ABSTRACT

"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders."

- Preamble to the OECD Principles of Corporate Governance, 2004

This paper mainly studies the status of corporate governance in the developing nations of the South Asia with special stress on how the growth of this concept is affecting the developed countries in the west.

The economic reforms in the 1980s and the 1990s have produced radical results in the developing countries where economies were opened up for the global players, trade practices were liberalized and the movement of globalization started.

This led to a pool of new investments coming into the companies of south Asia which till then were caught in a quagmire of lack of resources till then.

This led to the growth of the corporate governance where we witnessed a sudden change in the attitude of not only the top brasses of the business house but also the common plebeians who started getting interested in those affairs which till then were restricted in the boardrooms.

The relationships between the management and shareholders changed; the shareholders were made to understand that they were also a part of the company and not some enemy aliens. The companies began working as a family rather than a formal business house where even the person who had bought very few shares was given priority in their opinions.

The heterodox elements in the pan Asian continents served as a boon rather than a curse. The western economists had predicted that the movement is going to be a failure proved to be wrong as we in the developed countries took a further step towards a business success.

This development in corporate governance is now being termed as economic globalization.[1] *The western economists are calling this as the adoption of an Anglo American strategy of corporate governance. But*

[1] Daryl Reed; Corporate governance reforms in developing countries published in Journal of Business Ethics, volume 37, number 3, May 2002. The author is a professor in Division of Social Science, York University, St.Toronto, Ontario, Canada.

this paper argues that the developing countries have taken up a completely unique method which has so far not been seen mainly to cope with the cultural and linguistic differences which exist in the South Asian region.

The developing countries have further taken up innovative methods of leadership which is promoting the concept of corporate governance as leadership forms an essential feature of corporate governance.
A further development which is seeping is the concept of the board of directors being appointed by the shareholders which is helping in reducing the problems of nepotism and bureaucracy which were existent in the earlier times.

So we find that the developing countries are moving towards an integrated method of corporate governance.

But still more efforts have to be implemented to take this movement further and that can be done by an unbiased way which can lead to a no-conflict method of smooth and effective running of a company.

By this, the millennium mission can be made true of surpassing the economies of even the developed countries in which corporate governance will be playing a major role.

INTRODUCTION

The Indian subcontinent being a multilingual vast landmass containing several countries is soon becoming the global hub for different types of marketing activities and vast multinational companies are stepping in to join the game of tapping this vast global market. It is a common scenario that when vast multinational companies come into a local market, they find it difficult to cope up with the local demands of the people, the environment which might be still underdeveloped or just developing so the marketing conditions are tough and unhelpful. To counter this negative point we find the companies taking up several measures to keep not only the local employees happy but also satisfy the demands of the local people and the local market conditions. But the most stress is laid on the local employees who are working for the company. It is necessary for the company to keep up with its production demands and also get the requisite brand equity that the MNC deserves. This is slowly becoming a severe marketing strategy which is gaining importance in the marketing field all around the world at large. It is in fact the base of a large competitive environment which is slowly shaping up in the modern world. It is also to be kept in mind that this marketing strategy is coherent to the human resource and the communication and the public relations department and is also typical of the vast term of corporate social responsibility. In India and Pakistan especially this concept is very important because the employees come from all possible walks of life including the most different of religions with its own characteristic cultures and traditions. Moreover the socialization features in India are very different from that of the outside world as the very conservative culture prevails and the culture is extra protective to protect and guard their identity. The companies have to keep in mind that their employees get the similar type of environment as is their local customs and traditions. When it comes to leaves and grants of absence the companies have to keep the local traditions in mind.

When we try to define the term corporate governance we can in fact beak it up into two different terms: corporate and governance. When we come to ask ourselves what corporate stands for the first term that comes to us is that it has something to do with companies. That brings us to business and also the fact that a business is any activity which is aimed at aimed at earning profits. Corporate essentially means all activities relating to business and all activities pertaining to carrying on the day to day activities of the business. When we try to explain the term governance we get the basics in the term government that is the governing body or the body which is the authority which is helpful in carrying on these activities. But the term governance brings in a different connotation all together. Essentially a perfect or a flawless government which is taking care of the needs of its people. It is a basically good governmental or managing skills to run an organization in a proper way. So we find that the term stands for the good government of an organization. It also refers to the managing abilities and skills which are required in running the organization/. Obviously managing the human resources form a major part in the managerial skills of a particular organization.

