CHAPTER–II: LITERATURE REVIEW

2.1 Introduction

The present research endeavor intends to check the corporate governance practices followed by select corporates and its impact on business performance and thereby its contribution to the value creation of the corporate. The previous chapter provides a road map of the present research work. Before going for the data collection and identification of the variables to study, this chapter seeks to provide a backdrop to the study by highlighting the importance of corporate governance and value creation of the corporate as well as impact of corporate governance practices on value creation and this chapter also deals with the understanding of some basic conceptual phenomenon required for the study.

This chapter reviews the practice of good corporate governance and the role of Principles of Corporate Governance in improving the performance of the firm. It also analyses the literature related to the effect of corporate governance on firm performance in the selected companies. This chapter is structured as follows. Section 2.2 presents the Evolution and Growth of Corporate Governance in the global context, followed by the Evolution and Growth of Corporate Governance in India Section 2.3. Literature relating to the development of corporate governance is reviewed in Section 2.4. Section 2.5 of chapter deals with the term 'Value', this part discusses different concepts of *'value'* identified by different social scientists, researchers, as well as professionals and also tries to identify the factors having impact on it, followed by concept of Value of the company, is discussed in section 2.6 of the chapter. Whereas section 2.7 provides an in-depth understanding of the term 'Value creation of the Companies' and also reviews the literature relating to components and tools to measure the value creation of companies. Section 2.8 explains the relationship between corporate governance and value creation of the companies identified by the various researchers in literature, followed by limitation of existing literature and identifying gaps in Section 2.9, and Section 2.10 explains the proposed contribution of this study to literature.

2.2 Corporate Governance: Conceptual Development

The Idea of governance at the level of government is ancient. Chaucer (c.1343-1400) the English writer and philosopher use the word the first time, although he could not decide how it should be spelled ("gouernance" or governaunce). But the phrase "Corporate Governance" did not come to use until the 1980s. The theoretical exploration of the subject "Corporate Governance" is relatively new; the practice of "Corporate Governance" is as old as trade. (Robert DeMaria, Jr., Heesok Chang, Samantha Zacher ,, 2013)

Shakespeare (c.1564-1616) understood the problem. In his play *The Merchant of Venice,* Antonio the merchant worrying as he watched his ships sail out of sight, having entrusted his fortune to others. Whenever a principal has to rely on agents to handle his or her business, the governance issue arises. (Belina-Johnson, Anastasia, 2013). The evolution of corporate governance can be traced from the following events, occurred in chronological order.

2.2.1 The Historical Days: Merchants and Monopolies

In 1600, England's Queen Elizabeth granted a royal charter to the East India Company, giving it a monopoly over all trade between England and Asia. The Company was a joint-stock company, with over 1,000 stockholders, who elected governing board of 24 directors each year. The company traded principally with India and China in cotton, silk, tea, and opium, at one time administering parts of the British Indian Empire with a private army. The Dutch East India Company was granted a charter by the Republic of the Netherlands in 1602 to run Dutch colonies and to trade with Asia. By the 17th century, the economic, political, and military competition was growing between the empires of Britain, Holland, Portugal, and Spain. Companies, created by charter from the monarch or the state, pursued trading interests under rules set by the charter.

The story of corporate governance has many overambitious and dominant businessmen with unrealistic expectations, leading to corporate collapses and, sometimes, fraud. The South Sea Company was incorporated in 1711 to trade with Spain's South American colonies, mainly in slaves. In 1718, King George I of England became governor of the company, bringing prestige and confidence. Then, in 1720, the British House of Lords gave a monopoly to the company on the understanding that the company undertook to guarantee the British national debt at a fixed interest rate. Massive speculation in its stock followed: stock prices went from £100 to over £1,000. Then the bubble burst. The Chancellor of the Exchequer was found to have taken bribes to inflate the stock. Many of the British gentries lost their fortunes, banks failed, while directors of the company were imprisoned, and their wealth confiscated. (Bob Tricker , 2013)

Adam Smith (1723-1790), a moral philosopher at the University of Glasgow, argued that society benefits when individuals pursue their own self-interest because the free market then produces the goods and services needed at a low price; His oft-quoted comment on their behavior offers a classic corporate governance perspective: The directors of companies, being the managers of other people's money rather than their own, cannot well be expected to watch over it with the same anxious vigilance with which (they) watch over their own. (Adam Smith, The Wealth of Nations, 1776) (Bob Tricker , 2013) **.** This is the agency problem**,** whenever the owner of the wealth (the principal) contracts with someone else (the agent) to manage his or her affairs the agency dilemma arises.

2.2.2 The invention of the limited liability company

At the start of the 19th century, apart from corporations created by the crown or the state, there were basically three ways in which people could engage in business: as a sole trader, in a partnership, or as an unincorporated body in which some managed the firm while sleeping partners just provided finance. In each case, if the business became insolvent, the creditors could pursue their debts with any and all of those involved until ultimately, they became bankrupt. In those days, not paying your debts was a crime leading to debtors' prison, followed by the possibility of your wife and children being sent to the parish workhouse. This was quite a disincentive to invest unless people were directly involved in management activities. But this was a period of great economic growth, generated by the Industrial Revolution. Firms needed external capital to expand faster than plowed-back profits would allow. So it was become necessary to create a company with the limited liability of investors making the only investment in the company and not get they involved in business operations.

The French were the first to create a form of corporate incorporation, which restricted shareholders' liability. From 1807 in France the companies were formed with the liability of external investors, but executive directors still remained personally exposed to their companies' debts. British Companies Acts of 1855 and 1862 gave limited liability to all shareholders, whether they were involved in the management of the company or not. During the 19th century, some states in the United States passed legislation allowing the incorporation and control of companies. The concept of the limited-liability company spread throughout the British Empire of the late 19th century. The company laws of Australia, Canada, some Caribbean islands that are now tax havens, India, Malaysia, New Zealand, Singapore, South Africa, and other African countries still reflect those origins, although they have subsequently evolved to reflect local circumstances. The notion of the limited liability company was elegantly simple and superbly successful, leading to huge industrial growth around the world and the creation of untold employment and wealth.

Initially, though, all joint-stock, limited-liability companies were public companies-that is, they could invite the public to subscribe for their shares. Their main purpose was to raise capital from the public, who were no longer responsible for their company's debts. By the early 20th century, however, business people saw that the model could be used to give limited liability to family firms and other private businesses, even though they did not need access to capital from outside investors. Such private companies, incorporated in jurisdictions around the world. (Bob Tricker , 2013)

2.2.3 The separation of ownership from operations:

In the early days, limited-liability companies were relatively small and simple. Shareholders were drawn from the wealthier classes and could attend or be represented in annual general meetings of the company. They were relatively close to the companies in which they had invested. In those days, there were no chains of financial institutions, pension funds, hedge funds, brokers, or agents between the investor and the boardroom, but by the early years of the 20th-century things were changing. In the United States, the United Kingdom, and other economically advancing countries, many companies had become large and complex. Their shareholders were now numerous, geographically widespread, and differed in both their time horizons and their expectations about dividends and capital growth. Shares in most public companies were now listed on stock exchanges. Chains of financial institutions and other intermediaries stood between companies and the votes of their shareholders in company meetings links between management and investors in their companies were becoming distant.

Using data from companies in the United States, Adolf Berle, and Gardiner Means, 1932 drew attention to the growing separation of power between the executive management of major public companies and their increasingly diverse and remote shareholders. They realized the significance of corporate power, observing that: The rise of the modern corporation has brought a concentration of economic power that can compete on equal terms with the modern state-economic power versus political power, each strong in its own field. The state seeks in some aspects to regulate the corporation, while the corporation, steadily becoming more powerful, makes every effort to avoid such regulation. The future may see the economic organism, now typified by the corporation, not only on an equal plane with the state but possibly even superseding it as the dominant form of social organization. (Adolf Berle and Gardiner Means, 1932) This was a seminal work of corporate governance and is still one of the most frequently cited works in corporate governance writing today.

