

---

## Emergence of Corporate Governance and Its Need in the Financial Strata

Sukhvinder Singh Dari<sup>1</sup>, Mr. Vinay Rath<sup>2</sup>

<sup>1, 2</sup>*Symbiosis Law School, Nagpur*

*Symbiosis International (Deemed University), Pune*

---

### Abstract

Corporate governance tries to strike a range of social and economic interests, as well as personal and collective goals. Corporate Governance is also defined as "the act of outwardly supervising, monitoring, and assessing a firm." This article focuses on corporate Governance and how it works, covering the financial side and how it relates to social responsibility. It examines the operation of corporations and how they affect the financial sector as a whole. It discusses why corporate Governance should consider socio-economic responsibility and its implications. This essay will assist the reader in comprehending why it is necessary to take a constitutional approach to the essential topic of Corporate Governance. By analysing India and even the United Kingdom, it will also put a spotlight on those latent elements that might help bolster corporate Governance's principles, paving the way for learning the responsibilities of corporate Governance in distinct places and what the variances are.

**Keywords-** Corporate Governance/Accountability; Financial; Scams/Frauds; Legislations; Codes and Committees.

### Introduction

"Governance" comes from the Latin word "Gubernare," which means "to steer" and is most commonly used to refer to the steering of a ship. As a result, Governance implies direction or control, which is one of management's responsibilities. Sir Adrian Cadbury, the founder of Corporate Governance, described the idea as "how companies are directed or governed" based on this notion.

There is no definite, definition of Corporate Governance; different people at various times, under different situations and scenarios, have given meaning to this term differently. The most accepted definition originates from the Cadbury Committee, which was set up in the U.K. in 1991 to raise the bar of corporate morality in the corporate sector. 'Mr. Adrian Cadbury' defined it as "the mechanism through which corporations are given directions and controlled." It is possibly the most basic and often used definition. Understanding the concept almost similarly, the 'Organization for Economic Cooperation and Development (OCED)' defines Corporate Governance as "the procedures and processes that direct and manage an organization." The corporate governance framework draws the distribution of rights & obligations among the key workers in the organization – such as the Directors, management, shareholders, and other stakeholders – and forms the regulations and procedures for their implementation and decision-making.'. Gillian and Starks describe it broadly as the set of legislations, Norms, and considerations that govern an organization's operations. Corporate Administration is notion that everyone understands but fails to put into practice because it overshadows other primary critical activities for any business's success. Only a handful effectively employ the heuristic method of corporate social responsibility to execute the idea of corporate Governance and the ethical duty towards society and the environment. As a result, concrete provisions supporting Corporate Governance's critical concept are necessary. The goal of Governance is to ensure that the work of members in any organization is transferable. It incorporates all participants in the economic and social processes. The decisions made by a Director bind everyone. The crucial thing to remember is that all decisions are taken in light of current events, market requirements, and the company's performance; thus, the information acquired must be transparent regardless of external pressure. As a result, establishing adequate and non-manipulative corporate governance provisions is critical. The concept of Corporate Governance falls under the category of business ethics. A business problem emerges when a board action can potentially impact profitability or stakeholders negatively. Good Corporate Governance has immense benefits, such as.

- It increased revenue/profit.
- Growth in market share
- Stability and growth of the company
- Brand image
- Reduces risk
- Reduce Capital Cost

- Motivation to Employees
- Satisfied Stakeholders

This essay aims to assist readers in understanding the critical significance of Corporate Integrity in any organization, why it is necessary to think about social culture as a significant component of any economy, and how it may help with problems in any economy while considering sustainability.

Since this study is comparing two countries, it will also examine at the disparities with in process and the problems that limit the practical tasks of corporate governance. As it focuses on the statutory approach to Corporate Governance's actual functioning, it will also aim to dwell on and analyze the effect of laws and its influence on the same.

## **Corporate Morality in India**

### **“Evolution Of Corporate Governance in India”: -**

Historically, the Indian commerce system had ties to several parts of the world, including China and Europe, dating back to ancient times. Chola or Patliputra kings from various sections of the kingdom were patrons of trade, which led to its expansion and prosperity. Around AD 1650, in South India, these trade patterns took on a more formal shape, and the first Indian company type organization arose. From that time until AD 1800, the system was in place. With the arrival of British colonization in India in 1850, a substantial shift in the structure of trade patterns and commercial institutions occurred, aided by establishing a factory system to produce cotton and jute textiles in India. It was the year when Joint Stock Companies Act in the country was enacted to introduce a company by registration.

Following independence, India was one of the countries with a weak economy and financial instability. The company's Board of Directors and management were more concerned with personal benefit than shareholder profit. There was no such authority to query on the operation's workings and functioning. As a result, the company's shareholders were locked in a situation where they could not even ask the higher authority about any unjust actions. In the decades that followed, the situation worsened even more, and the Indian business sector became synonymous with deceit, favouritism, and ineptitude. High tax rates fostered innovative accounting and complex compensation arrangements to get around the system.

As India lacks a developed stock market, Development Institutions (DFIs) like the IFCI, IDBI, ICICI as well as State Corporations with Financial holdings become the primary providers of long-term credit to businesses. Financial institutions in India were tasked with maintaining the country's economic stability, and this scenario gave rise to the Indian notion of Governance. Several committees were constituted, and the recommendations of these committees were made. Their principles were incorporated into statutes, which remarkably increased the efficiency of organizations. However, adding up the governance framework was insufficient to gain the trust of the company's stakeholders since it lacked responsibility, transparency, and a moral component.