CORPORATE GOVERNANCE THE TERM

Corporate governance is a means whereby society can be sure that large corporations are well-run institutions to which investors and lenders can confidently commit their funds. It is a term that refers broadly to the rules, processes, or laws by which businesses are operated, regulated, and controlled. The term can refer to internal factors defined by the officers, stockholders or constitution of a corporation, as well as to external forces such as customer groups, clients and government regulations[2].

It creates safeguards against corruption and mismanagement, while promoting fundamental values of a market economy in democratic society. It is a sincere commitment to creating and sustaining an ethical business culture in public and private sectors. Suddenly corporate governance is getting the key to rise up the ladder in management because of the ethical failures and the fall in confidence levels of students.

BUSINESS ETHICS

But before we go to the depths of the term corporate governance we need to look at the business ethics. Ethics in general and of business ethics in particular provides a conceptual discussion of the dynamics of ethics in society and the dynamics of business ethics in the market place.

Ethics is more than business foundation, it is a life foundation. It cannot be compartmentalized.

Business ethics has come to be considered a management discipline, especially since the birth of social responsibility movement in the 1060s. In that decade, social awareness movement raised expectations of businesses to use their massive financial and social problems such as poverty, crime, environmental protection, equal rights, public health and improving education.[3]

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[2] Growth and dynamics of corporate governance in India-An emerging trend towards global market economy byDr. Iti Bose Indian Institute of Technology, Bombay
India

[3] Ibid pg 3 of the concerned article

The ethical climate of Indian organizations is soaring. The market dynamics and WTO led norms have led a new battle of consumerism on Indian Turf. No more considered to be a part of the third world country, India is rapidly moving the ladder to become super economic power. According to BRIC[4] report[5], India has the potential to raise its per capita (US dollar) to 35 times in 2050 compared to its current levels thus making it one of the most attractive market for the FDI's and MNC's. China on the other hand will be the largest world economy by 2041[6]. The following table represents the projected real GDP growth.

Table 1 Projected Real GDP Growth (BRIC Report – Global Economics Paper – 99)[7]

Year	Brazil	China	India	Russia
2000	4.2	8.0	5.4	10
2001	1.5	7.3	4.2	5
2002	1.5	8.2	4.7	4.3
2003	1.1	8.1	5.6	6.1
2004	3.5	8.4	5.9	4.4
2005	4.2	7.9	6.2	5.8
2006	4.1	7.6	6.2	5.3
2007	4.1	7.3	6.1	4.8
2008	4.1	7.1	6.1	4.5
2009	4.2	6.9	6.1	4.3
2010	4.2	6.1	6.1	4.1

The increase in GDP, the transcending boundaries and easy flow of communication have motivated these FDI's making India as one of the favorite destination. Its' huge population and virgin territories have lured the companies, who in turn are leaving no stone unturned to woo the new consumer.

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[4] BRIC or BRICs are terms used in economics to refer to the combination of Brazil, Russia, India, and China. The acronym was first coined in 2001 and prominently used in a thesis of the Goldman Sachs investment bank.

[5] (Global Paper 99) as referred in the reports of the blue papers of the United States of America

[6] Refer to the table given following which talks about the conditions of China Brazil and India as compared to the already developed countries and removes the misnomer also known as the third world countries.

[7] Goldman Sachs. (2003) "Dreaming with BRICs: the path to 2050", Global Economics Paper, No 99, October.

