

## **HISTORICAL DEVELOPMENT OF CORPORATE GOVERNANCE AND IT'S ACTIVITIES**

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### **ABSTRACT**

The birth of the East India Company is also considered the birth of corporate affairs in the Anglo-American business world. The Industrial Revolution had already begun in a large-scale, organized form. Many East India Companies, such as the British East India Company and the Dutch East India Company, became the French East India Company. But the use of the word "corporation" does not by itself make the body a governing corporation. These entities were more of a partnership firm in nature. In ancient India, the term "Shreni" was thought to match the company. But more or less Shreni was like a partnership because a group of businessmen coming together for a common interest was more like a partnership firm.

**Keywords:** Corporate Governance, Shareholder Etc.

### **INTRODUCTION**

The modern origin ensuring the corporate governance by the state actions came up first and mainly in the United States of America (here in after referred as USA) by time to time bringing in a number of acts so as to ensure corporate governance and thus, to protect the interest of the ultimate beneficiary, i.e., the shareholder so far as a company. This provision so the US statutes have been the building block even in the Indian corporate affairs. The great Depression of the year 1928 is considered as a watermark for giving way to reforms in the governance of a company right from that time till few years back. The cases like the World Com crises, Enron crises have sown the seeds of a number of reforms be it through the constitution of the Committees by the government themselves or through the individual effort of shareholders through shareholders "activism. These reforms in the affairs of the management, auditing in bold therein also known as corporate governance in the Anglo-American system of corporate affairs has percolated into Indian system of company's affairs. While provisions such as voting, independent director, protection of minority shareholders' interests through group action, a larger shareholder says in mergers or important corporate matters were already present in the corporate case, the provisions for European companies and American shareholders were. are very important, 2013 which was only a consequence of the Satyam crisis. In the United States in 1929, after the Great Depression, the Securities Exchange Act of 1933 was enacted, followed by the Securities Exchange Commission Act of 1934. a vision to ensure corporate

Governance of legal provisions only after Harshad Mehtas scam followed the Securities and Exchange Board of India (SEBI) constitution and followed several reforms since then.<sup>1</sup> Even though from time to time a number of Committees were constituted which submitted the reports but it could not fructify into legal provisions in black and white. Needless to say that these Committees were asked to submit report and when their reports were submitted, it was red-taped and thus could never see the sun against the sewer even in corporate in the statutes. Incorporation of the major provisions can happen only after Harshad Mehtas scam's 90s and after the Satyam crisis in the first decade of the 21st century.

### **HISTORICAL EVOLUTION OF CORPORATE GOVERNANCE IN INDIA**

According to the Merriam-Webster dictionary, the word "enterprise" means to operate a business. The term "governance" comes from the Latin word "gubernare", which means scientific discussion is very widely used today. And is used in public administration. Corporate governance (CG) means protecting the rights and interests of shareholders, but not at the expense of other stakeholders. However, there are different views on the concepts "Management", "Management" and "Management". In the context of corporate management, the term "management" means "the implementation of strategies along with all other decisions made by the board of directors." The Chief Executive Officer (CEO) is appointed to be responsible for the day-to-day operations of the business. I also have leadership roles and responsibilities on the board) is at the top of the leadership pyramid, passing authority and responsibility down while demand in responsibility up. The term "Management" most likely refers to for-profit companies.<sup>2</sup>

Today, corporate governance has become a hot topic in many developed and developing countries and a central topic of political research and policy making. Today's companies can be compared to the entities known as SRENI in 800 BC, which have many similarities with today's American companies. The corporations of ancient India were a unique organization that played the role of a democratic government, trade union and court. Reasons one of those reasons is the arrival of the British East India Company to trade in India in 1600 under the Royal Charter of the British Government. After Mughal allowed them (British) they started building factories for trade. So before that there was no company law and all companies were governed by the British Royal Charter. These firms had typical limited liability partnerships.

