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Effectiveness of Corporate Governance Reforms in India: Directions for Future

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Abstract *Corporate governance has been the centre of attention for policy-makers and researchers alike. Given the scale of operations of the companies and the strong adverse impact of misgovernance on various stakeholders, the importance of ethical governance practices in companies has increased in recent times. Lawmakers have tried to tighten the governance norms by introducing new provisions in the law from time to time. Despite this, there have been several corporate scandals, resulting from misgovernance, that has shaken the confidence of the investors. The present study aims at understanding the various corporate frauds that took place in the recent past, the CG practices adopted and followed by the corporations under study, and the scale of loss for the shareholders. We also present some basic financial ratios calculated from the company reports available in the public domain, to test the financial robustness of these corporations, and in the end, we provide suggestions to the policymakers to strengthen the CG practices mandated by them.*

Keywords *Corporate Governance, Scams, Company Law*

JEL Classification: *G34, L25, M14, M42, M48*

INTRODUCTION

Ever since the Enron scam in the United States (where investors lost USD74 billion) and the Satyam scandal in India (amounting to Rs. 7,000 crores) rocked the investors' confidence and caused irreparable damages to all stakeholders (including the government), the law-makers have been working towards setting up regulations to minimise/avoid such occurrences in the future. In India, the government had set up committees from time to time to re-assess the corporate governance norms, and make them more stringent and in tune with the changing times. The present study has been undertaken to understand the recent corporate scandals that have resulted in a loss of investors' trust and money, to identify the possible loopholes in the law (if any), and discuss the way forward.

When a corporation runs a business, many stakeholders are affected by the way the business is performing. At the helm of the affairs in a company is the Board of Directors, who are entrusted with the job of carrying out and managing the day-to-day business of the company. So, it becomes extremely important that their conduct is in line with practices that protect and promote the interests of all stakeholders. According to the Cadbury committee, UK, "*Corporate governance is the system by which companies are directed and controlled*". With mergers, takeovers, and amalgamations happening all around, the interest of stakeholders needs special concern. In the present times, corporations are expected to meet their social responsibility towards society. As powerful and profitable institutions, they are expected to serve society and work towards its betterment. Mis-management and corruption have plagued corporations in the past, severely affecting the lives of those associated with the corporations.

Shareholders and investors do not participate in the daily work of a company. They only have as much information about the running of the company as is disclosed in the various documents made public by the company. Disclosure-related malpractices lead to the clouding of vital information from the public, and many-a-times misgovernance on the part of the company surfaces when the damage has already become irreparable. To ensure ethical governance on the part of the corporations, various initiatives have been taken by the government, in the form of setting-up committees to create ethical governance norms. Despite these, the last few years have witnessed some major corporate scandals in companies like Jet Airways, ICICI Bank, DHFL, Sun Pharma, and Zee Limited, to name a few. In the next part of the paper, we will delve into the governance issues of companies where scandals were exposed and the losses that these caused to the stakeholders, and deliberate about a possible safe future.

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REVIEW OF LITERATURE

A lot of research has been conducted in India and internationally on corporate governance. A large majority of the research has been on identifying the factors critical for corporate governance, thus making them an important component of the corporate governance practices to be followed by corporations. Board independence, board quality, and board accountability have been identified by Byrne (2000) as important criteria for good corporate governance. Extending this, Garratt (2010) recommended that separation of Chairman and CEO, appropriate board composition in terms of insiders and outsiders, and independence of the board, audit committee, and transparency in the procedures associated with appointment and remuneration of directors and financial disclosures were important for the good governance of companies.

In understanding the impact of corporate governance practices on a firm's performance during the 1990s, Gompers et al. developed the GIM (2003) index and found that companies with strong shareholders' rights outperform those with weak shareholders' rights in terms of the returns enjoyed by the shareholders. The GIM index is a weighted index of 24 corporate governance provisions; the other popular index, BCF (2004), developed by Bebchuk et al. (2004), comprises six corporate governance provisions (Barbu, 2007). Another index created by Brown and Caylor (2004) comprises 52 corporate governance provisions. The development of indices to check the impact of corporate governance practices on company performance is indicative of the importance of CG practices in influencing overall firm performance.