In 1971, a pioneering work by Mace, based on research in US companies, sought to discover what directors really did and, in the process, challenged the conventional wisdom: In most companies' boards of directors serve as a source of advice and counsel serve as some sort of discipline, and act in crisis situations if the president dies suddenly or is asked to resign because of unsatisfactory management performance. (Paul Mallette & Jackie Hartman, 1980).

The arrival of the joint-stock limited liability companies in the mid-19th century increased the number of principals (shareholders) and their agents (directors). The number increased the diversity of shareholders in public companies meant, moreover, the interest of shareholders were no longer homogeneous. As Berle and Means (1932) showed in their influential analysis, as listed companies grew and their shareholders become more diverse, the separation between owners and directors increased and power shifted towards the directors, which some of them abused.

An Agency problem is not limited to relations between investors in listed companies and their agents. The agency dilemma can occur in private companies, joint ventures, professional institutions, and governmental bodies. Wherever there is a separation between the members and governing body put in place to protect their interest and to deliver the required outcomes, the agency dilemma will arise and corporate governance issues occur.

2.2.4 Developments in the 1970s: audit committees, two-tier boards, and corporate responsibility:

An Increasingly litigious climate in the United States, with shareholders of failed companies seeking recompense from directors, board and in particular from auditors, led to more emphasis on checks and balances at board level, due to which the concept of audit committee has come into existence, Auerbach (1973) wrote of the audit committee as a new corporate institution. (Bob Tricker , 2013)

There were significant developments that occurred in corporate governance thinking in 1970. In the United States in 1972, the Securities and Exchange Commission required listed companies to create audit committees, like standing committees of the main board comprising independent outside directors. These audit committees were to provide a bridge between the external auditor and mainboard, ensuring that directors were made aware of any issues that had arisen between the auditor and the finance department. In Europe, two-tier boards were promoted and on both sides of the debates arose around board duties towards other stakeholders.

In the UK, Tricker (1978) undertook a study of British board structures, membership, and processes, intending to advocate audit committees in the UK, but concluded that, although many listed-company boards did have nonexecutive directors, the concept of director independence was not understood in Britain. Sir Brandon Rhys-Williams, a British Member of Parliament, also called for non-executive directors and audit committees in the UK, a proposal that led to a Green Paper the Conduct of Company Directors (1977) and a parliamentary Bill calling for audit committees, which ultimately failed. (Bob Tricker , 2013)

The European Economic Community (EECP) [Now it is known as European Union] issued a series of draft directives on the harmonization of company law throughout the member states. A committee of the Confederation of British Industries, chaired by Lord Watkinson (1973), reported on the wider responsibilities of the British public company. A report by Fogarty (1975) discussed companies' responsibilities and stakeholder participation.

The Accounting Standards Steering Committee produced The Corporate Report (1975), which called for all economic entities to report publicly and accept accountability to all those whose interests were affected by the directors' decisions. The political implications of these proposals for the widening of accountability and control over companies, and the related erosion of managerial power, soon consigned this report to the archives. (Bob Tricker , 2013)

2.2.5 Developments in 1980: corporate collapses:

In the 1980s, broader stakeholder concerns became overshadowed by the market-driven, growth-orientated attitudes. The directors' responsibility to increase shareholder value was reinforced. The profit performance model became the basis for the privatization of state-run entities-rail, coal, electricity, gas, and water enterprises were all privatized in the UK and, gradually, around the world.

In the United States, the names of Ivan Boesky, Michael Levine, and Michael Milken were to go down in line with the annals of corporate governance with the massive junk-bond-financed, insider information deals through Drexel, Burnham, and Lambert. In Australia, the names of Alan Bond, Laurie Connell of Rothwells, and the Girvan Corporation were being associated with questionable governance practices. In the UK, it was the Guinness case and, subsequently, the collapse of Robert Maxwell's companies' Boards dominated by powerful executive directors was now seen to need checks and balances, particularly where the posts of chief executive and chairman of the board were combined and the outside directors were weak. The concepts of corporate governance were at last to become the focus of attention; indeed, the phrase itself was about to appear.

In the mid-1980s, research into corporate governance expanded:
Baysinger and Butler (1985), using the phrase 'corporate governance', looked at the effects on corporate performance of changes in board composition. (Barry D. Baysinger and Henry N. Butler, 1985) Mintzberg (1984) posed the question 'Who should control the corporation?' But the subject came center stage less as the result of academic, research-based deliberations, and more as a result of official inquiries set up in response to the corporate collapses perceived board-level excesses and apparently dominant chief executives in the latter part of the 1980s. (Henry Mintzberg, 1984)
Drucker (1991) drew attention Companies needed to influence their share prices and to tap the ever-increasing pension funding and savings around the world. (Drucker, 1991)

The US Treadway Commission had been formed in 1985 to consider fraudulent corporate financial reporting. Its first report (1987) led to the creation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), a private-sector initiative to encourage executive management and boards towards more effective business activities.

2.2.6 Developments in the 1990s: corporate governance codes arrive

In the 1990s, corporate governance codes arrived. The first was the UK's Cadbury Report (1992), produced by a committee chaired by Sir Adrian Cad bury, on the financial aspects of corporate governance. Based on what was considered good practice, the code called for:

- the wider use of independent non-executive directors, with "independence"
- the introduction of an audit committee of the board with independent members
- the division of responsibilities between the chairman of the board and the chief executive, or, if the roles were combined, strong independent directors
- the use of a remuneration committee of the board to oversee executive rewards
- the introduction of a nomination committee with independent directors to propose new board members
- reporting publicly that the corporate governance code had been complied with or, if not, explaining why

In the United States, companies must follow the company law of the state in which they are incorporated and comply with the US generally accepted accounting principles (GAAP), in addition, companies must meet the demands of the Securities and Exchange Commission (SEC) and the rules of any stock exchange on which their shares are listed.

The Cadbury Report became significant in influencing thinking around the world. Other countries followed with their own reports on corporate governance. These included the Vienot Report (1995) from France, the King Report (1995) from South Africa, the Toronto Stock Exchange recommendations on Canadian Board practices (1995), the Netherlands report (1997), and a report on corporate governance from the Hong Kong Society of Accountants (1996). As with the Cadbury Committee Report (1992), these reports were particularly concerned about the potential for abuse of corporate power. Similarly, they called for greater conformance and compliance at board level, recommending the use of audit committees as a bridge between the board and external auditor, the wider use of independent outside, non-executive directors, and the separation of the role of chairman of the board from that of chief executive. More checks and balances to avoid executive domination of decision-making and to protect the rights of shareholders, particularly minority shareholders, was the theme. (Adrian Cadbury, 2010)

An Australian Committee on Corporate Governance (1993), chaired by Professor Fred Hilmer of the Australian Graduate School of Management, however, advanced a view that added a new dimension to the conformance and compliance emphasis of the Cad bury and the other reports. Governance is about performance as well as conformance. In 1996 General Motors, published their own board governance guidelines on significant governance issues.

In 1998, the Organisation for Economic Co-operation and Development (OECD) proposed the development of global guidelines on corporate governance and encouraged states to introduce such corporate governance guidelines.

2.2.7 Developments early in the 21 Century: Reactions to more corporate collapses

As the 21st century dawned, corporate governance seemed to be developing well around the world. Codes of principles or best practices in corporate governance for listed companies were in place in most countries with stock markets. The importance of good corporate governance was well recognized.