### **CODES AND COMMITTEES ON CORPORATE GOVERNANCE**

CII Code Corporate Governance (1998) Corporate governance practices in India before 1991 were very poor. Very little emphasis was placed on corporate governance. Public companies had to follow very few corporate governance guidelines, which is a standard requirement. O Government of India needed to improve administrative practices. In 1991, after the economic crisis, our government implemented several reforms such as liberalization, globalization and privatization of the Indian economy. Securities market regulator - Securities Exchange Board of India (SEBI) was established in 1992 following the economic growth of India. Companies began issuing equity capital for growth and expansion into other countries. This corporate need for capital has led to corporate governance reforms in India since the 1990s. The Confederation of Indian Industry (CII) took the initiative and published the first Code of Conduct in 1998. It was drafted in 1997 and the final code titled "Desirable Corporate Governance" was published in 1998. The governance approach was a major step forward for a country that had not corporate governance policy. As the CII code was voluntary in nature, it could not overcome the lax standard prevailing in Indian companies. Although the CII code was a big step forward and many companies adopted these codes, in the

Indian context it was felt that the needs of Indian companies would be better served by a mandatory and mandatory code rather than a voluntary code<sup>3</sup>. SEB Inormi Kumar Mangalam Birla Committee Recommendations On Corporate Governance\ n Corporate Governance \000) develops standards as part of lobbying for listed companies to establish mandatory corporate governance and control system standards. For this, SEBI constitutes several high-level committees to recommend reforms in corporate governance standards. In May 1999, SEBI constituted the Birla Commission under the chairmanship of Kumar Mangalam Birla. The committee had 156 representatives including members of major industries, representatives of CII and All India Industries Association and members of various stock exchanges including BSE and NSE, board representatives for improvement. The structure of the board of the company and their duties. There was also a focus on increasing transparency and disclosing information to shareholders. The Committee acknowledged the commendations of the US Blue Ribbon Committee on the importance of the independent board's role in governance. The Birla Committee also emphasized the independence and representativeness of the BOD. The committee also recognized the importance of the audit committee. The main focus of the commission was on issues related to information disclosure and transparency. To this end, the committee recommended adding an MD and A (Management Discussion and Analysis) section to the company's annual report. MD and A would include information such as quarterly results and analyst presentations. In order to solve the problems of the shareholders, the committee recommended the formation of a board of directors, which should be led by someone other than the executive director.<sup>4</sup>

#### **HISTORICAL EVOLUTION OF CORPORATE GOVERNANCE AND CONSEQUENTIAL RISE OF SHAREHOLDERS' ACTIVISM IN INDIA IN LIGHT OF U.S EXPERIENCE**

One of the most important aspects of business forum research and political discussion can be called corporate governance, which has a long history and different theories of origin. There are many approaches to the cause of management problems, such as some scholars. Others date it as early as 1800 BC when the "shreni" was formed as a whole for business in India. However, the use of the term Corporate Governance is completely different. It is believed to have been born recently. <sup>6</sup> The politics of corporate governance can be understood differently in developing and developed countries. There is no doubt that corporate governance in developed countries has gained importance after the poor performance of entities in U S and UK while in the developing states like India and China, it became the path way to a developed, globalized market oriented economies. Further, the corporate failures in the more developed nations and the economic failure in many nations during the East Asian crisis provided impetus to the growth and importance of corporate governance. Thus, it can be rightly said that corporate governance plays an important role in both developing as well as developed countries. Further, the Anglo-American System which deals with strong foot hold over capital market and the single tier structure where in the directors elected by shareholders represent the system also came to be associated with there form. The 1929 Great Depression in US formed the back drop for development to corporate governance how ever the modern corporate governance developed much later in 1962 as providing as of security to the shareholders against the mismanagement and abuse of their in vested capita. 1. Corporate governance as we see it today has under gone many changes due to events such as the stock market crash of 1929, where the stock market played a destructive role in several entities and significantly affected the American banking and financial system. These events further justify the need for corporate governance management.

Corporate governance in the 20th century dates back to the stock market crash of 1929. The Securities Act of 1933 and the Securities Act of 1934, which remain cornerstones of securities law, resulted from that disaster. American Research Center. It gradually gained momentum with the development of SEC regulations and shareholder involvement.<sup>5</sup>

#### **MEANING AND CONCEPT OF CORPORATE GOVERNANCE**

Corporate governance can be defined as the rules, processes and practices that help manage and direct a business. It mainly deals with balancing the various interests of management, shareholders, financiers, customers, government and the public. All aspects of management, including internal audits and action plans to ensure corporate communication and performance. The main immediate stakeholder that affects the management of the company is the board of directors. They are nominated by other members of the board or elected by the company's shareholders. The board represents the shareholders of the company. The board's duties include, among other things, making important decisions, such as dividend policy, Corporate officer appointments and executive compensation. In some cases, the obligations of board of directors expand beyond financial optimization while the resolution of shareholders require some environmental or social issues to be prioritized.<sup>6</sup>

The Board of Directors constitutes of independent as well as inside members. The insider scan include executives, founders and major shareholders. There as on for choosing the independent directors is their prior experience directing or managing other similar large companies. The independent directors are different from inside members as they do not share the of the insiders. The usefulness of the independent directors can be highlighted because of the fact that they dilute the concentration of power and helps in balancing the interests of the insiders with those of the shareholders.