Not just abroad, but even in India, Arora and Bodhanwala (2018) attempted to prepare the corporate governance index (CGI), giving high significance to board size, the proportion of independent directors, and shareholding by directors and board meetings. The researchers found a significant relationship between board size and composition on company performance. Board size and composition have been important components of the corporate governance model adopted by the companies, as the board is mainly entrusted with decision-making power and the success or failure of a company is generally associated with the competency of the board. In discussing board size, there have been differences in the opinions of various researchers (Jenson, 1993; Yermack, 1996). Some favour small board sizes, citing ease of communication, coordination, and quicker decision-making (and avoiding social loafing), whereas others favour larger board sizes to have greater expertise, especially if the company is in a highly diversified business.

Board composition, which primarily comprises the proportion of insiders (executive) and outsiders (non-executive) directors on the board, has also been studied extensively (Yermack, 1996; Bhagat & Bolton, 2019). Bhagat and Bolton (2019) found no significant relationship between board composition and firm performance. Board processes, that is the frequency with which the board meets and discusses concerning issues, is considered a more significant constituent of efficient corporate governance, having a greater influence on company performance (Lipton & Lorsch, 1992).

As important as the board size, structure, composition, and processes, is the presence of an effective audit committee in the company. The presence of an independent and qualified audit committee can ensure transparency and accuracy in financial disclosures which can be of great use to the stakeholders. An audit committee can help in detecting financial frauds early on and can prevent an Enron or a Satyam from reoccurring; with this aim, the Companies Act 2013 has recommended setting up a strong and independent audit committee in companies. In a study on 235 non-finance companies, Bansal and Sharma (2015) found that independent audit committees are significantly and positively related to return on equity, and the frequency of audit committee meetings is significantly and positively related to Tobin's Q and market capitalisation.

When companies carry out their operations of providing products and services to the public, the main aim is to earn profits and provide returns to the shareholders and investors who have invested their precious money in the company. The importance of corporate governance is magnified by the fact that there is research evidence of a strong and significant relationship between CG practices and positive firm performance. Brown and Caylor (2004) researched 2,327 firms (using the 51-factor Gov-score). This included eight corporate governance categories (audit, board of directors, charter, director education, compensation, ownership, progressive practices, and state of incorporation). The study found that companies that are better governed are more profitable, are valued highly, and can give better returns to the shareholders.

Wasdani et al. (2020), in their research on corporate governance and company performance, concluded that corporate governance is yet to become an integral part of corporate culture in our country. The issue is mainly about observing norms, as they are mandatory by nature. Unless companies realise that for long-term sustainability and shareholder satisfaction they must integrate CG practices into their company charter, the law has to take lead and there need to be strong provisions under law to ensure adherence to CG practices.

RESEARCH QUESTION AND OBJECTIVES

Based on the review of literature, the present study aims at understanding if corporate governance norms are sufficient in preventing the occurrence of corporate frauds and scandals. Based on the research question, the following objectives of the study have been defined:

- To explore the occurrences of corporate frauds and scandals in the recent past.
- To understand the CG practices adopted by corporations that reported financial mismanagement.
- To examine the annual reports of the corporations under study, to infer if financial mismanagement was identifiable through the reports.
- To suggest the way forward.

CORPORATE GOVERNANCE IN INDIA

The first committee set up to develop norms for corporate governance was the CII code of desirable CG, which was a voluntary code developed by CII in 1998. Thereafter, more formal and compulsory codes were developed by the Birla committee (2000), the N. Chandra committee (2002), and the Narayan Murthy committee (2003). Based on these recommendations, the Companies Act 2013 legalised the provisions related to ethical governance, by making provisions associated with directors, auditors, and transparency norms mandatory by nature. The major recommendations under the Companies Act 2013 were related to independent directors, women directors, duties of directors, norms related to board meetings, constitution of independent audit committee and nomination and remuneration committee (for the appointment of directors), stakeholders' relationship committee, and corporate social responsibility committee.

Disclosure of corporate governance practices was made mandatory under clause 49 of the Listing Agreement of SEBI, thereby giving adequate importance to good governance practices in India. These steps have been taken by the government from time to time to ensure that the public in general, and the stakeholders in particular, do not suffer on account of the scandals that have hit the corporate sector in the past. In Table 1, the corporate governance practices as observed by the defaulting companies have been analysed.