Many of the corporate governance codes now called for director appraisal, training, and development, and for board-level performance reviews. Many felt that 1-markets were offering a premium for shares in well-governed companies.

But the new century had scarcely begun when disaster struck Enron, one of the largest companies in the US, collapsed on the back of heavy, unreported indebtedness and dubious corporate governance attitudes among the executive directors. Corporate governance problems appeared in companies in other parts of the world. In the UK, Marconi, British Rail. Independent Insurance and Tomkins faced *governance* problems, as did HIH Insurance in Australia, Parmal in Italy, and Vodaphone Mannesmann in Germany.

The US GAAP were now pilloried as being based on rules that could be manipulated, rather than on the principles of *overall* fairness required in international accounting standards Confidence in the financial markets was shaken.

In 2001, in the United States, a Blue Ribbon Commission, set up by the National Association of Corporate Directors (NACD), published a report Director Professionalism A year later, the American Law Institute published a set of general principles on corporate governance, In November 2003, the SEC approved new listing requirements reflecting many of the NACD's recommendations.

In 2002, the US Sarbanes-Oxley Act, which we will explore in detail later, was rushed through, placing new stringent demands for the governance of all companies listed in the United States. This Act, now nicknamed "SOX" or "Sarbox", significantly raised the requirements and the costs of corporate governance. The New York Stock Exchange and NASDAQ reflected the changes in their listing rules only independent directors could now serve on audit and remuneration committees, shareholders had to approve plans for director's stock options and subsidized loans to directors were forbidden. A new institution was created to oversee audit firms, which must rotate their audit partners, to prevent an over-familiarity between y of auditor and the client's finance staff. Auditors were also forbidden to sell some non-audit services to audit clients, and audit staff was to serve a cooling-off period before joining the staff of an audit client-all of which had happened in Enron. (Bob Tricker , 2013)

2.3 Evolution and Growth of corporate governance in India:

The concept of good governance is very old in India dating back to third century B.C. where Chanakya (Vazir of Parliputra) elaborated fourfold duties of a king viz. *Raksha, Vriddhi, Palana, and Yogakshema*. Substituting the king of the State with the Company CEO or Board of Directors the principles of Corporate Governance refers to protecting shareholders wealth (*Raksha*), enhancing the wealth by proper utilization of assets (*Vriddh*i), maintenance of wealth through profitable ventures (*Palana*) and above all safeguarding the interests of the shareholders (*Yogakshema or safeguard*).

Corporate Governance was not on the agenda of Indian Companies until the early 1990s and no one would find much reference to this subject in the book of law till then. Corporate governance has been gaining momentum across the world due to miserable corporate failures, unethical business practices, insufficient disclosure and transparency, inefficient management board and social concerns. As always, after a slew of scandals and corporate fraud, there are cries of outrage, demand for bringing culprits to book, suggestions over how to improve corporate governance, setting up of committees and corporate governance dominating the political and business agenda. Scams have almost become a regular feature-the Harshad Mehta scam, Ketan Parekh scam, UTI scam, Bhansali scam, Satyam scam and many more.

The fiscal crisis of 1991 and the resulting need to approach the IMF induced the Government to adopt reformative actions for economic stabilization through liberalization. The momentum gathered albeit slowly once the economy was pushed open and the liberalization process got initiated in the early 1990s. As a part of the liberalization process, in 1999 the Government amended the Companies Act, 1956. Further amendments have followed subsequently in the year 2000, 2002 and 2003, 2006, 2007, 2011 and finally New Companies Act, 2013 was passed. A variety of measures have been adopted including the strengthening of certain shareholder rights, the empowering of SEBI (i.e. to prosecute the defaulting companies, increased sanctions for directors who do not fulfill their responsibilities, limits on the number of directorships, changes in reporting and the requirement that a 'small shareholders nominee' be appointed on the Board of companies with a paid-up capital of Rs. 5 crores or more) (background trainning material on corporate governance)

The major corporate governance initiatives launched in India since the mid-1990s are discussed below:

2.3.1 The CII Code:

On account of the interest generated by Cadbury Committee Report of UK, the Confederation of Indian Industry (CII) took special initiative with the objective to develop and promote a code of Corporate Governance to be adopted and followed by Indian Companies both in private & public sector, Banks and Financial Institutions. The final draft of the code was circulated in 1997 and the final code called 'Desirable Corporate Governance Code' was released in April 1998. The Committee was driven by the conviction that good corporate governance was essential for Indian Companies to access domestic as well as global capital at competitive rates. The code was voluntary, contained detailed provisions with a focus on listed companies**.**

2.3.2 Kumar Mangalam Birla Committee Report:

While the CII code was well received by the corporate sector and some progressive companies also adopted it, it was felt that under Indian conditions a statutory rather than a voluntary code would be more meaningful. Consequently, the second major initiative was undertaken by the Securities and Exchange Board of India (SEBI) which set up a committee under the chairmanship of Kumar Mangalam Birla in 1999 with the objective of promoting and raising of standards of good corporate governance. The Committee in its Report observed "the strong Corporate Governance is indispensable to a resilient and vibrant capital market and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high-quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure". In early 2000 the SEBI Board accepted and ratified the key recommendations of this committee and these were incorporated into Clause – 49 of the Listing Agreement of the Stock Exchanges. These recommendations, aimed at providing the standards of corporate governance, are divided into mandatory and non-mandatory recommendations. The recommendations have been made applicable to all listed companies with the paid-up capital of Rs. 3 crore and above or net worth of Rs.25 crore or more at any time in the history of the company. The ultimate responsibility of putting the recommendations into practice rests directly with the Board of Directors and the management of the company

2.3.3 Report of Task Force:

In May 2000, the Department of Corporate Affairs (DCA) formed a broad-based study group under the chairmanship of Dr. P.L. Sanjeev Reddy, Secretary of DCA. The group was given the ambitious task of examining ways to "operationalize the concept of corporate excellence on a sustained basis" so as to "sharpen India's global competitive edge and to further develop a corporate culture in the country". In November 2000 the Task Force on Corporate Excellence set up by the group produced a report containing a range of recommendations for raising governance standards among all companies in India. It also recommended setting up of a Centre for Corporate Excellence.

2.3.4 Naresh Chandra Committee Report:

The Enron debacle of 2001 involving the hand-in-glove relationship between the auditor and the Corporate client, the scams involving the fall of the corporate giants in the U.S. like the WorldCom, Owest, Global Crossing, Xerox and the consequent enactment of the stringent Sarbanes Oxley Act in the U.S. led the Indian Government to wake up. A committee was appointed by the Ministry of Finance and Company Affairs in August 2002 under the chairmanship of Naresh Chandra to examine and recommend inter alia amendments to the law involving the auditor-client relationships and the role of independent directors. The committee made recommendations in two key aspects of corporate governance: financial and non-financial disclosures: independent auditing and board oversight of management.

2.3.5 Narayana Murthy Committee Report:

The SEBI also analyzed the statistics of compliance with the clause-49 by listed companies and felt that there was a need to look beyond the mere systems and procedures if corporate governance was to be made effective in protecting the interest of investors. The SEBI, therefore, constituted a committee under the chairmanship of Narayana Murthy for reviewing the implementation of the corporate governance code by listed companies and the issue of revised clause 49. Some of the major recommendations of the committee primarily related to audit committees, audit reports, independent directors, related party transactions, risk management, directorships and director compensation, codes of conduct and financial disclosures.

2.3.6 J.J. Irani Committee Report:

The Companies Act 1956 was enacted on the recommendations of the Bhaba Committee set up in 1950 with the object to consolidate the existing corporate laws and to provide a new basis for corporate operation in independent India. With the enactment of this legislation in 1956 the Companies Act, 1913 was repealed.

