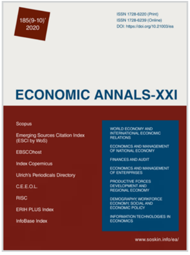

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Peter Karacsony
PhD (Economics), Associate Professor,
Faculty of Economics and Informatics,
J. Selye University
3322 Bratislavská cesta Str., Komarno, 94501, Slovak Republic
karacsonyp@ujs.sk
ORCID ID: https://orcid.org/0000-0001-7559-0488

Analysis of the relationship between the ethical behaviour of board and corporate governance in the case of India

Abstract
Corporate governance has emerged as a very significant tool in business life. Across the world, it is a buzz topic, everybody who has anything to do with the corporate sector talks about corporate governance. In the last decades, the aftermath of corporate scandals and scams leading to the collapse of corporate entities showed need for good corporate governance in India, too. Today, Indian companies are finding new space in global markets for business growth, their interaction with the financial markets and investing community witnessed a significant surge, which ultimately demands effective corporate governance practices. Corporate governance is holding the balance between economic and social goals as well as between individual and community goals.
The overall purpose of the study is to provide an overview of corporate governance in India and show how important the leader's ethical behaviour in corporate governance is. I hypothesized that the ethical behaviour of the board of directors has a significant impact on corporate governance. For the research, I obtained data from the World Economic Forum Competitiveness Report for 38 Asian countries, focusing on India. The methodology I used to analyze data was regression analysis.
The results reveal that the ethical behaviour of the board has significant positive effects on corporate governance. An ethical leadership should be employed at Indian companies to mainstream corporate governance to achieve high organizational performance.
Keywords: Business; Corporate Governance; Ethical Behaviour; India; Social Responsibility; Investor Protection; Management; Business Ethics; Stakeholders; Competitiveness
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Карачонь П.
кандидат економічних наук, доцент, факультет економіки та інформатики,
Університет Я. Сельє, Комарно, Словацька Республіка
Аналіз взаємозв'язку між етичною поведінкою правління та корпоративним управлінням у випадку Індії
Анотація
Корпоративне управління стало дуже важливим інструментом у діловому житті. В останні десятиліття наслідки корпоративних скандалів і шахрайства, що призвели до краху корпоративних утворень, показали необхідність якісного корпоративного управління в різних країнах, зокрема в Індії. Сьогодні індійські компанії знаходять новий простір на глобальних ринках для зростання бізнесу, їхня взаємодія з фінансовими ринками та інвестиційним співтовариством значно зросла, що в кінцевому підсумку вимагає ефективних практик корпоративного управління. Корпоративне управління підтримує баланс між економічними й соціальними цілями, а також між цілями особистості та суспільства.

Головна мета даного дослідження – дати огляд корпоративного управління в Індії та показати, наскільки важливою є етична поведінка лідера в корпоративному управлінні. Я висунув гіпотезу про те, що етична поведінка ради директорів значно впливає на корпоративне управління. Для дослідження я взяв дані з Доповіді про конкурентоспроможність Всесвітнього економічного форуму для 38 країн Азії, зосередивши увагу на Індії. Методологія, яку я використовував для аналізу даних, – це регресійний аналіз.
Результати показують, що етична поведінка ради директорів має значний позитивний вплив на корпоративне управління. В індійських компаніях слід використовувати етичне лідерство для впровадження в корпоративне управління в цілях досягнення високих організаційних показників.
Ключові слова: бізнес; корпоративне управління; етична поведінка; Індія; соціальна відповідальність; захист інвесторів; управління; ділова етика; зацікавлені сторони; конкурентоспроможність.

Карачонь П.
кандидат экономических наук, доцент, факультет экономики и информатики,
Университет Я. Селье, Комарно, Словацкая Республика
Анализ взаимосвязи между этическим поведением совета директоров и корпоративным управлением на примере Индии
Аннотация
Корпоративное управление стало очень важным инструментом в деловой жизни. В последние десятилетия последствия корпоративных скандалов и мошенничества, приведшие к краху корпоративных образований, показали необходимость хорошего корпоративного управления в разных странах, в частности в Индии. Сегодня индийские компании находят новое пространство на глобальных рынках для роста бизнеса, их взаимодействие с финансовыми рынками и инвестиционным сообществом значительно возросло, что в конечном итоге требует эффективных практик корпоративного управления. Корпоративное управление поддерживает баланс между экономическими и социальными целями, а также между целями личности и общества.
Общая цель данного исследования – дать обзор корпоративного управления в Индии и показать, насколько важно этическое поведение лидера в корпоративном управлении. Я выдвинул гипотезу о том, что этическое поведение совета директоров оказывает значительное влияние на корпоративное управление. Для исследования я взял данные из Доклада о конкурентоспособности Всемирного экономического форума для 38 стран Азии, сосредоточив внимание на Индии. Методология, которую я использовал для анализа данных, – это регрессионный анализ.
Результаты показывают, что этическое поведение совета директоров оказывает значительное положительное влияние на корпоративное управление. В индийских компаниях следует использовать этическое лидерство для внедрения в корпоративное управление в целях достижения высоких организационных показателей.
Ключевые слова: бизнес; корпоративное управление; этичное поведение; Индия; социальная ответственность; защита инвесторов; управление; деловая этика; заинтересованные стороны; конкурентоспособность.

1. Introduction and Purpose

Corporate governance requires the quality of leadership, values, transparent management, vision and goals, respect for the law, and a sense of social responsibility for which there are no rigid standards.