CORPORATE SCAMS

When big corporations that carry on businesses with public money indulge in misgovernance it causes immense damage to the trust of the public and leads to a heavy loss of investors' wealth. For the study, we referred to the annual reports of the companies/banks which had come under the scanner for corporate governance issues. In the next part of the paper, we discuss the governance issues that surfaced for select companies from 2015 onwards, analyse the CG practices as evident from their annual reports, and make a note of the loss in shareholders' wealth that happened as a result of misgovernance.

ZEE Limited

Zee Limited, the media giant with 79 channels under its umbrella, was founded in 1992 by Subhash Chandra, with Essel Group as the parent company. As a media company, Zee enjoyed great viewership and was a great success story. The glory of the company took a dip in 2018.

Governance Issues: The founder had taken huge loans to finance infra projects, by offering shares of ZEE limited as collateral. When IL&FS, the big infra financier collapsed, ZEE had loans to the tune of Rs. 13,000 crores. This led to a drop in the share value by 30%. Lockdown further affected the media industry, and with revenues drying up, the shares further plummeted by 68%. The company was in news for other governance-related issues such as tax evasion, siphoning off funds to other promoter companies, and so on, which had shaken the confidence of the institutional investors as well. The proposed merger of ZEE with Sony was also controversial in nature, affecting the overall investor confidence in the company.

Impact on Shareholders: The shares of ZEEL, which were trading at Rs. 372 per share in Dec. 2021, dipped to Rs. 218 per share in Feb. 2022, registering a decline of 41.3% in the stock price.

The YES Bank Crisis

YES Bank, incorporated in 2004, has been the biggest private sector bank in the country, with 1,050 branches across the country. A bank that claimed several international recognitions and was a pioneer in many banking services had loans in its books of account totalling Rs. 55,633 crores (2014), which went up to 2.25 trillion (2019). Simultaneously, the asset quality of the bank declined. Investigations into the affairs of the bank revealed that it was lending out to companies that were incapable of returning the amount.

Governance Issues: The bank gave loans to real estate and construction sector companies like DHFL and Reliance group. In 2019, the gross NPAs stood at 19% and net NPAs at 6% of the total loans. With a total liability of 24,000 crore dollars, there were governance issues at the bank which

ultimately led to such a sorrowful state of affairs. This was quoted by an independent director too, who stepped down after the crisis surfaced. Corporate loans approved by Mr. Rana Kapoor were the biggest mistake, as these corporates themselves could not keep themselves afloat financially.

Impact on Shareholders: Between April 2018 and September 2018 when the Yes Bank fiasco surfaced, the share price dipped from Rs. 281 per share to Rs. 27 per share, a whopping decline of 90% in share price.

DHFL Story

DHFL was incorporated in 1984 by Rajesh Wadhawan, with the main intent of providing housing loans to lower- and middle-income groups in semi-urban and rural India. The problem with DHFL started after the downfall of IL&FS, after which ICRA downgraded commercial papers worth Rs. 850 crores held by DHFL (indicating that ICRA had no faith in DHFL's capacity to meet its obligations).

Governance Issues: The working of NBFCs is such that they have no access to RBI's liquidity. They borrow from banks (short-term) to finance their long-term loans, creating a perpetual asset-liability mismatch. After the IL&FS fiasco, banks stopped lending to NBFCs, further compounding the mismatch. With DHFL the problem was more severe as there were allegations of loans to the tune of Rs. 31,000 crores given by the promoters to shell companies, without adequate security or collateral. Investigations against DHFL revealed more dubious financial transactions, where Kapil Wadhawan (Chairman and MD) and Dheeraj Wadhawan (non-executive director) were involved. Finally, in 2019, the RBI initiated insolvency proceedings against DHFL. This was the first corporate to undergo insolvency proceedings under CIRP.

Impact on Shareholders: As insolvency proceedings have been initiated against the company, it has been delisted, and hence data on stock prices is no longer available.

The 'Grounding' of the Jet

Jet Airways has been a leader in the aviation industry. The company was incorporated by its promoter Naresh Goyal and started business in 1993. The company went from being one of the preferred choices of customers to going completely bankrupt, raising questions about the internal management in a promoter-centric business.