The need for streamlining this Act was felt from time to time as the corporate sector grew in pace with the Indian economy and as many as 24 amendments have taken place since 1956. The major amendments to the Act were made through the Companies (Amendment) Act 1998 after considering the recommendations of the Sachar Committee followed by further amendments in 1999, 2000, 2002 and finally in 2003 through the Companies (Amendment) Bill 2003 pursuant to the report of R.D. Joshi Committee.

After a hesitant beginning in 1980, India took up its economic reforms program in the 1990s and a need was felt for a comprehensive review of the Companies Act 1956. Unsuccessful attempts were made in 1993 and 1997 to replace the present Act with a new law. In the current national and international context, the need for simplifying corporate laws has long been felt by the government and corporate sector so as to make it amenable to clear interpretation and provide a framework that would facilitate faster economic growth. The Government, therefore, took a fresh initiative in this regard and constituted a committee in December 2004 under the chairmanship of Dr. J.J. Irani with the task of advising the government on the proposed revisions to the Companies Act 1956. The recommendations of the Committee submitted in May 2005 mainly relate to management and board governance, related party transactions, minority interest, investors education and protection, access to capital, accounts, and audit, mergers and amalgamations, offenses and penalties, restructuring and liquidation, etc. (background trainning material on corporate governance)

2.3.7 Major features of the Corporate Governance in India

Based on the various mandatory and non-mandatory recommendations made by the various committees and following corporate governance regulatory framework has been evolved:

Table 2.1

Major features of Corporate Governance in India

1	**Legal Framework**	Companies Act, 1956 and Clause 49 of the Listing Agreement of Stock Exchanges
2	**Voting Rights**	All shareholders have the right to vote. Proxy voting allowed. Companies allowed to issue shares with multiple voting rights or dividends

3	**Firm Capital Structure**	Requires board/shareholder approval to change the capital structure. A merger needs 75% of the shareholder vote
4	**Shareholder Meetings**	It is required to hold AGM every year. Allows shareholders controlling 10% of voting rights or paid-up capital to call a special or Extra-Ordinary General Meeting
5	**Board Structure**	One-third of the board should be non-executive and a majority of this independent. In the case where the Chairman of the board is an executive, 50 % of the board be comprised of independent directors
6	**Board Meetings**	The Board should meet at least four times a year. 33% of the board members or two members, whichever is greater, be present. All fees and compensation paid to the non-executive directors require prior approval of the shareholders in the AGM
7	**Election of Directors**	The directors of the Board be approved and appointed by the company in the Annual General Meeting.
8	**Board Committees**	Every board is required to have a shareholder grievance committee and an audit committee. The remuneration committee is non-mandatory
9	**Disclosure**	Every company to have a compliance officer responsible for setting policies, procedures and monitoring adherence. SEBI has established an insider trading committee to monitor the same. Companies required to disclose information through annual reports/websites etc., Management Discussion Analysis, a part of the Annual Report
10	**Accounting**	Shareholders to appoint an independent auditor, certified by the Institute of Chartered Accountants of India. Accounting standards comply with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). Companies conduct

		comprehensive audits annually.
11	**Audit Committees**	Audit Committee to have a minimum of three members, of which two-thirds be independent directors and at least one member should have an accounting/finance background. Audit Committee also reviewed internal control systems
12	**Related Party Transactions**	Clause 49 required listed companies to disclose material significant related party transactions to shareholders.
13	**Whistle Blower Policy**	Right of access to all employees. Direct access to the audit committee without informing the superiors.
14	**Submissions**	Quarterly Compliance Report within 15 days from the end of the quarter. (Format revised) Annual Compliance by the separate section in the Annual report. Compliance Certificate from the auditors of the company.

Sources: (Stock Exchanges, Institute of International Finance.)

2.3.8 Current Scenario:

To manage, control and regulate the Companies more effectively and efficiently, and also to cover the mandatory and non- mandatory recommendations of various committees formed for batter corporate governance, the Companies Act 1956 has been replaced by the Companies Act, 2013, The newly enacted Companies Act,2013 contains itself provisions for the batter Corporate governance.

The Companies Act, 2013 has tried to overhaul the various provisions relating to strong Corporate Governance. The provisions relating to independent directors are examples that confer greater power and responsibility in the governance of a company. There are no explicit provisions for independent directors under the six-decade-old Companies Act, 1956 and only clause 49 of the Listing Agreement prescribed for the induction of independent directors and made it mandatory for listed companies. Thereafter, the Ministry of Corporate Affairs carried out corresponding changes to the provisions of the

1956 Act, in an attempt to include the requirement of having an independent director on the board of listed companies and selective unlisted public companies to oversee corporate governance under the new Companies Act, 2013. These provisions are now applicable from 01st April 2014. (Chandani, 2014).

In a step towards making listed companies more transparent and to align the provisions related to listing agreement with the Companies Act 2013, the Capital Markets Regulator, The Securities and Exchange Board of India (SEBI) has also now amended the Clause 49 of the Listing Agreement. The new Master Circular No. CIR/CFD/POLICY CELL/2/2014 dated 17.04.2014 will supersede all other earlier circulars issued by SEBI on Clause 49 of the Equity Listing Agreement.

Later on, the SEBI has replaced the Listing Agreement (entire agreement) by the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the Provisions relating to Corporate Governance which were earlier covered under the clause -49 of the Listing agreement are now governed by the Regulations 17 To 27 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

2.4 Corporate Governance

Early discussion on the governance rose from the Great Crash in the US in 1929, which traced the problem of governance due to the separation of ownership and control The authors recommended stakeholder value over the shareholder value as essential for good governance, a premise on which formal securities regulation began in the US with the setting up of the Securities and Exchange Commission (1933) (Means, 1932; Adolf Berle and Gardiner Means, 1932)

Governance being associated with the agency problem (Coase, 1937) Agency problem refers to the difficulties financiers have in assuring that their funds are not expropriated or wasted on unattractive projects (Andrei Shleifer Robert W. Vishny, 1997)

Early work in the corporate law development in the 18^{th} and 19^{th} centuries in Britain, Continental Europe, and Russia had focused more on addressing the problems of managerial theft rather than that of shirking or even empire building. Shleifer and Vishny cite studies on vast materialist literature that explains how managers use their effective control rights to pursue projects that benefit them rather than investors which are described as private benefits of control (Hart & Grossman , 1982)

Managers can expropriate shareholders by entrenching themselves and staying in the job even if they are no longer competent or qualified to run the firm. Poor managers who resist being replaced might be the costliest manifestation of the agency problem (Ruback, Jensen and, 1983)

It was observed that financial disasters tainted French confidence in financial securities early on and set corporate governance in that country on a different parity from that of Britain, where a similar trauma was overcome and forgotten. Similarly, historical trends such as imperial monopoly in China that was evident in the late 19^{th} century, large scale trading networks belonging to particular communities and ethnic and sectarian groups in India, family, and bank-controlled pyramidal groups in Germany, Zeibatsu and Keiratsu in Japan and Chaebols in Korea, etc., have influenced the process of growth of corporate governance in the respective countries. Certain features that are common to all countries that contributed to the varying types and pace of the corporate governance norms include; Accidents of history, ideas, families, business groups, trust, law, origins, evolution, transplants, large outside shareholders, financial development, politics, and entrenchment, etc. (Randall K. Morck, Lloyd Steir, 2005)

It discusses the term corporate governance that is used in two distinct ways. In Anglo-Saxon countries like the US and UK good corporate governance involves firms pursuing the interests of shareholders. In other countries like Japan, Germany, and France it involves pursuing the interests of all stakeholders including employees and customers as well as shareholders. Anglo-Saxon capitalism has been widely analyzed but stakeholder capitalism has not. The authors argue that stakeholder capitalism can often be superior when markets are not perfect and complete. (Franklin Yale and Dougles Gale, 2002)