Many necessary measures were taken to reform the Security Exchange Board of India after India was liberalized in 1992. These modifications then became the foundation for a slew of Corporate Accountability laws and regulations. The Confederation Industry of India (CII) was established in 1996, and it produced a set of Statutes enabling Indian businesses to start the corporate governance process. It's first such task undertaken was the 'CII Code for Model Corporate Accountability' developed by a panel of experts chaired by 'Mr. R. Bajaj'. The Panel was brought in picture in early 1996, and its Code was submitted. Following that, SEBI established 2 more such panels- Kumar Mangalam Birla and Narayan Murthy (2000). Due to these recommendations, certain conditions were added in the 49<sup>th</sup> clause. Following these conditions was mandatory by the company's filing for Listing on Stock Exchanges of India.

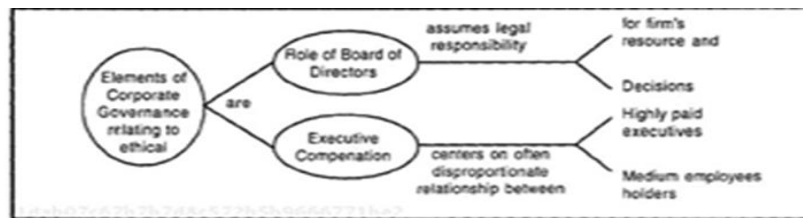
Despite taking all necessary safeguards, various scams were carried out in order to execute the concept of Corporate Accountability, leading the country's economy to fall to pieces. Scandals like the 'Harshad Mehta Scam,' 'Enron,' 'Satyam,' 'WorldCom,' and others have resulted from weak and irregular operational management. 49<sup>th</sup> Clause was in need to be amended due to the controversies, to overcome the problems that ultimately resulted in failing of top enterprises and shocking India's economy. The 49th provision was based on the Sarbanes-Oxley Act of 2002, which was developed for the US stock market. Provision 49 establishes the norms and procedures for a necessary proportion of independent directors, members of the board, panels, a standard of behaviour, and audit committees.

As a rising economy, India has taken significant steps to embrace the critical feature of Good Governance and has achieved good outcomes. However, these achievements are insufficient. In the long term, focusing on the root cause of the problem is more important than just focusing on the problem. Corporate governance policies should be designed to foster an environment that promotes social responsibility, integrity, and ethics. Politics should be severely avoided since it entails corruption, and corruption brings a poor name, which damages faith, and no business can thrive with a terrible reputation.

The culture and tradition of India are well-known. It may be observed in Indian businesses; as most Indian businesses are structured in a hierarchical structure. In most situations, family members become board members, resulting in leniency in the operation of the Board, which leads to inefficient decision-making, ultimately impacting the shareholders.

Debt holders, stockholders, and the Board of directors contribute to internal Governance. Because the owners and shareholders are linked through the Board of directors, it is the most critical part of the business. They serve as a link between corporate office managers and many global contributors. As a result, the director is bound to the Stakeholder's fiduciary obligation. As a result, the company's Board has a lot of tasks, many of which are reliant on the company's management providing appropriate information.

Murthy committee has drawn a framework outlining the elements of CG19 to make this concept more transparent. The Murthy committee explains the C.G. structure as follows:



The above diagram shows that C.G. is made up of various elements connected. Any negligent act committed at any point in the chain will impact the entire chain, so it is necessary to perform efficiently to ensure the company's reliability. Good Governance ensures consistency and limits the scope of systemic risk. Governance mechanisms are viewed as the wheel of long-term profit maximization to strengthen the company's sustainability and attract foreign investors.

India presents its own set of problems and weaknesses as a developing economy. Therefore, adherence to effective Governance can help both the nation and the economy. The fundamentals of corporate Governance are constructed in the form of legislation and requirements integrated into the company act itself; it has restrictive provisions, but it tends to lack credibility due to over flexibility.

### Need For Cg in India

Over the previous decade, India's rapid market expansion has carved out a position even among the developed world's economies. Because of India's rising per capita income, favorable demographics, and vast population, the country has achieved extraordinary growth trajectories. India has demonstrated its financial structure has a firm base that cannot be readily damaged, even in difficult times. While most nations were severely affected by the financial crisis of 2008, India only had tepid aftereffects, according to a report based on Ernst & Young Pvt. Ltd.'s India Fraud Survey 2012. With the arrival of the new BJP government in power, citizens' aspirations have risen to new heights. Within the next 20 years, domestic demand is expected to grow at a compound annual rate of 9.2%, with yearly economic growth exceeding 8%. Over the next 2 decades, the Indians in the middle class is expected to treble. India is also expected to attract a considerable number of foreign investments, which will help the country grow and flourish in various industries.

On the other hand, India does not rank as the world's or even the South Asian continent's most famous foreign investment destination. India has been associated with several negative connotations, mainly when conducting business in other countries. Scams, fraudulent activities, and corruption are common, and the media has recently

highlighted them. As a result, foreign investors are wary of investing in India due to the unknown risks. Foreign investors are faced with the combined task of seeking aggressive growth while also ensuring that they do not violate any regulatory rules. The complicated business climate heightened regulatory activism, and increased use of technology has skewed the scales in favor of corporate organizations struggling to generate business results in today's risky environment."

The issue of corruption is one of the fundamental flaws that the Indian economy has experienced in recent years. Although the government is working very hard in its fight against this threat, a thorough makeover will necessitate many more persistent efforts and a heavy price tag. According to a report based on Ernst & Young Pvt. Ltd.'s India Fraud Survey 2012, recent incidents have highlighted the endurance of this problem.