Governance Issues: The independence of the board of directors at Jet airways was always questionable. With promoters holding more than 50% stake in the company, they always exercised major control over the decisions made. This showed in the company's decision to acquire loss-making Air Sahara in 2006, when the promoters disregarded the advice of experts against the takeover. In doing so, they violated regulation 4(2)(c) of SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015, which provides that the company shall provide equitable treatment to all shareholders. Not just this, even though the company had independent directors on board as per the Companies Act 2013, their opinions were also side-lined by the promoters. This led to the second biggest mistake made by the promoters – not considering TATA's offer for revival in 2018 (which was considered extremely important by the independent directors). By not going in for the revival offer of TATA, the promoters not only led the company to a path of complete bankruptcy, but also adversely affected the interests of other stakeholders, like suppliers, employees, the government, and so on.

Impact on Shareholders: The rash decisions taken by the promoters, disregarding the suggestions of the independent directors, resulted in a continuous decline in the stock prices, from Rs. 872 (Jan. 2018) to Rs. 165 (Sept. 2018), and then to Rs. 14 (July 2019), resulting in a complete erosion of shareholder wealth.

The PNB Scam

PNB is one of the largest public sector banks and has the government as its largest shareholder (at a 65% stake). A scam (to the tune of Rs. 12,000 crores) is bound to send out shivers in the economy and also raises questions on the governance practices in the bank. The issue at PNB was of giving out Letters of Understanding (LOUs), which enables the borrower to procure foreign currency loans (without collateral), at the expense of PNB. Once the loans are due for payment, the borrowers procure another LOU from PNB, thereby creating a vicious circle of loans, in which the fraudster (borrower) continues to carry out business at the cost of PNB. In the event of a default, PNB becomes liable for all such repayments to the foreign currency lender.

Governance Issues: The main issue of governance in the PNB scam is the role of auditors in detecting how such LOUs were sanctioned. As a listed entity, PNB is bound by Clause 49 of the listing agreement, which calls for the integrity of the company's accounting and financial reporting systems. The composition of the board of directors at PNB was questionable, in terms of the number of executive and non-executive directors; nominee directors were also named as non-executive directors. Some investigations have also revealed that the audit committee was not headed by a person having expertise in accounting and finance.

Impact on Shareholders: The scam in PNB led to a downfall in the bank's stock price, from Rs. 197 in Jan. 2018 to Rs. 92 in Feb. 2018, registering a decline of 53% within a month. The share price further plummeted to Rs. 58 in Sept. 2018 and has been on the decline since then.

ICICI Bank – Videocon Case

The ICICI Bank fiasco caught the attention of the public more than any scam involving any other bank, because it involved Chanda Kochhar, the icon of women empowerment, ranked 32 on the Forbes list of 100 most powerful women, and the CEO of the bank. ICICI Bank was ranked the fourth largest bank in the private sector and Chanda Kochhar had contributed immensely to the growth of the bank. The scam involved granting loans to Videocon, which had Chanda's husband Deepak Kochhar as the director.

Governance Issues: The loans granted by ICICI to Videocon resulted in a total NPA of Rs. 3,250 crores for the bank. The loan dealings started after Chanda Kochhar took over as the CEO of the bank. Loans amounting to 175 crores and 300 crores (2009), 240 crores and 110 crores (2010), and 300 crores and 750 crores (2011) were given out to Videocon, of which Rs. 1,730 crores were declared as NPAs in 2012. Again, in 2012 itself, a loan of Rs. 3,250 crores was given, of which Rs. 2,810 crores were declared NPAs in 2017.

Chanda Kochhar never made any disclosure of vested interest in sanctioning the amount. Despite all that was happening, the misdoings were uncovered not by the audit committee of the bank, but by a shareholder, Arvind Gupta, who acted as a whistle-blower. Arvind Gupta held shares with ICICI Bank as well as Videocon. In the case study on ICICI bank, Nair (2020) examined how the bank authorities could have acted more proactively to avoid the outbreak that eventually happened and affected so many people.