This in fact has boosted up the concept of corporate governance and all the corporate world has taken up the initiative of treating the employees in a proper manner and in a manner which are comfortable for them. Coca – Cola predicts that the BRICs will contribute 41 percent of company's carbonated soft drinks growth by 2008 Ford Motor expects emerging markets, led by Asian countries, to drive 80 percent of its growth in automotive sales volume over the coming decade. Although, India has been fortunate in not having to go through the pains of massive corporate failures such as

Enron and World.com, yet it has alerted the Indian corporations enough to build on sound regulatory frameworks to curb the malpractices of the companies.[8]

THE OECD FACTOR

Giving a very comprehensive definition on corporate governance, OECD[9] defined it as 'a set of relationships between a company's management, its board, its shareholders and other stakeholders. Through these relationships it provides a structure for setting the objectives of the company, the means for attaining them and monitoring performance.

Good corporate governance should provide incentives to the board and management to pursue objectives which are in interests of the company and shareholders and it should also facilitate effective monitoring.

Corporate governance aims and goals

Moving from board rooms to common parlance, Corporate Governance refers to adapting to best practices to ensure,

- Fairness to customers, employees, investors, vendors, government and the society at large.
- Sharing free information with the share holders.
- Shareholders value addition.

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[8] Chakravarty, C.(2004) "Coca Cola looks at India, China for the fizz", The Economic Times, 15th November.

[9] The Organization for Economic Co-operation and Development (OECD) (in French: Organisation de coopération et de développement économiques, OCDE) is an international organization of thirty countries that accept the principles of representative democracy and free-market economy. It originated in 1948 as the Organization for European Economic Co-operation (OEEC), led by Robert Marjolin of France, to help administer the Marshall Plan for the reconstruction of Europe after World War II. Later, its membership was extended to non-European states. In 1961, it was reformed into the Organization for Economic Co-operation and Development by the Convention on the Organization for Economic Co-operation and Development. The OECD's headquarters are at the Château de la Muette in Paris.

- Self policing and self regulation.
- Conflict resolution between minority and majority shareholders.

THE INDIAN SUBCONTINENT SCENARIO

HISTORY OF CORPORATE GOVERNANCE IN INDIAN SUBCONTINENT

The history of the development of Indian subcontinent corporate laws has been marked by interesting contrasts. At independence, India and Pakistan inherited one of the world's poorest economies but one which had a factory sector accounting for a tenth of the national product; four functioning stock markets (predating the Tokyo Stock Exchange) with clearly defined rules governing listing, trading and settlements; a well-developed equity culture if only among the urban rich; and a banking system replete with well-developed lending norms and recovery procedures.

The beginning of corporate developments in India and Pakistan were marked by the managing agency system that contributed to the birth of dispersed equity ownership but also gave rise to the practice of management enjoying control rights disproportionately greater than their stock ownership. The turn towards socialism in the decades after independence marked by the 1951 Industries (Development and Regulation) Act as well as the 1956 Industrial Policy Resolution put in place a regime and culture of licensing, protection and widespread red-tape that bred corruption and stilted the growth of the corporate sector.[10] Both the major players in the subcontinent took up a socialistic view in which industries especially heavy industries were established.

The situation grew from bad to worse in the following decades and corruption, nepotism and inefficiency became the hallmarks of the Indian and the Pakistani corporate sector. Exorbitant tax rates encouraged creative accounting practices and complicated emolument structures to beat the system.[11]

In the absence of a developed stock market, the three all-India development finance institutions (DFIs) the Industrial Finance Corporation of India, the Industrial

Development Bank of India and the Industrial Credit and Investment Corporation of India together with the state financial corporations became the main providers of long-term credit to companies[12]. Along with the government owned mutual fund, the Unit Trust of

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[10] Claessens, S., 2003. Corporate Governance and Development, Global Corporate Governance Forum, World Bank, Washington D.C.

[11] Claessens, S. and J.P.H. Fan, 2003. Corporate Governance in Asia: A Survey, Working Paper, University of Amsterdam.

India, they also held large blocks of shares in the companies they lent to and invariably had representations in their boards. In this respect, the corporate governance system resembled the bank-based German model where these institutions could have played a big role in keeping their clients on the right track.

POSITION IN INDIA

The following corporate management models reflect the mood of the social context and practices adopted by the Indian Traders in the past. The decade of 70's saw tumultuous environment due to insurgency in the political environment.

Corporate management model 1866 -1955

During the initial years Indian organizations were binded by colonial rules and most of the rules and regulations catered to the whims and fancies of the British Employers.

