governance by the firms in their investment decisions. Are there any other factors which are more important and influence the decisions of investors as far as investments are concerned?