The quality of the corporate governance system may have a significant impact on the economy’s level of competition and its degree of industry concentration. Poor corporate governance and low investor protection may, in fact, lead to high industry concentration (Paolo Fulghieri and Matti Suominen, 2005)

Incentives to adopt better governance mechanisms at the firm level increase with a country’s financial and economic development. Further, these incentives increase or decrease with a country’s investor protection depending on whether firm-level governance mechanisms and country-level investor protection are substitutes or complements. The study observes that when economic and financial development is poor, the incentives to improve firm-level governance are low because outside finance is expensive, and the adoption of better governance mechanisms is expensive. (Craig Doidge, G. Andrew Karolyi, and René M. Stulz, 2006)

Many problems have affected corporate governance practice in developing countries, including weak law enforcement, abuse of shareholders’ rights, lack of responsibilities of the boards of directors, weakness of the regulatory framework, lack of enforcement and monitoring systems, and lack of transparency and disclosure (Okpara, 2011). (Wanyama, 2009)Investigate the effects of several factors on corporate governance, including political, legal, and regulatory and enforcement frameworks; social and cultural factors; economic environment; accounting and auditing framework; corruption and business ethics; and governmental and political climates. Further, (Mishra,

2010) examines the reasons for the failure of corporate governance, including a lack of incentives, poor external monitoring systems, weak internal control, and ineffective top leadership.

According to Ali, Qader Vazifeh and Moosa Zamanzadeh (2011), who investigate relationships between the Iranian culture and the degree of implementation of the principles of corporate governance in Iran, the traditional culture is one of the obstacles to the improvement of corporate governance in Iran (Ali, 2011), Likewise, (Rafiee, 2012) report that the national culture is one of the barriers hindering the effective implementation of corporate governance in emerging markets. Further, (Baydoun, 2013) study corporate governance in five developing countries and find that the cultural and religious characteristics of societies affect honesty and trust, which are the key elements of an effective governance framework. They also state that the cultural and religious characteristics of societies should be considered in Arab countries, all of which are Islamic.

McCarthy and Puffer indicate that there are some factors related to corporate governance practice, namely: legal and political influences, social and cultural influences, economic influences, technological influences, and environmental factors (McCarthy, 2002). In his study on corporate governance practices among Asian companies, Cheung notes that the management view is that the costs associated with good corporate governance practice outweigh the benefits (Cheung, 2006). Dahawy analyses an overview of the improvement of the level of corporate governance disclosure based on information from 30 companies listed on the Cairo Alexandria Stock Exchange. The paper finds that the disclosure level is as low as in other developing countries due to a lack of education concerning the needs and benefits of corporate governance. (Dahawy, 2007)

Adekoya investigates the challenges to corporate governance reforms with the 2003 SEC's code of best practices to Nigeria's 2006 Code of Corporate Governance. The study finds that governance is challenging in Nigeria because of a weak regulatory framework, high poverty, unemployment, collapse of moral values, low standard of education and institutionalized corruption (Adekoya, 2011).

Clearly, less developed countries have to adopt more effective corporate governance to solve these problems and enhance new practices to tackle the different features of corporate governance that exist in their developing economies (Mulili, BM & Wong, 2011). Consequently, Saidi emphasizes that the following enablers should be adopted in developing countries to improve corporate governance: reduce the cost of the implementation of corporate governance through training and other means of support; develop incentive programs for compliance companies with principles of corporate governance; learn from the experiences of other developing countries relating to corporate governance practice; develop a capital market in the country; participate in international events, conferences, meetings and committees dealing with corporate governance; conduct research relating to corporate governance; and initiate regional corporate governance partnership programs with international organizations (Saidi, 2004)

Aljifria and Khasharmeh recommend adopting the International Accounting Standards to develop accounting practices and the profession and improve the quality of financial reporting. In addition, the authors suggest creating an effective accounting education system to update regulations and policies surrounding the accounting systems and to establish accounting development centers. Ayandele and Emmanuel (2013) suggest that the practice of good corporate governance in developing countries be based on learning from the experiences of other countries (Ayandele, I & Emmanuel, 2013). The OECD examines the role of stock exchanges in promoting good corporate governance outcomes in 2009, finding that the development of stock exchanges plays an important role in establishing effective corporate governance frameworks among listed companies (OECD, 2012).

According to Harabi, possible ways to enhance corporate governance include the establishment of institutes of directors for training, the dissemination of best practices and the issuance of guidelines about the size of the board, the constitution of committees, and other useful practices (Harabi, 2007). In line with these suggestions, institutes of directors have been created in different countries, such as the Hawkamah Institute for Corporate Governance. Olayiwola suggests that rising awareness of, and commitment to, the value of good corporate governance practices among stakeholders, as well as a functional and responsible board of directors, the active role of internal and external auditors, and adequate and comprehensive information disclosure and transparency, could enhance the implementation of corporate governance (Olayiwola, 2010).

2.5 Value

There is no field of social activity in the present age which is not affected by the idea of value. Value has played a prominent part in all ethical theories beginning with "Plato" (a Greek philosopher). The term "Value" has a wide range of current usage in Philosophy and the Sciences.

The word 'value' is derived from Latin 'Valere' i.e., "to be strong" or "to be worth". Therefore, etymologically the term value denotes the worth of something.

According to the Oxford English Dictionary 'value' is worth, utility, desirability, and qualities on which these depend. In general, the word 'value' expresses the qualitative significance we assign to ideas, feelings, activities, and experiences. Values are the evaluative standards we use for deciding what is right and what is wrong, what is desirable and what is undesirable.

The Indian concept of value is represented in the concept of fourfold aim of human life which consists of:

a) politico-economic values (artha),
b) hedonistic values (kârma),
c) moral values (dharma)
d) religio-spiritual values (moksa).

Therefore, the term 'value' may refer to interests, pleasures, likes, preferences, duties, moral obligations, desires, wants, needs, aversions and attractions and many other modalities of selective orientation. Thus, the word 'value' is used in a variety of ways both in and out of Philosophy.

According to R.B. Perry, a value is an object of interest to someone, for it emanates from the peculiar relation between the interest and its object." Thus, he defines value in terms of 'interest'. He, therefore, states that value is the special character of an object which consists of the fact that interest is taken in it.' But the intimate relation between interest and value does not imply that we should impute value only to that which interests us.

James Ward rightly points out that value resides in the object of desire. The object that satisfies a desire has value. When an object satisfies a desire, it gives rise to pleasure. The feeling of pleasure is the sense of value but not value in itself. According to I. Mackenzie, "Pleasure may fairly be described as a sense of value. The feeling of pleasure is the accompaniment of objects which have a certain value for the consciousness to which they are presented." Value resides in objects which satisfy our desires. When they are attained, pleasure ensures as a consequence.

2.6 Value of Company

In management, the value of the company is an informal term that includes all forms of value that determine the health and well-being of the company in the long run. The value of the company expands the concept of the value of the company beyond economic value to include other forms of value such as employee value, customer value, supplier value, channel partner value, alliance partner value, managerial value, and societal value. Many of these forms of value are not directly measured in monetary terms. Business value often embraces intangible assets not necessarily attributable to any stakeholder group. Examples include intellectual capital and a firm's business model. (Sliger & Broderick, 2008)

Peter Drucker was an early proponent of business value as the proper goal of a firm, especially that a firm should create value for customers, employees (especially knowledge workers), and distribution partners. His management by objectives was a goal setting and decision-making tool to help managers at all levels create business value.