Impact on Shareholders: The stock prices of ICICI Bank fell from Rs. 328 per share to Rs. 275 between February and March 2015, and then to Rs. 164 in March 2015 (almost down by 50%). With Videocon stock prices, the situation was much worse, with shareholders losing completely on their investment. The stock prices fell from Rs. 100 in May 2017 to Rs. 16 in June 2017 (a decline of 84% in a month) to Rs. 2 in September 2017 (a complete washout of shareholders' wealth).

Sun Pharma

The Sun pharma story is the story of the rise and fall of Dilip Sanghvi, the founder and MD of Sun Pharmaceutical Limited, who happened to be the richest person in India for a very short time.

Governance Issues: The distribution of domestic formulations of the company was routed through a company by the name of Aditya Medisales (AML). AML continued to have the same address as Sun Pharma for many years, raising questions about the independent identity of the company. There were allegations of guarantees given to real-estate firm Suraksha Realty, owned by Sanghvi's brother-in-law Sudhir Valia. The transactions with Suraksha Realty (amounting to Rs. 58 billion, between 2014 and 2017) also happened via AML. Loans, amounting to Rs. 23 billion were given by the company, for which too the founder could not offer a satisfactory explanation, on the grounds of 'confidentiality'.

Impact on Shareholders: Sun Pharma enjoyed market leadership and its shares fetched a price of Rs. 670 in September 2018. After the governance issues were uncovered, the share price slipped by almost 50%, to Rs. 386 in January 2019.

Evergreening Loans at IndusInd Bank

IndusInd Bank belongs to the generation of new-age banks, set up in 1994 by the then finance minister Dr. Manmohan Singh. In May 2021, the bank was accused of 'evergreening' loans, a practice where banks give new loans to delinquent borrowers to repay old loans. The bank's micro-finance branch, Bharat Financial Inclusion (BFIL), was accused of evergreening loans in 80,000 accounts.

Governance Issues: The story about malpractices within the bank was leaked by a group of whistle-blowers (which included some senior officials from the bank). The statement made by the non-executive Chairman, M. R. Rao (who stepped down in September 2015), that he had a deep concern about the 80,000 loans given by BFIL in May 2021 and his demand for an independent audit into the matter, further created concern among stakeholders about what was going on within the bank. In response to this accusation, the bank management did not deny the loans so disbursed, but attributed it to a technical glitch on the bank's end. Technological upgrades in banks are carried out with utmost care and a technical glitch of the order that happened in the bank seemed quite improbable. Additionally, evergreening loans is not a new practice among banks and NBFCs.

Impact on Shareholders: The shareholders of IndusInd Bank enjoyed positive growth in the stock prices, which were trading at Rs. 1,590 in January 2020. There was a steep and continuous decline in the stock prices, which dropped to Rs. 235 in March 2020 (less than one-fifth of the original value, in just two months).

In all the above-mentioned cases, the common point was that there were governance issues, which came to light only when the company defaulted in the repayment of loans, and so on. The balance sheets and other financials of the companies were in such good order and a complete evergreening of loans was done (by banks), that it was not possible to identify or uncover any possible fraud on the company's side. In understanding the scandals that happened in the companies/banks, the annual reports of the companies were looked at to check for the CG practices, to ensure if they were in line with the law.

Table 1: Corporate Governance Practices in Defaulting Companies

Company	Written Code of Corporate Governance	Independent Directors to Total Number of Directors (%)	Chairperson of the Board as an Independent Director	Chairman-CEO Split	Transparency and Disclosure Norms (Disclosure of Remuneration of Directors)	Shareholding Pattern (Promoter's Share)	Board Processes		Independent Director as Chairman of Audit Committee
							No. of Board Meetings	No. of Meetings of Independent Directors	
ZEE GROUP	Yes	66.6%	No	Yes	Disclosed	3.99% (31/03/2021)	9	1	Yes
VIDEOCON	Yes	50%	No	No	Only sitting fees	44% (31/03/2018)	7	1	Yes
SUN PHARMA	Yes	55%	No	Yes	Disclosed	54.38% (31/03/2018)	5	NA	Yes
YES BANK	Yes	60%	Yes	Yes	Disclosed	19.80% (31/03/2019)	13	2	Yes
DHFL	Yes	57%	No	Yes	Disclosed	39.23% (31/03/2018)	8	1	Yes
JET AIRWAYS	Yes	44%	No	Yes	Disclosed	51% (31/03/2018)	4	3	Yes
INDUSIND BANK	Yes	70%	No	Yes	Disclosed	15% (31/3/2020)	12	3	Yes
PNB	Yes	NA*	No	Yes	Disclosed	NA	19	NA	NA
ICICI	Yes	58%	Yes	Yes	Disclosed	NA	7	NA	Yes