Few such corporate failures that press need of Corporate Accountability in India that shook the economy and world are as follow-

➤ **Harshad Mehta Scam (1992)**

The Indian broker famed for his fortune and charged with various financial offenses in the early nineties, Harshad Mehta was born July 29, 1954, into a humble Gujarati family and was dubbed the "Big Bull of Stock Exchange." He is accused of organizing the BSE's expansion in 1992. He and his associates used funds from inter-bank transactions to purchase shares at a premium in various sectors, leading Sensex to rise. When the Scam was discovered, the banks demanded the money back, forcing the system to collapse. The broker was illegally tapping into the banking system to finance his purchases. The amount involved in the Scam is said to be Rs 500 crores approximately.

The government established a special court for the trial of offenses in securities scam-related cases by the ordinance. The special court cleared 34 of the 72 accusations made by the CBI against him in October 1997. Mehta was tried for nine years and convicted to five years in prison by the Bombay High Court in September 1999 for Fraud in MUL 1999 and arrested in 2001. Before his death, he was only convicted of one of the 27 criminal accusations brought against him (Maruti Udyog Limited Fraud Case). Mehta complained of chest trouble while in judicial custody in Thane prison, Mumbai, and was sent to a hospital, where he died of a severe heart attack at the age of 47 on New Year's Eve 2001, leaving many questions unsolved.

➤ **C.R. Bhansali Stock Scam-**

Chain Roop Bhansali, born in Rajasthan and raised in Kolkata, became a 'Dada' in India's financial capital before he was 40. C R Bhansali constructed a complicated web of lies. He put 133 businesses up for sale to raise money and then sucked them out. Thanks to his lofty aspirations, interest rates, and forays into mutual fund schemes and banking, he minted much money. The emergence of CRB in the early 1990s coincided with the rise of the 'Non-Banking Finance Company (NBFC)' business. He plummeted almost as quickly in 1996.

Investors were not the only ones caught off guard; credit-rating agencies were also. CARE, a renowned organization, gave the company an "AAA" rating during a period when it was in decline.

He started companies functioning in Capital Markets, mutual funds and Custodial of Shares. Then he turned his attention to banking, and he almost succeeded. He had a great run from 1992 to 1996, accumulating money from the general public via term deposits, bonds, and debentures. A total of 133 subsidiaries and unlisted firms were public on the exchanges. The funds got laundered through these bogus companies in large amounts. In just three years, the company's flagship, CRB Capital Markets, went live in 1992, raising an all-time high of Rs 176 crore.

The A.M. Growth Scheme, launched by Mutual Funds company in 1994, raised Rs 230 crore. A further Rs 180 crore was raised through fixed deposits.

CRB Corporation Ltd issued three public offerings from May 1993 to December 1995, totaling Rs 84 crore. 'CRB Share Custodial Services' began operations in January 1995 after raising another Rs 100 crore.

Bhansali raised roughly Rs 900 crore between 1992 and 1995 amid the post-Harshad Mehta market downturn. After 1995, his stock suffered a beating on the stock market. His real estate holdings did not earn off due to the slump.

The Scam amounted worth Rs. 1200 Crores.

### ➤ **Satyam Computers Ltd. (2009)**

Satyam Computers was once India's top 'Information and Technology (I.T.)' company. However, its creators grounded it in 2009 due to financial mismanagement. Satyam's end sparked a debate over the CEO's responsibility in leading a firm, the CEO's relation with the Board members, and the creation of important taskforces. The incident brought to light the corporate social responsibility framework (C.G.) in creating internal audit norms and board member duties. The Satyam scandal shocked the market, particularly Satyam investors, and harmed India's international reputation.

Mr. R. Raju, Satyam's CEO, accepted responsibility for all material misstatement that misrepresented the company's profitability, as well as a cash position of approximately \$1.04 billion that didn't actually exist. Mr. R. Raju, who was apprehended and confessed to a \$1.47 billion (Rs. 7,800 crores) deception, revealed that he had lied about his revenues for years. Raju and his brother, Managing Director Mr. B. Rama Raju, were alleged of keeping the falsehood from the company's management, Key Executives, and auditors.

Mr. Raju was charged with felony conspiracy, betrayal of trust, and forgery, among other things. Following the Satyam debacle and PwC's participation, PwC shares fell by 5% to 15%. The announcement of the scheme (which was later linked to Enron's bankruptcy) caused chaos in the Indian stock, with the standard Sensex index falling more than 5%. Satyam's stock has dropped by more than 70%.

Tech Mahindra bought Satyam at a public auction following the controversy and renamed it 'Mahindra Satyam.' Price Waterhouse Coopers (PwC), Satyam Computers' auditor, has been forbidden by SEBI from conducting any audit processes for any Indian firm for the next two years, beginning in 2018. Satyam's share prices dropped from Rs. 554 on the BSE to Rs. 11.50 and \$1.80 on the NYSE in 2008, respectively.

India is an emerging market seeing significant economic expansion. However, the recent wave of scandals has caused concern among foreign investors who want to be a part of India's economic story but are mindful of the risks of fraud, bribery, and corruption. Indian policymakers are taking aggressive moves to boost corporate and public investor confidence. Following previous scams and widespread anti-graft activism, there is a reasonable risk that the media will exaggerate negative news about a corporation. Companies are on a tightrope now, and they are acutely aware of potential fraud, which could harm their brand and market value. This is a positive sign that India's corporate Governance would have a brighter future.