2.6.1 Components of Business Value

Shareholder's Value

For a publicly-traded company, shareholder value is the part of its capitalization that is equity as opposed to long-term debt. In the case of only one type of stock, this would roughly be the number of outstanding shares times the current share price. Things like dividends augment shareholder value while issuing of shares (stock options) lower it. This shareholder value-added should be compared to average/required increase in value, also known as the cost of capital.

For a privately held company, the value of the firm after debt must be estimated using one of several valuation methods, e.g. discounted cash flow or others.

Customer's Value

Customer value is the value received by the end-customer of a product or service. End-customer can include a single individual (consumer) or an organization with various individuals playing different roles in the buying/consumption processes. Customer value is conceived variously as utility, quality, benefits, and customer satisfaction.

Employee knowledge

This is often an undervalued asset in companies and also the area where there is the most discord in reporting. Employees are the most valuable asset companies possess and the one we expect the most from, but often the one that receives the short end of the stick when it comes to values applied to them.

Channel Partner Value

The value a business underpins on partner relationships in the business. Partner value here stresses that it can be critical to firms functioning. It ceases to exist or carry out business activities if partner value is diminished or lost.

Supplier Value

Supplier value depends upon the relationship of the company with the suppliers and creditworthiness created by the company with the suppliers. It depends upon the orders given by the company to the suppliers and regularity in clearing the payment of the suppliers.

Managerial Value

Follow the people-oriented principle; Follow the principle of system value; Follow the liability principle of value;

Societal Value

The social environment also wants that the firm follows or adopts several values towards society. These social values relate to the provision of hospitals, charity, schools, parks, wildlife protection, etc. (Sliger & Broderick, 2008)

Shareholder value or economic value or economic profit, or shareholder value is sufficiently complete to guide decision-making. They regard all other forms of value as essentially intermediate to the ultimate goal of economic profit. (www.en.wikipedia.org, 2017)

In a capitalist system, the ultimate business objective is to maximize resource allocation to create as much economic value as possible and, in so doing, improve social well-being and quality of life. (Page, Jean-Paul, 2005)

2.7 Value Creation

The Joint Stock Company form of business organization brought a major change in the manner the business was carried out and conducted. There came about the separation between the owners and managers of the business. The people, who managed a business, were the trustees of the owners - of Shareholders.

Value creation is the primary aim of any business entity. The company consists the shareholders and they are the real owners of the company, achieving the goal of shareholders leads the achievement of the company, therefore creating a value of the company means creating the value of shareholders; the owners of the company. To put it simply, the returns generated by the company over and above the cost of capital is Shareholder Value.

All the stakeholders have their own interests that need to be looked after by the managers. It is, thus, felt important about the way the managers must act so that the interest of the stakeholders is protected and also the interest of the real owners – the shareholders - is enhanced not by means of "profit maximization" but by way of "wealth maximization". The performance measurement of the companies; therefore, faced a change. Not only were the parameters, which saw a sea change but also reporting the details to the stakeholders got more substantiate and elaborate.

Some companies can, therefore, be value creators (return higher than the cost capital) and also some can be value destroyers (return lower than the cost of capital). The concept of Shareholder Value Creation was first introduced in the United State of America. This has resulted in a stronger US economy and a better business environment. (Tsuji, 2006)

Profit after Tax (PAT) has been the method of measuring business performance for antiquity. But using this measure for cross-sector and cross-company comparisons became difficult as the interpretations started going haywire. At the same time as a concept PAT does not take in to account the factors such as the nature of the business, capital invested. Profit after Tax was a good method to measure corporate efficiency but can get biased due to the loading of non-operating Incomes and Expenses. Thus, Net Operating Profit after Tax to be a better measure than the mere Profit after Tax. (Hawley, 1886)**.**

The absolute figures of either Profit after Tax or Net Operating Profit after Tax lack in the cross-sector or company comparisons. There was a need to look at comparable variables which would make comparisons across company and sectors plausible.

Accounting measures such as Return on Asset, Return on Net worth, Return on Capital Employed have two major problems in terms that:

1. They are based on historical costs and
2. They do not consider the cost that the company incurred on the capital like Preference & Equity Share Capital as they are considered as appropriations and not as a business expense.

Thus, measures such as Earnings per Share (EPS), Return on Asset (RoA), Return on Capital Employed (RoCE), Return on Investment (RoI), Net Profit Margin (NPM), Operating Profit Margin (OPM), Gross Profit Margin (GPM), etc. became popular means of measuring corporate performance. These ratios and percentages were derived from the accounting data prepared by the companies i.e. from financial statements such as Profit and Loss Account and Balance Sheet, etc.

Alfred Rappaport**,** in his book Creating Shareholder Value, said "The growing recognition that traditional accounting measures such as Earnings per Share (EPS) are not reliably linked to increasing the value of the company's stock price has made top management more receptive than ever to considering alternate measures".

Notwithstanding their common cash flow component, Historical Cost (HC) performance indices are not reliable surrogates for shareholder Value Creation performance criteria. (Lawson, 1996)

Return on Investment (RoI) was developed by Dupont Powder Company in early 1900 to help manage the vertically integrated enterprise. The intent of this measure was to evaluate the success of a company or division by comparing its operating income to its invested capital (Johnson and Kaplan, 1987). A major drawback of ROI is that it forces managers to take decisions that are short term in nature and not necessarily in the best interest of the company in the long term (Morse, etal, 1996) . As the measures to evaluate the firm performance based on historical profit are suffering from many drawbacks, it is necessary to have a measure that finds out the real value creation for the shareholders and company as a whole.

Stern and Stewart modified the concept of Residual Profit as professed by Alfred Marshall and propagated a new measure of corporate efficiency namely Economic Value Added (EVA). EVA is a registered trademark of Stern, Stewart & Co. They annually publish EVA of 1000 US-based companies. EVA is defined as an excess of Operating Profit after Tax over Cost of Capital. EVA stands well out from the crowd as the single best measure of wealth creation on a contemporaneous basis and is almost 50% better than its closest accounting-based competitor [including EPS, ROE and ROI] in explaining changes in shareholder wealth (Stern and Stewart, 1994).

The usefulness of EVA has been widely debated in the literature. EVA is more highly associated with stock returns and firm values than with accrual earnings. They suggest that EVA components only marginally add to information content beyond earnings. (Biddle, Bowen, and Wallace, 1997) Assuming the efficient market hypothesis holds, stock price reflects the company's current performance; therefore, the level of EVA isn't important, but changes in that level are. Management focus on these two issues can result in dramatically increasing EVA (Farslo, 2000)

"For companies that aim to increase their competitiveness by decentralizing, EVA is likely to be the most sensible basis for evaluating and rewarding the periodic performance of empowered line people, especially those entrusted with major capital spending decisions" (Stern, Stewart, and Chew, 1995)

John Shiely, President and Chief Operating Officer of Briggs and Stratton, believes that EVA is "a measuring stick, an unbiased measure of performance...EVA instills capital discipline" (Achstatter, 1995)

Varity CEO Victor Rice writes "At Varity, EVA has become more than just a yardstick. We fundamentally believe that over time, there is a direct relationship between EVA improvement and a higher share price" (Rice, 1996)

AT&T's ***Jim Meenan*** says, "The correlation between MVA and EVA is very high. So when you drive your business units toward EVA, you're really driving the correlation with market value" (Walbert, 1994)**.** The American Management Association Council has "Enthusiastically endorsed Economic Value Added (EVA) as a yardstick for the company or unit performance" (Bennett, 1995)**.**

EVA is compared with several other valuation measures including cash flow, operating income, and profit after tax from the viewpoint of both levels and changes. Also, two different forms of EVA are examined by using the Weighted Cost of Capital (WACC) from the Capital Asset Pricing Model (CAPM) and the WACC from the ***Fama—French*** (1993) model. The results reveal that corporate market values in both levels and changes have stronger linkages with cash flow and other earnings measures than either form of EVA (Tsuji, 2006)**.**