NA – Not AvailableAuditors Certificate on Corporate Governance (PNB)

*Optimum combination of Independent Directors is not strictly adhered to in the composition of Board of Directors in terms of Regulation 17(1)(b) and Audit Committee in terms of Regulation 18(1)(b) of SEBI LODR Regulations 2015. In the opinion of the management, appointment of directors and constitution of the board and the audit committee is governed by the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, and Reserve Bank of India Directives (Auditors' report).

The table shows a select few corporate governance practices as observed by the companies that defaulted in the recent past. These practices were chosen on the basis that research in the area of corporate governance has repeatedly emphasised the importance of these practices. These were majorly related to the board, its composition, audit committee, independent directors, and transparency norms.

All the companies that eventually defaulted were observing the mandatory CG norms laid down by the law. Whether it was about having a code of corporate governance or proportion of independent directors, or the constitution of audit committee and disclosure norms, the annual report of the companies carried details about all provisions mandated by law. This means, as far as disclosure and reporting were concerned, there was nothing significantly evident from the reports that could raise an alarm with the investors.

UNDERSTANDING THE ANNUAL REPORTS OF THE COMPANIES

The researchers then looked into the financial statements as presented in the annual reports (mainly looking at the annual reports of the years immediately preceding the year in which the scam was uncovered). From the financial statements, the Altman Z-score for the companies under study was calculated. The Altman Z-score model, developed by Edward Altman, is used to assess a company's financial soundness and estimate the likelihood of it going bankrupt. It is based on the company's five core financial parameters: profitability, leverage, liquidity, solvency, and activity. The significance and validity of the Altman score were well-established in research by PwC, in their research conducted in 2000 on 1,200 public-owned manufacturing companies. The data that spanned from 1998-2001 established the viability of the Z-score as a measure of financial distress in companies (Sanesh, 2016). Research by Apoorva et al. (2019) has also established that the Altman score can help in predicting a company's bankruptcy almost three years before the actual occurrence.

The following equation is used to calculate the Z-score:

For Public Manufacturing Companies	For Public Non-Manufacturing Companies
$Z = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 1.0X5$	$Z = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$
Boundary Values:	Boundary Values:
$Z > 2.99$ Safe Zone	$Z > 2.6$ Safe Zone
$1.81 < Z < 2.99$ Grey Zone	$1.1 < Z < 2.6$ Grey Zone
$Z < 1.81$ Distress Zone	$Z < 1.1$ Distress Zone

Where:

Z is the Altman's Z-score

X1 is the Working Capital/Total Assets ratio

X2 is the Retained Earnings/Total Assets ratio

X3 is the Earnings Before Interest and Tax/Total Assets ratio

X4 is the Market Value of Equity/Total Liabilities ratio

X5 is the Total Sales/Total Assets ratio

Table 2: Altman Z-Score of Companies

	Public Manufacturing Companies				**Public Non-Manufacturing Companies**			
Company	**Sun Pharmaceuticals Ltd.**		**Videocon Ltd.**		**Jet Airways Ltd.**		**Zee Ltd.**	
Year	**2017-18**	**2016-17**	**2017-18**	**2016-2017**	**2017-18**	**2016-17**	**2020-21**	**2019-20**
Z-Score	4.7	6.69	−1.26	0.39	−5.9	−4.3	14.4	10.7
Zone	Safe	Safe	Distress	Distress	Distress	Distress	Safe	Safe

Source: Self-calculated from Annual Reports of respective companies (Appendix 1).