#### **MEANING AND CONCEPT OF SHAREHOLDERS' ACTIVISM**

It is not possible to arrive at a simple definition of shareholder activism. An activist shareholder can be described as a shareholder who uses part of the company's share capital to pressure the management. The various goals of activist shareholders range from financial to non-financial, including financial structure, corporate policies, cost reduction, adoption of environmentally friendly policies, and disinvestment from certain countries. The shareholder select the company council according to the internal rules. When shareholders influence owners by entrusting the board with certain changes, they act. Thus, it can be aptly summarized that shareholder activism is one of several areas of corporate governance, which is quite a broad term in it self, but some times shareholder activism contributes to activism.<sup>16</sup> would be very broad, because mere agitation is not activism. Contrary to agitation, activism is a conscious movement. Activism involves claiming legal and statutory rights for the benefit of the company and shareholders. Many shareholder organizations and scholars have defined shareholder activists and shareholder activism in several ways. Activism can include raising one's voice through litigation, direct negotiation with management, voting, and public criticism. Typically, a shareholder may not intend to vote, participate or oppose activism. Ideally, he does not want to read the laws of the company and try to understand the various rights and obligations that he has earned under the law. The average investor wants a good return on investment.. To get a good return, an investor may also want to know all the information about investment management, accounting and implementation. The investment objectives and investment decisions of shareholders influence the form of shareholder activism.<sup>7</sup>

## **BLUERIBBONCOMMISSIONONCORPORATEGOVERNANCE**

The commission consisted of countries that were both independent that is independent and impartial. Their job was to figure out how businesses a rerun. The commission then established the commission of the same name, which was decisive in the American corporate governance system. The Review Committee Improvement Committee of the same name deserves the following discussion.

### **The Blue Ribbon Committee on Improving Audit Committees**

The aforementioned committee was established on September 28, 1998. Sponsorship came from the SEC, the New York Stock Exchange, and Sandpit also made recommendations and was implemented by NASDAQ and the AICPA. There commendation addressed those areas that remained unaffected. For example, provisions to used is creation in judging the quality of financial reporting arrangements based on subjectives at is faction with the role were issued by the Commission. The committee presented 10 recommendations and five guiding principles. The same applies to audit committees. The content of the above is as follows:- For example, from the point of view of the independence of the members of the audit committee, no relationship is an important factor for the company. Any relationship with the company prevents the fulfillment of their duties. There are 8 instances of such relationships: Recommendations mean who is independent. It defines the independence of director relationships in the service of the control committee of listed companies. Recommendation 2 requires the appointment of independent directors to form the control committee. The NYSE and NASD require that if a company is publicly traded and has a market capitalization of more than \$200 million (or a more appropriate amount for small business recognition determined jointly by the NYSE and the NASD), it must have an audit committee composed solely. Of independent directors. Recommendation 3 requires that the smallest control committee and better financial literacy want the NYSE and NASD to require publicly traded companies with a market capitalization of more than \$200 million to maintain an audit committee of at least three directors. An important criterion for this is that the leaders must behave in order to gain access to the party's finances, and if they do not, they must obtain that qualification in time after the appointment of the commission. Another important condition is that, at least as far as I can remember, the committee must have knowledge of either accounting or similar financial management.