The companies act was introduced in the year 1866 and was gradually revised in 1882, 1913 and 1932.

Indian Partnership act was introduced for the first time in 1932. The various agendas which were on its focus were managing agency model to corporate affair as individuals / business firms entered into legal contract with joint stock companies.

It was characterized by abuse / misuse of responsibilities by managing agent due to dispersed ownership. The issues of profit generation and control were dilapidated leading to various conflicts.[13]

Corporate Management Model 1956 – 1999

The first stage was the decade 50's and 6's. This was a period of setting up of industrial activities and cost plus regime. The genesis was the demand for very many products for which the Government administered Fair Prices. This was the time when the Tariff

Commission and the Bureau of Industrial Costs and Prices were set up by the Govt.

1951 – India's development Regulation Act

1956 – Companies Act came into existence.

Development and Banking institutions came into existence.

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[12] Claessens, Stijn, Simeon Djankov, Joseph P. H. Fan, and Larry H. P. Lang, 2002. Disentangling the Incentive and Entrenchment Effects of Large Shareholdings *Journal of Finance* 57 (6): 2741–71.

[13] The Regulatory Norms of Corporate Governance in India Dimple Grover Assistant Professor, IILM, PhD Student IIT Delhi., Amulya Khurana Professor, IIT Delhi, Ravi Shankar Associate Professor, IIT Delhi.

The period between 70's to mid eighties was an era of Cost, Volume and Profit analysis, as an integral part of the Cost Accounting function. This was the time when we were in a Sellers' market. In the 1970s Managing Agency system got abolished, nationalization, state controlled.[14]

- Entry Barriers
- Import or Export Restrictions
- Family Promoters or Conglomerates retaining Corporate Control

Post Liberalization

After liberalization[15], India has been keenly looked upon by the organizations/ companies worldwide for the purpose of creating new markets. Progressive firms in India have made an attempt to put the systems of good corporate governance in place. There have been number of discussions and events leading to the development of Corporate Governance.

The basic minimal code for corporate governance was proposed by the Chamber of
Indian Industries (CII), 1998.The guiding definition proposed by CII, "Corporate
Governance deals with laws, procedures, practices and implicit rules that determines a company's ability to take managerial decisions vis- a vis its claimants – in particular its shareholders, creditors, customers, the state and the employees."[16]

[14] Ibid article pgs 4

[15] . Economic reforms in India are something which is under close study. The phrase is commonly used to describe post-1991 events. The country however has seen a number of distinct eras, which had definite differences from the economic practices of the previous eras. In a sense, economic reforms can be said to have started with the first large scale integration of the country from many small kingdoms and provinces to a large entity under one government. The economic liberalisation of 1991, initiated by then Indian prime minister P. V. Narasimha Rao and his finance minister Manmohan Singh in response to a balance-of-payments crisis, did away with the Licence Raj (investment, industrial and import licensing) and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors.[1] Since then, the overall direction of liberalisation has remained the same, irrespective of the ruling party, although no party has yet tried to take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labour laws and reducing agricultural subsidies.[2]

Since 1990, India has emerged as one of the wealthiest economies in the developing world; during this period, the economy has grown constantly with only a few major setbacks. This has been accompanied by increases in life expectancy, literacy rates and food security.

[16] Ibid footnote

CORPORATE GOVERNANCE IN PAKISTAN

It would be better to have a macro-level glance over the multifaceted corporate governance regime in Pakistan, that is to say, the laws that impact the issues of good governance of a company. Such laws may be categorized as follows:

1. The corporate laws, i.e., the general laws relating to companies and their business[17];
2. The rules and regulations made under the corporate laws.[18]
3. The listing regulations and the byelaws of the stock exchanges;
4. A body of general civil laws, i.e., enactments providing remedies for seeking declarations, enforcement of claims and recovery.[19]
5. A body of general criminal law, i.e., legislations outlining prosecution and trial for criminal breach of trust, fraud etc.[20]

Besides this, the Pakistani Government has made special legislations under the National Accountability Ordinance1999 for frauds and misappropriation.