Table 3: Altman Z-Score of Banks and Financial Institutions

	Public Non-Manufacturing Companies *(Banks and Financial Institutions)*									
Company	**Yes Bank**		**Punjab National Bank**		**ICICI Bank**		**IndusInd Bank**		**DHFL**	
Year	**2018-19**	**2017-18**	**2017-18**	**2016-2017**	**2014-15**	**2013-14**	**2019-20**	**2018-19**	**2017-18**	**2016-017**
Z Score	0.38	0.36	1.16	1.24	0.51	0.47	0.45	0.75	0.08*	1.13*
Zone	Distress	Distress	Grey	Grey	Distress	Distress	Distress	Distress	Distress	Grey

Source: Self-calculated from Annual Reports of respective companies (Appendix 2).

*The Altman Z-score of DHFL Ltd. is calculated without X4 (Market Value of Equity/Total Liabilities ratio) as its market value was not available due to delisting of its shares.

The Altman Z-score of the companies chosen for the study are shown in Table 2. The information was gleaned from the respective annual reports of the companies, for the two years preceding the corporate fraud. Sun Pharmaceuticals Ltd. and Zee Entertainment Ltd. were financially sound before the swindle, whereas Videocon Ltd. and Jet Airways Ltd. were on the verge of bankruptcy (according to the Altman score). It appears that the former two were financially sound in terms of profitability, liquidity, and solvency, but were still caught up in a large-scale fraud that affected all parties involved. This is of great concern as it suggests that those in charge can falsify and conceal information.

The financial soundness (as indicated by the Altman Z-score) for the banking and non-banking financial institutions was even worse. None of the financial institutions under study was in the 'safe zone' (as per the score calculated). The stressful situation that banks/NBFCs were facing is evident from the annual reports. This calls for a more stringent review of the reports and more elaborate and transparent disclosure norms, to help ordinary investors identify the red flags (danger).

THE WAY FORWARD

From time-to-time, committees were set up to recommend practices that can strengthen governance in big corporations. The Companies Act, 2013, legalised a number of these recommendations – giving more power and importance to independent directors, women directors, audit committees, nomination and remuneration committees, financial disclosures, and transparency norms, with the sole objective of safeguarding the interest of all stakeholders and prevention of financial frauds. However, recent scandals and frauds have once again brought CG to the forefront and with a call for an urgent need to re-look at the norms, to modify or strengthen them and to ensure their proper implementation. In extensive research on corporate governance indices and their effectiveness in predicting firm performance, Bhagat (2008) concluded that developing one standard measure of corporate governance sounds good theoretically. However, in practice, it is difficult to come out with one standard CG index, as the governance practices in companies can be very diverse, depending on the nature and scope of business conducted by them. The author suggested that good governance is 'context-specific'.

Some of the areas that the lawmakers can re-look to develop more stringent norms are as follows:

- The Companies Act lays down the norms for the appointment of independent directors and also specifies who cannot be independent directors (Section 164 of the Act). It prohibits people associated with the promoters and those having a financial interest in the company from becoming independent directors of the company. Beyond fulfilling these statutory requirements, the law does not strictly lay down any 'qualifications' for one to be a director of the company. An individual may well fulfil the criteria mentioned in Section 164 of the Act, but that does not ensure his/her 'independence'. Such a person may still be in close contact with the promoters and may eventually still work hand-in-glove with them. The so-called independence of the independent directors may be highly compromised, and having the required number of independent directors on board may just be a statutory requirement with which the company has complied. Lawmakers need to ensure that the procedure for appointment and working of the independent directors is more transparent. The way to ensure this is to have:
    - A stronger and more independent nomination committee that recommends people for the post of independent director. There can be an independent board set up by MCA that approves the names proposed by the nomination committee.
    - A close watch and check on the 'independent' working of the independent directors, in terms of their report and recommendations about the working of the company.
    - Independent directors critically scrutinise each other's work. So, there is a lateral check on the working of independent directors by their peer group.
    - Any complaint against an independent director attended to as a matter of immediate urgency.
    - Any complaint or warning issued by an independent director against the working of the board of directors given immediate attention and importance.
    - Adequate protection for whistle-blowers under the Act, so that if independent directors want to raise an issue against 'inside directors', they do not fear any kind of loss. This is especially important for promoter-driven companies in which promoters themselves have majority decision-making powers.
    - Severe penalties imposed on independent directors who compromise their independence and do not impartially discharge their duties. Penalties are an important way of ensuring adherence to the law.
- In ensuring that financial frauds do not occur, and in case of any financial irregularities, the same is brought to the notice of the authorities, the role played by the audit committee is very important. The composition of the audit committee should be such that it includes financial experts and independent directors. This has been laid down by law too; however, the functioning and disclosures by the audit committee have not

been thorough in the past. There is a need to change company auditors every few years, as well as changing the composition of the audit committee, to ensure that there is no long-term association between auditors and the company management.