EVA is a complete financial management system in comparison to EPS model as it tends to create lower risks and lower leverages (Stern, Stewart, and Chew, 1995)**.** The simple correlation between EVA or earnings and stock returns is positive and EVA is a reasonably reliable guide to the firm value. (Milbourn, Garvey , 2000)**.** EVA can be used to enhance future earnings predictions. (Machuga, 2000)**.** EVA can be a valuable investing tool to identify good companies with good stocks. (James A. Abate, James L. Grant and G. Bennett Stewart, 2004)**.** Traditional corporate performance measures are being relegated to second-class status as metrics such as EVA become management's primary tools'. (McClenahen, 1998)

Finally, there has been a widespread adoption of EVA by security analysts since 'instead of using a dividend discount approach, these models measure value from the point of view of the firms' capacity for ongoing wealth creation rather than simply wealth distribution' (Herzberg, 1998)

The EVA style of investing emphasizes the fundamentals of wealth creation in the profiling of a company and its stock. It thus provides securities analysts and portfolio managers with a robust framework for identifying good companies that have good stocks. EVA also provides insight into the critical role of risk adjustment in-stock selection and portfolio risk control. The EVA style of investing can be used to aid investors (institutional or otherwise) in their decision to allocate funds between an actively managed or passive indexing approach depending on the degree of capital market efficiency. (James A. Abate, James L. Grant and G. Bennett Stewart, 2004)

In nutshell from the above literature review, it is clear that to calculate the value creation of the company and to measure the shareholders' value creation EVA can be considered as one of the best tools over the other historical profit-based tools to calculate the value creation of the companies.

2.8 Corporate Governance and Value Creation

Investigating the benefits of corporate governance has been given significant attention over the past decade (Cheung et al., 2008; Ertugrul & Hegde, 2009). Hence, many studies now shed light on the relationship between corporate governance and firm performance in developed countries (Bhagat & Black, 2001; Bauer et al., 2008; Lehn, Patro & Zhao, 2007; Schmidt, 2003; Brown & Caylor, 2004; Black et al., 2006). However, less research has been conducted on the relationship between corporate governance and firm performance in developing countries (Kajola, 2008; Haat, Rahman & Mahenthiran, 2008; Lamport Seetanahah & Sannassee, 2011).

In reviewing previous research that have investigated one aspect or feature of corporate governance, Hoks (2005) asserts that the appraisal of corporate governance based on one element or feature may not explain the same overall corporate governance effect on firm performance. In addition, some scholars have argued that the investigation of a special or particular attribute of corporate governance might not reflect the influence of governance, and they have tried to evaluate the overall relationship between corporate governance and firm performance (Odegaard & Bohren, 2003; Bauer 2008). This view is supported by Cheung, Evans, and Nagarajan (2008, p. 461), whose research reveals that while the findings of previous studies are still inconclusive, much has been learned from them: ‘One potential explanation is that these corporate governance attributes are working simultaneously. In some cases, they may substitute for each other, while in other cases they may be complementary’.

Given this, some researchers have tried to test the relationship between the overall corporate governance elements as one index and firm performance since the last decade. For instance, Black’s (2001) study constructs a CGI as a proxy for the quality of corporate governance in Russian companies and finds a positive relationship between corporate governance behavior and market valuation firms among a small sample of 21 Russian firms. Klapper and Love (2004) use the Credit Lyonnais Securities Asia Governance Index to evaluate the differences in the governance practices of 14 companies in emerging markets. They reveal that there is a positive correlation between market value and ROA and that corporate governance in countries is related to efficient legal systems. Gompers, Ishii, and Metrick (2003) investigate the relationship between corporate governance and performance by using 24 different provisions as an index of governance among 1,500 firms. The authors report that governance has a positive effect on stock returns.

Brown and Caylor study 51 factors in eight categories: audit, the board of directors, charter/bylaws, director education, executive and director compensation, ownership, progressive practices, and state of incorporation, based on a dataset of the Institutional Shareholder Service for 2,327 US firms. The results indicate that better-governed firms are relatively more profitable, more valuable and pay more cash to their shareholders (Brown, L & Caylor,, 2006). De Toledo constructs a governance index for a sample of 97 Spanish non-financial public companies to test corporate governance with performance. The results show a significant relationship between governance and performance. Further, the author concludes that Spanish firms could reduce the low level of investor protection holdings in the country by implementing better standards of governance (Toledo, 2007).

Carvalhal-da-Silva and Leal used a broad CGI for Brazilian listed companies divided into four categories: disclosure, board composition, ownership structure, and shareholder rights, with firms with good corporate governance having a higher valuation (Tobin’s Q) and higher performance (ROA) (Carvalhal da Silva, 2002). Black, Jang, and Kim create a CGI for 515 Korean companies listed on the Korea Stock Exchange. The authors offer evidence that is consistent with the relationship between an overall governance index and higher share prices in emerging markets. The study finds that corporate governance is a vital aspect of predicting the market value of South Korean firms (Black, BS, Jang, H & Kim, 2006).

Bauer, 2008, examines the relationship between corporate governance and corporate performance by using six different categories as ratings for 225 companies in Japan in June 2003 and January 2004, and 356 companies in 2004. They find that governance provisions that deal with financial disclosure, shareholder rights and remuneration affect stock price performance (Bauer, 2008). Lamport, Seetanah, and Sannassee examine the relationship between the quality of corporate governance and firm performance among a sample of the top 100 Mauritian companies. The authors utilize an index of governance, including 17 factors from the literature and the Code of Corporate Governance that is applicable to Mauritius. Analysis from the results shows that there is no overall difference in the performance of companies that have a poor and excellent quality of governance (Lamport M J, LMN, Seetanah B and Sannassee, 2011).

Corporate governance is a broad area of study and researches have been done across countries in this field touching upon all its dimensions including the linkage between corporate governance and corporate performance. Researchers around the globe have attempted to study the correlation between corporate governance and firm’s performance. A number of studies have shown a positive relationship between governance and firm performance considering governance as an independent regressor assuming that it is exogenously determined in a firm performance regression. From this, it may be understood that firms fail to be in equilibrium and 40 Improvements in governance would lead to improvements in firm performance. Many other works in this area have also suggested that good governance may or may not be related to the firm's financial performance as financial performance may also be governed by many other external factors such as market conditions, changing needs of the society.

The results suggest that lending institutions start monitoring the company effectively once they have substantial equity holdings in the company and that this monitoring is reinforced by the extent of debt holdings by these institutions. The analysis of this study also highlights that foreign equity ownership has a beneficial effect on company value (Sarkar, Jayati, and Subrata Sarkar, 2000)

There is a positive and significant relationship between return on equity (ROE) and Corporate Governance, Net Profit margin (NPM) and Corporate Governance, dividend yield (DY) and Corporate Governance. This paper advocated that better-governed firms have higher yields, net profit margin and return on equity than poorly governed firms. (Ofurum, 2001)

The relationship of better governance results in better performance was confirmed by (Brown, 2004), who created a broad measure of Corporate Governance, Gov- score, based on a new dataset provided by institutional shareholder services. Gov- score is a composite measure of fifty-one factors encompassing eight Corporate Governance categories: audit, the board of directors, charter/ bylaws, director education, executive and director compensation, ownership and progressive practices and state of incorporation. Gov- the score was related to operating performance, valuation, and shareholder payout and it was found that better-governed firms are relatively more profitable, more valuable and pay out more cash to their shareholders. (Brown, 2004)

Foreign Ownership of the firms positively affect and statistically significant with both the financial performance variables. In contrast, the categorical Domestic Ownership by institutions and corporations had reported very negligible and negative ROA. (Rejie George Pallathitta, 2005)