### **Blue Ribbon Commissions of the National Association of Corporate Directors**

NACD (The National Association of Corporate Directors, later NACD) is an independent organization that serves the leadership needs of executives in both public and private companies. It is a for-profit membership organization headquartered in Arlington, VA. It provides training and advisory services, while also organizing Blue Ribbon Committees that produce comprehensive reports on issues of importance to the board and/or general management. There ports of these committees have become important terms of reference for many boards. Including the board's role in company policy, department head, successor to the CEO, director and executive remuneration and audit committee. To understand the work of NACD in the field of corporate governance, scholars must talk about two important commission reports. In December 2003, the NACD Blue Ribbon Commission published "The Role of the Compensation Committee and Executive Compensation." There port suggests five principles for compensation committees to follow when formulating a company's compensation philosophy: transparency, independence, fairness, long-term shareholder value and commitment to results. Another example is that the Blue Ribbon Commission issued the same



Report on fair treatment and integrity to management, i.e. a public company listed on the New York Stock Exchange and NASDAQ. The port there was abandoned on May1,2002. Finally, the SEC changed the NYSE and NASDA listing standards based on NACD9's recommendation.

.New Developments in Hedge Funds and Shareholder Activism Over the past decade, hedge fund shave emerged as a major player in the field of shareholder activism. Some Examples include Relational Investors and Home Depot, Pershing Square and Wendy's International, Icahn Partners and Time Warner and Breeden Partner sand Applebee's International. Hedge funds have many intentions in activism, such as eating the government, monitoring or informing, expropriating, selling a division, distributing more cash as dividendsor buying back shares. Some hedge funds use the same old strategiesofshareholder proposals, direct negotiations and mediause, while others to day use proxy contests, law suit so routright acquisitions.This can beseen inthe example of the Hermitage Foundation, which managed to make the mediareport on the violation of management principles in Russian joint-stock companies, while at the same time introducing its preferred changes in these companies. Related investment is a very common and important practice in the activities of hedge fund shareholders. By engagement relationship, we mean an ongoing and ongoing relationship between institutional investors and a company. Shareholder activists are hard to find for a number of reasons. Sears Roebuck Sears said in his case study that activism occurs mainly in none. years and includes various investors. Thus, it is quite difficult to infer the outcome of a particular strategy or activism. Proxy voting was widely used by shareholders to increase their vote in the 1980s, but the financial costs of proxy voting increased. This led to a sharp decline in this policy. But with the advent and rise of hedge funds, proxy voting has made a comeback. This is proven by the following data that in 2004 there were 30 proxy contests, 40 in 2005 and 91 in 2006. The increase is due to the growth of hedge funds. Another possible reason could be the elimination of the rule of the SEC limiting shareholder communications in 1992.10.

## CONCLUSION

Any business that wants to succeed must have strong corporate governance since it is the standard that draws in investors. A business can't thrive without funding. Now, the question is raised as to what elements a corporate governance system ought to include and how the legislature will learn about those elements that contribute to a properly operating business. Every time the Indian legislature seeks to close legal gaps in any industry, it forms a committee and requests recommendations on necessary legislation. In India, numerous committees have been established to provide recommendations for sound corporate governance. These committees have made excellent recommendations in response to legislative requests, but very few of these recommendations have been put into practice. Several recommendations were made by the Rajinder Sacher committee, but only a small number of them were put into practice. For example, the proxy should have the authority to speak at company meetings. If a director is appointed, the shareholders' consent should be sufficient in a special resolution rather than the approval of the Central Government. It is recommended that managers' compensation be increased to an international level to prevent them from leaving the company, among other reasons. Committees have consistently made excellent recommendations, but government inertia has prevented them from being implemented on time. That is why, when a Satyam-style scam happens, legislation is either amended or a new law with the greatest number of recommendations. Therefore, the government ought

to act quickly upon receiving a committee's report and work to put it into effect as soon as possible to ensure that we meet international standards in every aspect. This is the only way we could keep fraud and scams out of the business. Following the New Companies Act of 2013, minority shareholders can now use the rights granted by SEBI, LODR and company law to bite back if their interests are being impeded. Additionally, the SEBI made significant contributions to the creation of regulations aimed at curbing shareholder activism. These regulations included permitting proxy advisory firms to make recommendations regarding shareholder voting or compelling institutions to vote on specific company proposals. Other examples of these regulations included the right to vote by proxy, the right to speak at meetings, the right of shareholders to voice their opinions in third-party transactions, etc. to vote on proposals. The enactment of laws such as like rights encourages shareholder activism, and as a result, the number of cases pertaining to shareholder activism is rising daily and unexpectedly during the 2017 proxy season. In India, shareholder activism appears to have a bright future. An appropriate balance that ultimately improves the company's and the shareholders' gains will only be achieved by creating a culture where minority shareholders are respected and not viewed as competitors by the board or management. 11

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