### **Initiatives By India-**

In 1991, India's government redrafted its economic policy to rise to a new age of deregulation, decontrol, liberalization, and global integration, despite its dire balance of payments situation. Since then, considerable legislative initiatives have encouraged faster growth, increased industrial efficiency, and increased global competitiveness. The Indian government brought several fundamental reforms and legislative changes in the way of Corporate Accountability as part of its reform agenda. Specific corporate governance reforms were declared by modifying the listing agreement and the Companies legislation in India in 1999, 2000, 2002, and 2006. Some of these initiatives are discussed below:

#### **Legislative Framework-**

In India, Legislations and Regulations are as follows:

- The 2013 Act for Companies-  
Whether listed or not, most companies in India are to follow the 2013 act for Companies which is overseen by the 'Ministry of Corporate Affairs (MCA).' It offers a legal structure for governance practices by strengthening disclosures, compliance, and transparency through better and new compliance standards.
- The Securities Contracts (Regulations) Act, 1956 (SCRA) –  
It includes all tradable government securities, stocks, units, and other types of marketable securities offered by the companies. It establishes the behavior and authority of stock exchanges. SCRA also includes penalty measures if a violation of the listing agreement is discovered. Its primary goal is to prevent undesired securities transactions by controlling the business of trading.
- Securities and Exchange Board of India (SEBI) Act, 1992 –  
It creates an autonomous capital market regulatory power with the express purpose of protecting investors' interests and promoting and regulating the securities market. The arrival of SEBI brought a plethora of changes in the working of corporates; corporates initially resisted these changes, but once these recommendations showed results, it was adopted, and things were in line quickly.

- Depositories Act, 1996- It Establishes depositories for shares and securities. This enactment creates a legal framework for the dematerialization of securities.
- 49<sup>th</sup> Clause of Agreement for Listing – This clause states the corporate governance Norms and Activities to be followed by listed companies.

### **Codes And Standards-**

The distinguished Codes in India include:

a) (CII) “Model Code on Corporate Governance” (1998) –

The ‘CII’ took the lead in forming a National Task Force in mid-1996, which Mr. R. Bajaj chaired. The goal was to create and promote a corporate governance code that would be adopted and implemented by various Indian corporations, whether private, public, banks, or financial institutions. This effort was conceived to safeguard investor interests, promote openness, establish international norms for corporate disclosure of information, and foster public trust in the industry. In April 1997, at the CII's National Conference and Annual Session, it offered a consensual corporate governance code with 17 recommendations.

b) SEBI’s Kumar Mangalam Birla Committee (2000) –

On 7<sup>th</sup> May, 1999, SEBI constituted an eighteen-member group chaired by 'Mr. K. M. Birla (C.A.)' to encourage and reinforce Corporate Governance norms. The Committee presented 25 recommendations in January 2000, which SEBI

has accepted and adopted. The Committee issued two recommendations, one compulsory and the other non-mandatory. The necessary recommendations centered on strengthening the audit committee's responsibilities, the quality of accounting disclosures, a related party, and income from the initial public offering(IPO) and requiring business risks to be disclosed in the annual report. Non-mandatory recommendations include moving to a framework requiring qualifying corporate financial statements, establishing a whistleblower program, training for board members,

and evaluating the performance of non-executive directors.

c) 49<sup>th</sup> Clause in Listing Agreement-

SEBI found that including the Kumar Mangalam Birla Committee's recommendations as a part of the listing agreements was the easiest and quickest manner of executing them. As a result, the listing agreement included a clause

on corporate Governance, Clause 49. The Birla Committee acknowledged that requiring all countries' publicly traded corporations to meet Clause 49's provisions with immediate effect would be impractical. As a result, it proposed a three-year implementation timeline, beginning in the fiscal year 2000-01.

d) SEBI’s Narayanmurthy Committee (2003) –

In an attempt to optimize market trust and transparency, the SEBI established a Corporate Governance committee which was chaired by Shri N. Murthy (Chairman of Infosys Technologies) to evaluate governance performance to determine companies' roles in response to cost-sensitive data circulating in the market. The Panel aimed to identify value judgments based on seven criteria: importance, fairness, accountability, openness, validation, simplicity of implementation, and enforcement. Among the themes handled by the Committee are the audit committee, auditor's report, independent directors, connected entities, risk assessment, executive positions and directors' pay, rules of ethics, and financial disclosures.

e) MCA Voluntary Guidelines for Corporate Governance (2009) –

'The Ministry of Corporate Affairs (MCA)' announced a set of Corporate Governance rules near the end of 2009. These principles were not intended to replace or add to existing legislation but rather to serve as a guideline. Other notable Committees that gave their valuable recommendations include- 'Justice V. Bala Krishna Eradi Committee (2000)', 'SEBI's Y.H. Malegam Committee (March 2001)', 'Y.K. Alagh Committee (2002)', 'J J Irani Committee Recommendations (2005)' and others.

I) Legislative Provisions regulating Corporate Frauds in India

Table 1: Major Acts Regulating Frauds in India

S. No.	Name of the Act	Section		Enforcement Authority	Appeal Against Order of the Authority/ Court
1.	The Companies Act, 1956/ The Companies Act, 2013	The Companies Act, 1956	The Companies Act, 2013	(i) Company Law Board (ii) Department at Ministry of Corporate Affairs (iii) Regional Director (iv) Registrar of Companies (v) Central Government	
		397 & 398 399 to 409 299 (1), 209A 235, 250	241 & 242 243, 244, 246 184, 207 & 208 210, 222		
2.	The Reserve Bank of India Act, 1934	58A, 58B, 58C, 58E(1), 58G, 31, 45E, 45-1A, 45MA, 45QA, 45NA, 45J, 45S		Adjudicating Officer	Foreign Exchange Regulation Appellate Board
3.	The Securities and Exchange Board of India Act, 1992	11		The Securities and Exchange Board of India	Securities Appellate Tribunal followed by Supreme Court
4.	Corporate Governance Code read with Clause 49 (Listing Agreement)	-		Ministry of Corporate Affairs	High Court
5.	The Indian Contract Act, 1872	17		Civil Court	High Court
6.	The Money Laundering Act, 2002	4, 12, 13, 14, 66		Adjudicating Authority	Appellate Tribunal followed by High Court and finally to the Supreme Court
7.	The Competition Act, 2002	36, 41, 42, 43, 44, 45, 48		Competition Commission of India	Competition Appellate Tribunal followed by Supreme Court
8.	The Information Technology Act, 2000	65, 66, 66C, 66D, 66E, 67C		Controller of Certifying Authorities	Cyber Appellate Tribunal
9.	The Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1971	5, 5A, 9, 10, 13, 14		Central Government	High Court
10.	The Indian Penal Code, 1860	463, 477A, 403, 405, 415		Civil/ Criminal Courts	High Court