A manual of corporate governance has been laid down by the government which specifies the best process in which betterment of the company through employee satisfaction can be done.

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[17] These laws include: The Companies Profits (Workers' Participation) Act, 1968; The Securities and Exchange Ordinance, 1969; The Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance, 1970; The Workers' Welfare Fund Ordinance, 1971; The Companies (Appointment of Legal Advisors) Act, 1974; The Companies Ordinance, 1984; The Securities and Exchange Commission of Pakistan Act, 1997

[18] These rules and regulations include: The Companies Profits (Workers' Participation) Rules, 1971; The Investment Companies and Investment Advisers Rules, 1971; The Companies (Appointment of Trustees) Rules, 1973; The Companies (Appointment of Legal Advisers) Rules, 1975; The Monopoly Control Authority (Net worth of Stocks and Shares) Rules, 1977; The Companies (General Provisions and Forms) Rules, 1985; The Companies (Registration Offices) Regulations, 1986; The Companies (Invitation and Acceptance of Deposits) Rules, 1987; The Companies (Management by Administrator) Rules, 1993; The Asset Management Companies Rules, 1995; The Credit Rating Companies Rules, 1995; The Monopoly Control Authority (Supply of Information) Rules, 1995; The Monopoly Control Authority (Value of Assets) Rules, 1995; The Venture Capital Companies and Fund managers Rules, 1995; The Companies (Issue of Capital) Rules, 1996; The Employees' Provident Fund (Investment in Listed Securities) Rules, 1996; The Monopoly Control Authority (Computation of Market Shares) Rules, 1996; The Companies (Issue of Capital) Rules, 1997; The Companies (Audit of Cost Accounts) Rules, 1998; The Companies (Asset Backed Securitization) Rules, 1999; The Companies (Buy-back of Shares) Rules, 1999; The Companies (Rehabilitation of Sick Industrial Unites) Rules, 1999; and The Companies Share Capital (Variation in Rights and Privileges) Rules, 2000

[19] These laws include: The Specific Relief Act, 1877; The Code of Civil Procedure, 1908; The Limitation Act, 1908

[20] Including the Pakistan Penal Code, 1860 and the Code of Criminal Procedure, 1898

Again, it is also true that the Islamic ethical system should be also be allowed so as to treat the employees in a proper method. The basic fact remains that the Pakistani corporate governance system stresses much on Islamic ethics as most of the employees follow the Islam religion and hence following the ethics of the religion makes the companies follow the wills and beliefs of the employees and also the fact that the employees can be kept under a common unified systemic method. Thus, it appears that the future initiatives of reforms would like to achieve a higher level of transparency through more responsible financial and business ethics by, among others, identifying a refined business behavior based upon the Islamic law. In this regard, pursued endeavors and their vigilant implementation are likely to ensure economical compliance with the available best practices.

To support this, the best example we can site is the National Accountability Ordinance. The National Accountability Ordinance, 1999 (the "Ordinance of 1999") was introduced to, among other reasons; eradicate corruption and corrupt practices in Pakistan.

Thus by the study of the emerging corporate governance strategies in India and Pakistan, we see how the dimensions of the subcontinent is changing for the better.

CONCLUSION

Thus we see how the concept of corporate governance is influencing the entire subcontinent in framing up new business strategies to meet new demands of the public. Moreover, this concept is influencing all the companies, whether multi national companies or otherwise, to take up new methods in treating its employees and also the local public in a friendly and cooperative way. This concept has revolutionized the entire subcontinent in the marketing strategies. From being completely non existent in the field of corporate governance, the countries of the Indian subcontinent have gained monumental achievements in this field. It is also seen that now, the countries of the subcontinent are emerging as a major force in the world over. The United States of America and England are also seeing countries of the subcontinent as the new face in the economical aristocracy in the world. It is said that by 2020, the countries of the subcontinent will be at par with the so called developed countries of the west. They will be the new economical hegemony.

With this note, we conclude our paper regarding corporate governance which has been an eye opener for both of us in understanding the concept and also looking at our own country and our neighbours in a new light as the new global leaders of the near future.

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