The relationship of Governance and performance was confirmed by (Black, Bernard S, 2007), who studied India's adoption of major governance reforms (clause 49), which requires among other things, audit committees, a minimum number of independent directors, etc. (Black, Bernard S, 2007)

The governance- performance relationship was confirmed by (Anthony kyereboach- coleman, 2007), who examined the effect of Corporate Governance, on the performance of firms in Africa by using both market and accounting-based performance measures. Unique data from 103 listed firms drawn from Ghana, South Africa, Nigeria and Kenya covering the five year period 1997-2001 was used and analysis done within the dynamic panel data framework. Results indicated that the direction and the extent of the impact of governance are dependent on the performance measure being examined. Specifically, the findings show that large and independent boards enhance firm value and that combining the positions CEO and board chair has a negative impact on corporate performance. The CEO's tenure in office enhances a firm's profitability while board activity intensity affects profitability negatively. The size of audit committees and the frequency of their meetings have a positive influence on market-based performance measures and that institutional shareholding enhances the market valuation of firms. Results point out that both country and sector characteristics influence the impact of governance on corporate performance. (Anthony kyereboach- coleman, 2007)

The significant positive effect of institutional ownership is on company profitability. It extends the evidence for the fact that higher promoters' ownership (both Indian and foreign) leads to higher corporate performance. Simultaneously, it is found that there is no significant effect of board size and board composition on company performance under this study. This research has also found a significant positive relationship between institutional ownership and company profitability. (Kaur and Gil, 2008)

Expressing the views in the same lines that better-governed firms enjoy higher shareholder returns, according to (Shabbir, 2008) who investigated the relationship between the detailed index of noncompliance with the UK Corporate Governance Code, and firm performance for a panel of companies from 2000 to The inverse relation between the index and total shareholder returns (TSR) implies more compliant firms enjoy higher TSR in the sample. The index was found to be exogenous, implying that causality runs from the index to performance. The economically significant results suggest that compliance matters - not just as a box-ticking exercise but as a real change in the governance of large listed companies in the UK. (Shabbir, 2008)

Amman has investigated the relation between firm-level Corporate Governance and firm value in a large and previously unused dataset from Governance Metrics International (GMI) over the period from 2003 to 2007. It was demonstrated that governance attributes have a significantly positive effect on firm value. (Ammann, 2009)

Different results were reported by sector analysis which was done on the impact of Governance and performance by (Ibrahim, 2010), who examined the impact of Corporate Governance on firm performance. The return on assets and return on equity were selected as the firm's performance variables for the study. The data of Corporate Governance and the profitability variables are collected from two manufacturing sectors Chemical and Pharmaceutical of Pakistan from 2005 to 2009. The multiple regression models are applied to test the significance of Corporate Governance on firm profitability. The results showed that there is a significant impact of Corporate Governance on ROE while insignificant on ROA. In the sector-wise analysis, there is an insignificant impact on the pharmaceutical sector's profitability and chemical sector ROA, whereas there is a significant impact of Corporate Governance on the chemical sector ROE.

Durga Prasad Samontaray, did research on NIFTY index companies in India, on the relationship of Corporate Governance with the performance of firms. He explained the purpose of his research is to study whether the share price of the NIFTY index listed companies is affected by Corporate Governance factors or not. For this research, the annual reports and actual share price of fifty companies as samples NIFTY 50 Index from India, was taken. The data is collected for the financial year 2007-08 relating to variables that are - share price, ROCE, EPS, D/E and P/E, Corporate Governance score (that includes financial reporting, risk management, future strategy, recent changes, corporate social responsibility, awards, and recognitions, etc..). The scores were calculated in light of the Narayana Murthy Committee report on Corporate Governance. For the analysis of data, cross-sectional regression analysis demonstrated a significant relationship between share price (dependent variable) and independent variables (EPS, Sales, Net Fixed assets and Corporate Governance factors). It was found that Corporate Governance has significantly affected the share price of these listed companies and hence has been a very important predictor for their share price value. (Durgaprashad, 2010)

While few Governance mechanisms impact positively on performance, few others have no impact as reported by Abdur Rouf (2011). He aimed to examine the relationship between four Corporate Governance mechanisms (board size, board independence, CEO duality, and Board audit committee) and value of the firm (performance) measures (Return on assets -ROA and Return on Equity -ROE), the study was based on a sample of 93 listed non-finance companies in Dhaka stock exchange (DSE) 2006. The results provided evidence of a positive significant relationship between ROA and Board independent directors as well as CEO duality. The results further revealed a positive significant relationship between ROE and Board independent directors as well as CEO duality. The study, however, could not provide a significant relationship between the value of the firm measures (ROA and ROE) and Board size and Board audit committee (Abdur Rouf, 2011)**.**

Better corporate governance benefit firms through greater access to financing, lower cost of capital, better performance, and more favourable treatment of all stakeholders (Stijn Claessens and B. Burcin Yurtoglu, 2013)**.**

Majority of the Corporate Governance Indicators have significant positive impact on the firms' performance and values except the indicator of Board Size and control variable of Debts in the case of all of the selected firms The advance corporate governance indicators of CEO status as duality with Chairman and Foreign CEO operating the firms have significantly positive influenced on all firms' performance and values variables under all three subsets of the firms (Mitesh, 2015)**.**

2.9 Research Gap

The literature review confirms the relationship between different Corporate Governance components and firm performance by examining the relationship through Cross-Sectional Correlation, Regression, and Simultaneous Equations Approach between few components of the corporate governance and value of Firm.

The literature review has unfolded certain imparities in terms of the measurement of the impact of corporate governance on the value of the companies. The literature review reveals the following lacunae:

- Lack of systematic compilation of the history of Corporate Governance
- The review revealed that quantitative methods such as questionnaire survey were comparatively more in use than the qualitative method such as case study.
- No Studies in India were carried out to check the Impact of Corporate Governance on the value creation of the Company.
- The majority of the studies have measured the impact of corporate governance on Firm Value and they have considered a few components of Corporate Governance.
- The yardstick used by the majority of the researches to gauge the impact of Corporate governance on the shareholders' value creation

was the historical profit base tools, instead of real profit and wealth maximization-based tools.

- All Indian studies determining the impact of Corporate Governance on firm valuation have taken the components of the corporate governance as described in clause 49 of the listing agreement and the latest development has not been taken into consideration.

This research endeavor is a pursuit to bridge these gaps unfolded during the literature review. It also acts as a connect between the objectives of corporate governance and its effectiveness to provide the measures to create the shareholders' value and value of the company as a whole. This study will help practitioners, companies, regulators, stakeholders of companies, investors of companies and academia to grasp the importance of corporate governance on the value creation of the company as a whole. The novel contribution is that it attempts to use both quantitative and qualitative methods.

2.10 Proposed Contribution of the Thesis

The research seeks to contribute towards the evaluation of corporate governance, components of corporate governance, principles underlying the corporate governance and its contribution to creating the value of the shareholders, and company by providing relevant facts. This research has established that Economic value added (EVA) is a real yardstick to measure the value creation of the company contrary to measures based on historical profit. Yet another contribution is that in this research all the Components of the corporate governance as per amended clause 49 (amended on 17th April 2014) and Listing Obligation Disclosure Regulations, 2015 and components described in Companies Act, 2013 and its impact has been measured on value creation of companies.

The process of the literature review was carried out by recognition, retrieval, and recollection of literature related to historical development in the area of corporate governance and its impact on the value creation of companies. This chapter concretises theoretical development of corporate governance and value of the companies, value creation for shareholders and company as a whole bases on the review of academic reports, articles written by eminent social scientists who have examined various aspects of corporate governance and firm valuation.

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