### Corporate Governance in United Kingdom- History and Evolution of Corporate Governance in The Uk-

The U.K. is an island country in North-Western Europe. It is a monarch and a sovereign nation, with the Queen serving as the state chief. Boris Johnson, the Party Leader, represents the Monarch in the executive arm. It serves as a significant financial hub for the entire world and is one of its most powerful economies. Because the Monarch is the Commonwealth's Head of the State, the U.K. is an integral element of the Commonwealth of Nations. When British Empire stretched across continents in the 19th and early 20th centuries, all countries under British dominion were required to follow British business law. While many of these countries' company laws have evolved to reflect their unique sociopolitical and cultural situations, many still bear some resemblance to British company law, thanks to their Commonwealth ties.

Large business companies in the United Kingdom have been troubled with managerial accountability issues and shareholder apathy since the late 18th century. Nonetheless, corporate Governance did not become a formal part of the public company scene in the United Kingdom until the early 1990s. Sir A. Cadbury & the Panel on the monetary feature of Good and Moral Business Governance, which he chaired, produced a detailed analysis and framework of best practice in 1992, which stands out as the most precise explanation for why "corporate governance" became popular at the time.

Corporate controversies like Maxwell (Maxwell Communication Corporation and Mirror Group Newspapers, U.K.), BCCI (Bank of Credit and Commerce International), and Polly Peck International prompted the development of

modern Corporate Governance in the U.K. the beginning of the 1990s. As a consequence of these crises, the U.K. government urged the market to devise a solution that would lessen the chance of potential disasters and boost market trust. Several events, including committee conclusions and laws, have influenced Corporate Governance within the U.K... The formation of the 'Council on Monetary Aspects of Corporate Accountability (Cadbury Committee)' in May 1991 marked the start of the current U.K. system. Sir A. Cadbury, the chairman of the Cadbury Committee, was given the title. The Committee was founded by the 'Council for Reporting of Finances (FRC),' the 'Stock Exchange of London,' and 'Professionals of Accounting' therefore, the private sector was actively involved in its creation.

### **Need For Corporate Accountability in the Uk-**

Governance of Corporates was a little-known matter until around two decades ago. The topic gained traction in the late 1980s and early 1990s when many countries' corporate sectors were beset by issues of dubious corporate policies and unethical behavior. In the U.K., the failures of 'Maxwell,' 'BCCI,' and 'Polypeck' led to the established corporate morality and accountability codes and frameworks. Failure of Corporate giants triggered a significant reaction in the United Kingdom, and corporate governance regulations and standards took center stage. The frequency, magnitude, and intensity of corporate fraud increased rapidly. The current inequality, glorification of fraudsters and their lifestyle, lack of social concern, outdated mindset, and fewer regulations were the common reasons for the sudden rise in the rate of scams. Though many new standards have been established and improvements in accounting and its reporting are done, to focus on the implementation & adherence process, the need is to develop a fully engaged staff to practice moral Corporate Accountability.

Few such Scams and Corporate failures that pressed the need for excellent and Ethical Governance in the working and functioning of Corporates of the United Kingdom and shook The Globe are as follows-

#### **Polly Peck International (PPI) (1990)-**

- Polly Peck International was a company founded in 1940 in the U.K. It was a textile company that failed in the year 1990. The company expanded rapidly in the 1980s, and this over-expansion resulted in a massive mounting of debts which ultimately resulted in its fall.
- In 1991, Polly Peck Group sold all its 'Vestel Electronics holdings to 'Collar Holding B.V.,' a Dutch affiliate. Following the demise of Polly Peck Group, PPI was put under administration. Nadir escaped to Turkish North Cyprus in 1993 to avoid being tried as a scapegoat. In November 1994, Ahmet Nazif Zorlu purchased PPI from the administrators by buying the entire shareholding of 'Collar Holding B.V.,' which owned Eighty-two percent of 'Polly Peck's issued capital at the time. 'Asil Nadir' was subjected to a midnight to 6 a.m. curfew, an electrical tag, and was compelled to surrender his passport. He started his trials on thirteen charges of fraud and false accounting on January 23, 2012.
- On August 22, 2012, Asil Nadir was convicted on ten counts of embezzlement for over £29 Million from Polly Peck. On three charges, the jury ruled him not guilty. At the commencement of the case, the court was told that thirteen claims were all felonies and that the overall sum allegedly stolen was roughly £146 million. He received a ten-year prison sentence.

#### **Maxwell Communication corporation And Mirror Group Newspapers (1991)-**

- Maxwell Communications Corporation was a major media conglomerate based in the United Kingdom. It was a constituent of the FTSE 100 Index and was traded on the London Stock Exchange. The British Printing Corporation, the corporation was founded in 1964. The Maxwell Empire, which grew to over 400 enterprises by the 1980s, was divided into three groups. 'Mirror Group' and 'Maxwell Communication', 2 publically traded companies. Third was, 'Robert Maxwell Group', and it was wholly (100%) owned by the family. Hundreds of other family-controlled businesses were tied to all three holding firms, both directly and indirectly.
- Problems- Company borrowed extensively to support expansion projects, pension fund fraud, bogus transactions, fraudulent operations, power abuse, financial statement misreporting, loose Board, unethical behavior
- Aftermath- Robert Maxwell allegedly committed suicide. Following Robert Maxwell's death, fraud was revealed, and his sons, Kevin and Ian Maxwell were declared bankrupt with £400 million in debts. The two Maxwell sons and two other former directors were charged with fraud in 1995, but they were acquitted in 1996. Thousands of Maxwell employees lost their pensions as a result of the deception. Polestar was formed when the company was sold to a management buyout.