- As corporate scandals are generally financial in nature, financial disclosures should gain more importance. In the present study, we calculated only the Altman Z-score, which could be easily calculated with basic financial knowledge. There are more such tools like Creative Accounting or C-score developed by James Montier (Montier, 2009) and Piotroski F-score devised by Accounting Professor, Joseph Piotroski (Piotroski, 2000), which the companies should use as a mandatory practice. It may not be possible for an ordinary shareholder to make sense of the vast accounting information reported by the company. However, creative accounting tools will help present the information in a more easily understandable manner. Even if followed voluntarily by corporations, these practices will go a long way in setting ethical norms for corporate governance practices.
- The nomination committee, which is entrusted with the task of nominating directors, should ensure a thorough background check before nominating anyone for the post of non-executive director. This should preferably be done in consultation with a centralised committee (that can be set up for each state) so that there is greater transparency and the least bias in the working of the committee. As long as searching for and appointment of independent directors is purely internal to the company, absolute transparency cannot be ensured. An unbiased, third-party, set up under law must look into the appointment and remuneration of non-executive directors, to ensure a certain degree of control, and also some accountability on the part of the company.
- Stricter laws should be enforced against those who are guilty of perpetrating fraud in the company. In the case of ICICI Bank, CEO Chanda Kochchar resigned after the fraud was uncovered. The exit of someone who was at the helm of the affairs and directly associated with the misdoings, should not be as simple as resigning from the post. Not just this, many times there is a gap between suspicion of financial misdoings and actual action taken, whether by those internal to the company or by an external regulatory body. Authorities should be more vigilant about taking immediate corrective action, as soon as there is any suspicion of misgovernance, and nip it in the bud, rather than delaying any action and increasing the severity of the problem. To ensure this, regulatory bodies like RBI and SEBI should tighten their control on companies; they should be given more power to probe the affairs of suspect companies. The control of these regulatory bodies should gain more depth and breadth.

CONCLUSION

The study was undertaken to understand the corporate governance norms as laid down by the lawmakers, and to check whether these have been effective in bringing down corporate scandals and frauds in recent times. The study was motivated by a series of scams that rocked the investors' confidence in the recent past. On exploring the cause of these frauds, the underlying commonality was governance issues and mismanagement in the organisation. The norms and mandatory practices as laid down by the law (which has been revised from time to time) were observed by the companies which formed a part of the study. This was evident from the annual reports of the companies, and as researchers, we could establish that there were no defaults on paper concerning the disclosures and reporting practices. Yet, these corporations were embroiled in scandals that affected various stakeholders to varying degrees. It means there exists a gap between what is practiced and what is presented in the annual report. This gap needs to be addressed more earnestly by the lawmakers and the possibility of any loopholes in the law should be plugged in as quickly as possible.

A careful and detailed examination of the scams and the annual reporting of the corporations helped us in recommending possible ways in which governance norms can be made more fool-proof. An important point that we want to raise here is that it is not just about the law, but about a paradigm shift in the mindset, philosophy, and values of those running the company that can result in a long-term, sustainable solution to the problem. A re-orientation towards the greater good is needed and it is here that we feel spirituality can play a very important role in re-orienting people. Spiritual practices can help people understand and realise their purpose in life, make them more compassionate and empathetic, sensitise them and help in creating a more ethical and morally sound workforce. This can go a long way in reducing the instances of frauds and financial mismanagement, and can possibly ensure a better adherence to law.

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In addition to the above, for the purpose of the study, the annual reports of the companies for a two-year period when the scam was exposed was studied. The CG practices of the companies and the data for financial analysis was extracted from the annual reports. Additionally, to get the information about the financial scandals and governance failures in the corporations under study, Google search was conducted, and information was obtained from various reports and articles available on Google.