### **Barings Bank (1995)-**

- The Barings Bank case, like the Maxwell situation in the publishing industry, stresses the importance of "strong Corporate Governance in the banking industry." Barings Bank was among the oldest merchant banks of the World and its headquarter was located in London. In 1762 it was established by 'The Baring family' of German legacy. Bank declared bankruptcy in 1995, having lost '£827 million (\$1.3 billion)' due to poor speculative wagers, particularly on futures markets, undertaken by a Singapore-based employee 'Nick Leeson.'
- Aftermath- Maxwell and Leeson have a lot in common. In 1995, 'Barings Bank was acquired by 'ING' a Dutch Bank for £1 and acquired all of Barings' liabilities, becoming ING Barings. Leeson scheduled a flight to London after learning of the collapse of the Barings to surrender to British police and complete his sentence. However, when he arrived in Frankfurt, he was arrested by German officials. British officials refused Leeson's extradition to the U.K... Leeson was imprisoned for 78 months in jail in Singapore, but due to colon cancer, he was released soon in 1999.

Governance problems typically emerge over time; it is uncommon that an aspect of Governance will abruptly fail, resulting in acute hardship or liquidation in a modern firm. Directors, management, auditors, regulators, and others have the opportunity to notice problems and take corrective action if governance faults develop slowly. Corporate scams have become more common, according to reports. Almost every Code was followed by significant corporations that went out of business, but they failed. As a result, no number of inspections, standards, laws, regulations, or other measures can alter a person's personality. This is more of a human character issue.

### **Initiatives By United Kingdom**

Although the U.K.'s good governance strategy is alluded to as "self-governed" and "comply-or-explain," it is founded on robust business law and regulatory framework. The term "shareholder-led strategy" refers to how shareholders in the United Kingdom participate actively in corporate Governance, with extensive powers and influence allowed via corporate law to make boards of directors accountable.

### **Legislative Framework for Corporate Governance-**

There are several sources in the U.K. regulatory framework for corporate Governance, and that includes:

- The Companies Act 2006:  
This is the main piece of legislation that governs corporations incorporated in the United Kingdom. It spells out directors' responsibilities, including their fiduciary obligation to the company and supporting its success.
- The U.K. Corporate Governance Code 2010:  
The principles of effective corporate Governance are outlined in this Code for companies listed on the London Stock Exchange. Companies with a Premium Listing are required by the Listing Rules and the Disclosure and Transparency Rules to give annual disclosures of both their compliance and non-compliance with the Code and explain why and where the firm has not adhered to sections of the Code.
- The Bribery Act 2010:  
The 'U.K. Bribery Act 2010', came into action on 1<sup>st</sup> July, 2011, is a powerful tool to pursue bribery in both governmental and private work space, both within and outside the United Kingdom. The Bribery Act modifies the felony justice system of corruption in the U.K., it automates the palm-greasing prosecution procedure, and enhances the penalties for bribery convictions. The Bribery Act makes a company responsible for the behavior of its employees. However, it also allows protection if the company can demonstrate that it has effective anti-bribery mechanisms.
- The Enterprise Act 2002:  
The Office of Fair Trading was able to examine monopolistic actions such as predatory pricing, cost-fixing, and restricting entry in a market. Also, it made Cartels Illegal.
- The Health and Safety at Work Act 1974:  
If a director or supervisor actively consents to a safety and health infringement or ignores their responsibilities, they are personally liable.
- Act of 2000 for Markets and Services of Financial in Nature (FSMA):  
FSMA governs the issuance of a company's equity or any other instruments to shareholders and other investors. It includes the marketplace exploitation regulation and extends to private and governmental corporations when they issue stock.

## Committees and Code

- Sir Adrian Cadbury Committee (U.K.), 1992-  
The 'Cadbury Committee' was founded in May 1991 by the 'Financial Reporting Council,' the 'London Stock Exchange,' and the 'accountancy profession' in response to financial controversies in the early 1990s, when three major UK corporations, namely 'Maxwell,' 'BCCI,' and 'Polypeck,' suddenly and unexpectedly imploded in 1991, losing a lot of investor sentiment in the financial reporting quality. The report of the Committee was released in 1992.
- The Committee investigated the economic component of Corporate Governance & established a set of guidelines and practices that they believe all boards of UK-listed companies should follow. The Committee's best practices Code comprised 19 recommendations. The Committee explicitly urged Listed companies to provide a formal announcement in its report and accounts declaring whether or not they followed all of the Code's rules.
- Greenbury Committee (U.K.), 1995-  
Under the chairmanship of 'Sir Richard Greenbury,' the 'Confederation of Business and Industry (CBI)' organized a panel to look into the payment of remuneration of directors. Following in the footsteps of the Cadbury Report, the Committee looked at the issue of director remuneration. The listing rules, which provide for creating a remuneration committee, supported their Code of best practices.
- Hampel Committee on Corporate Governance (U.K.), 1998-  
In 1996, the Hampel Committee was formed to study and update the Cadbury and Greenbury Committees' earlier recommendations. It inquired as to whether the Code's intended goal had been met. The U.K. corporate governance system, according to Hampel, does not need to be revolutionized. The Cadbury and Greenbury proposals were combined, harmonized, and clarified in this study. From December 31, 1998, all listed firms were subject to the 'Combined Code' on Corporate Governance.
- Revised Combined Code (U.K.), 2003-  
The new Code contains several critical regulatory requirements relating to the responsibilities of a firm's CEO and Chairman, its Board of Directors, and the constitution of the Board's 3 primary committees - Nomination, Audit, & Remuneration. According to the Code's "comply- or explain" premise, companies must either entirely adhere to the Code's principles or present an "acceptable" justification for their non – adherence. These Recommendations emphasizes the importance of non-executive directors being "autonomous" in a company's Corporate Governance frameworks and judgment processes and their role in such structures and processes.
- 'UNCTAD' Guidance on Good Practices in Corporate Governance (U.K.), 2008-  
The Combined Code was published in 2008 by the 'Financial Reporting Council (FRC)' to promote trust in CSR disclosure and Governance and to assist the participation of ethical Corporate Governance in directing top notch company actions by assisting the Board in completing its duties in the best interests of the shareholders.

## Critical Analysis:

In recent years, there has been much talk about Corporate Governance. Need to redefine this topic and its scope has been felt in the wake of many financial collapses worldwide and a chaotic economic climate. Companies are growing their operations around and across the globe simultaneously, and the role of corporate social responsibility is changing social and ethical standards. As a result, corporate Governance is gaining traction as a topic worthy of investigation at the economic, political, and social levels.

At about the same time the Topic of Corporate Accountability and social responsibility emerged in the United Kingdom, the discussion over Moral Business Governance in India heated up. The 'Confederation made first recommendations of Indian Industry (CII),' based on the Cadbury Committee's idea in the UK. The intent was always to raise corporate governance standards and confidence in financial reporting and auditing by clearly defining each party's responsibilities and what they should expect.

India introduced a new model of economic reforms in the early 1990s by introducing the concepts of liberalization, globalization, and privatization. The 'Mehta Scam of 1992,' the '(UTI) Fraud,' the 'Bhansali Scandal,' the 'Vanishing Company Scandal,' the 'Ketan Parikh controversy,' the 'Sahara Scam,' and the 'Satyam Scam' all occurred as a result of India's economic liberalization. These frauds were comparable to those that rocked the United Kingdom prior to

implementing the Combined Code. Corporate scandals were not limited to the United Kingdom and India; practically every country has seen some form of corporate scandal.

This generated a worldwide debate about corporate Governance. The United Kingdom was the first to respond, appointing a committee to investigate corporate misconduct under the chairmanship of Sir Adrian Cadbury. The U.K. regulatory framework for corporate Governance comprises different legislation, particularly the 'Act of 2006 for Companies'; the 'Rules of Listing,' 'Transparency & Disclosure Rules, and 'Rules for Prospectus,' all of which are made and enforced by the 'Authority for Financial Services' as 'UK Listing Authority (UKLA)'; the 'Business Governance Code of UK (the Code)' and the 'UK Code for Stewardship' for shareholders, both of which are the duty of the finance.

India, a newly liberalized country, joined the ranks and formed committees to examine Corporate Governance issues needed to shield the economy's smooth operation and restore investor faith, which recent frauds had harmed.

The CII, India's largest industry and business organization, were the first to take action in 1998 when it published the first voluntary Code of Corporate Governance. Then, in Clause 49 of the Listing Agreement format, the Securities and Exchange Board of India (SEBI) enacted India's first official mandated corporate governance rule. 'The Naresh Chandra Committee,' mainly focused on accounting difficulties incorporating Governance, issued a report in 2002 and was followed by the 'Narayana Murthy Committee,' which issued a report in 2002. SEBI updated '49<sup>th</sup> Clause' of the Listing Agreement in August of 2003 after considering few of Committee's guidelines. In December 2003, SEBI rescinded the new Clause 49, and the original Clause 49 remains in effect.

The breadth and extent of India's economic changes and development over the last 30 years have been praised. The country has liberalized broad tracts of its economy and capital markets, resulting in several highly respected companies in fields as diverse as information technology, finance, automobiles, steel, and textile production. This expansion of the economy and business necessitated more stringent market regulation to ensure that company growth benefits the economy. More robust investor protection mechanisms, independent boards of directors, transparent corporate management systems, and tight disclosure rules have increasingly become prominent themes of ineffective corporate governance approaches.

## Conclusion

Recent regulatory changes, as well as the aspiration of management Corporate Governance system in the world for better investor protection, have significantly raised the barriers for corporate entities and boards. The constraints will get worse as the number of foreign companies engaged in many domestically and abroad areas grows. Due to these conditions, businesses will start a new working region, and adherence with Corporate Regulatory standards has become vital. There is demand for implementing strong Corporate Governance rules to increase openness by corporations and improve India's Corporate Governance index compared to the U.K. As a result, more organizations should adhere to Corporate Governance norms. Corporate governance as in United Kingdom is more effective than in India since it is centre on the principle and practicality rather than laws and regulations.

Thus, the New Act of 2013 for Companies and Disclosure Requirement Obligations to List a Company by SEBI have created new opportunities for Indian companies, increasing India's corporate governance index and the number of companies that have adopted corporate Governance.

## References

- [1] Adrian, C., (1992) 'The Committee on the financial aspect of Corporate Governance.
- [2] European Central Bank, 2004, Annual Report: 2004, ECB, Frankfurt, Glossary
- [3] Stuart, G., (2006) Recent Developments in Corporate Governance: An Overview, *Journal of Corporate Finance* 12: (3) 381-402
- [4] Reed, Darryl, and Mukherjee, Sanjoy, (2003) "Corporate Governance Economic Reforms and Development- the Indian Experience" Oxford University Press.
- [5] Chakrabarti, R., (January 17, 2005) Corporate Governance in India - Evolution and Challenges
- [6] <https://ssrn.com/abstract=649857> or <http://dx.doi.org/10.2139/ssrn.649857>, Ibid, pg. 15
- [7] Kulkani, Ruchi & Maniam, Bala, (2014) Corporate Governance — Indian Perspective. *International Journal of Trade, Economics, and Finance*. 5. 364-368. 10.7763/IJTEF.2014.V5.399.
- [8] Chakrabarti, R., (January 17, 2005) Corporate Governance in India - Evolution and Challenges

- <https://ssrn.com/abstract=649857> or <http://dx.doi.org/10.2139/ssrn.649857> Ibid, pg. 365 (2014. V5. 399)  
<http://www.legalservicesindia.com/article/956/Clause-49-of-the-Listing-Agreement.html>.
- [9] Murthy C. S. V., (2009) Business Ethics and Corporate Governance, Mumbai, India, Publisher: Global Media.
- [10] 'Fraud and Corporate Governance- Changing Paradigm in India', (2012) a report on Survey of Indian Frauds, Ernst & Young Pvt. Ltd.
- [11] "Harshad Mehta" Scam, <https://www.yumpu.com/en/document/read/12377924/harshad-mehta-scandal-casestudycoin>
- [12] <https://www.mytraderguide.com/2020/12/harshad-mehta-securities-scam.html>
- [13] <http://www.scribd.com/doc/60137163/18/Chain-Roop-Bhansali>
- [14] <http://www.indiaforensic.com/CRBhansali.htm>
- [15] <https://www.indianmirror.com/indian-industries/indian-scams/bhansaliscam.html>
- [16] <https://blog.ipleaders.in/case-study-satyam-fraud-case/>
- [17] [https://www.academia.edu/10971389/SATYAM SCANDAL A case study](https://www.academia.edu/10971389/SATYAM_SCANDAL_A_case_study)
- [18] <https://cleartax.in/g/terms/satyam-scam-satyam-scandal>
- [19] 'Fraud and Corporate Governance: Changing Paradigm in India', (2012) a report on India Fraud Survey, Ernst & Young Pvt. Ltd.
- [20] <https://www2.deloitte.com/in/en/pages/risk/articles/governance-101.html>
- [21] Bajaj, R., (1998) 'Confederation of Indian Industry Desirable Corporate Governance' pp.3.
- [22] SEBI (2000) 'Report of Kumar Mangalam Birla Committee on Corporate Governance' pp. 1-20.
- [23] Corporate Governance, (2006) ( Modules of Best Practices), 4<sup>th</sup> edition, ICSI.
- [24] The CHARTERED ACCOUNTANT Journal Vol. 62, No. 6, December 2013, pp. 67, ICAI.
- [25] <https://www.britannica.com/facts/United-Kingdom>.
- [26] Elewechi, O., "Corporate Governance in the United Kingdom"- book, "CH16", "337-365", "04/2019", "International Centre for Research in Accountability and Governance, 9781916028210".
- [27] Cheffins, B.r., Corporate Ownership, and Control: British Business Transformed (Oxford University Press, 2008),
- [28] Committee on the Financial Aspects of Corporate Governance, Report, (Gee, 1992), Committee on the Financial Aspects of Corporate Governance, Code of Best Practice (Gee, 1992).
- [29] <http://cadbury.cjbs.archios.info/#content>.
- [30] Kaur, Gurbandini and Mishra, Richa, (September 17, 2009), A Comparative Study of Male Female Academician's Perception of Reasons for Failure of Corporate Governance.  
<https://ssrn.com/abstract=1474664> or <http://dx.doi.org/10.2139/ssrn.1474664>
- [31] Gallagher, J.G., Lauchlan, J. and Steven, M. (1996), "POLLY PECK: THE BREAKING OF AN ENTREPRENEUR?" Journal of Small Business and Enterprise Development, Vol. 3 No. 1, pp. 3-12. <https://doi.org/10.1108/eb020960>
- [32] <https://www.ft.com/content/9795df1a-ec4a-11e1-a91c-00144feab49a>
- [33] <https://www.taxmann.com/bookstore/bookshop/bookfiles/sample%20chapter%2011%20website.pdf>
- [34] Clark, Thomas, Robert Maxwell; Master of Corporate Malfeasance", Corporate Governance; an International Review, July 1993, Vol. 1, Issue 3. pp.: 141-151
- [35] The reason, James (1997). Managing the Risks of Organizational Accidents. Ashgate Publishing Limited. p. 29
- [36] <https://ethicsunwrapped.utexas.edu/case-study/collapse-barings-bank>  
<https://www.icaew.com/-/media/corporate/files/technical/corporate-governance/beyond-the-myth/effective-corporate-governance-frameworks.ashx?la=en> page 17  
<https://www.lexology.com/library/detail.aspx?g=c0fc3533-fff0-4f1d-8229-6be9728bcf93>
- [37] Greenbury, Richard. Directors' Remuneration: Report of a Study Group Chaired by Sir Richard Greenbury. London: Gee, 1995. Print.

- [38] Hampel Final Report: Committee on Corporate Governance, London, January 1998, London: Gee Publishing Ltd
- [39] Pass, C. (2006), "The revised Combined Code and corporate governance: An empirical survey of 50 large U.K. companies", *Managerial Law*, Vol. 48 No. 5, pp. 467-478.  
<https://doi.org/10.1108/03090550610715963>
- [40] <https://unctad.org/webflyer/guidance-good-practices-corporate-governance-disclosure>