There is no universally accepted definition of corporate governance due to different legal, regulatory and institutional practices followed in different countries and regions (Hart, 1995). Basically, corporate governance means establishing a legal and regulatory framework that promotes credible and effective governance practices for the benefit of the economy, shareholders, and society as a whole (Gracheva, 2016).

Cadbury defines corporate governance as a system or process by which companies are directed and controlled. The central part of good corporate governance is to conduct the affairs of a company in such a way as to ensure fairness to stakeholders and society at large (Cadbury, 1999). Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer & Vishny, 2012). Today, there is greater need for the observance of standards of governance for protecting and safeguarding the interest of stakeholders across the world and India is not an exception (Yashaswini, 2019). All the stakeholders of the company namely shareholders, the board of directors, management, employees, consumers, investors, regulatory authorities and others have rights as well as responsibilities in making the company comply with the corporate governance norms and thereby reducing the fraud practices in the economy (Gericke, 2018)

Ethical business behaviour has become imperative in today's globalized business world where companies need to access global capital and need to attract and retain the best human resources.

Companies need to recognize that their growth requires the cooperation of all the stakeholders (Lentner et al., 2019). The existence of ethical behaviour from an organization can influence its image, and so, influence its performance. According to Stevens (1994), business ethics is a message through which corporations hope to shape employee's behaviour and affect change through explicit statements of the desired behaviour. Ethical behaviour implies the observance of laws, transparency, non-differential treatment, adequate determination and presentation of performances, and attention given to social and environmental aspects. From an ethical point of view, the key issue of corporate governance involves questions about relationships and building trust in the organization. According to Arjoon (2005), ethical compliance mechanisms help develop and build corporate reputation and so contribute to corporate stability.

It is evident that corporate governance extends beyond corporate laws. Its fundamental objective is not mere fulfilment of requirements of the law but by ensuring the commitment of the leaders to transparency in managing the company and modernizing long term shareholder value (Pillai, 2017).

The aim of my study is to explore the relationship between corporate governance and ethical behaviour in the case of India. The paper will look at how essential is the ethical behaviour of the board in good corporate governance practices.

2. Brief Literature Review

Concerns about corporate governance in India arose due to a spate of frauds, particularly the Harshad Mehta stock market scam of 1992. Even after the 1992 securities scam, the series of frauds continued affecting the Unit Trust of India and other institutions, thus unnerving investors. The Harshad Mehta stock market scam prompted the businessmen to focus on efficient, transparent, and impeccable corporate governance in their companies for better stability, profitability, and desired growth (Usman, 2017).

Of the most well-known corporate scandals in India definitely was the 1984 Bhopal tragedy. The Bhopal tragedy also strengthens the importance of ethical business behaviour in corporate governance. The Bhopal gas tragedy, was a gas leak incident on the night of 2-3 December 1984 at the Union Carbide India Limited (UCIL) pesticide plant in Bhopal, Madhya Pradesh, India. The final death toll was estimated to be between 15,000 and 20,000. Some half a million survivors suffered respiratory problems, eye irritation or blindness, and other maladies resulting from exposure to the toxic gas. Independent experts believed that the disaster has occurred due to the negligent management practices and the corporate greed had played in the role (Abraham & Abraham, 1991).

The biggest land scam in India was the Karnataka Wakf Board land scam worth Rs 2,000 billion. In 2012, 27,000 hectares of land controlled by the Karnataka Wakf Board were illegally embezzled. The said property was allegedly donated to the poor through the Muslim charity. However, Anwar Manippady, chairman of the Karnataka State Minority Commission, said more than 50 percent of the land was embezzled by politicians and board members (Sarayu, 2016).

The line of the Indian scandal could still be listed at length (Punjab National Bank Scam in 2018, Maharashtra Annabhau Sathe Development Corporation scam in 2015, as well as Government of Kerala and TECOM Investments Smart City scam in 2014, etc.), the above being an example of why ethical business behaviour is so important in India.

The economic liberalization and globalization of the domestic economy led India to initiate reform process in order to suitably respond to the developments taking place the world over. With economic reforms, the Indian government established new institutions like the Securities and Exchange Board of India (SEBI), the National Stock Exchange of India (NSE), the National Securities Clearing Corporation and the National Securities Depository Limited. The single most important development in the area of Corporate Governance and investor protection has been the establishment of the SEBI initially by an ordinance and later by enacting a separate SEBI Act in 1992. SEBI has introduced a rigorous regulatory regime to usher in fairness and transparency (Kaur & Gil, 2008).

Governance and investor protection has been the establishment of the SEBI initially by an ordinance and later by enacting a separate SEBI Act in 1992. SEBI has introduced a rigorous regulatory regime in fairness and transparency. The SEBI as a regulator, has a pivotal role and responsibility in enforcing corporate governance practices on listed entities. The main objective of SEBI was to supervise and standardize stock trading, but it gradually formed many corporate governance rules and regulations (Kulkani & Maniam, 2014). Over the years, SEBI constituted two committees to make recommendations relating to corporate governance for listed companies in India, namely, the Kumar Mangalam Birla Committee (2000) and the Narayana Murthy Committee (2003) (Shrivastav & Kalsie, 2015).

In 1999, SEBI set up a committee under the chairmanship of Kumar Mangalam Birla to give a comprehensive view of the issues related to insider trading to protect the rights of various stakeholders. The Mangalam committee recommended the responsibilities and obligations of the board and the management in instituting the systems for good corporate governance and emphasized the rights of shareholders in demanding corporate governance. This committee also recommended that the companies required disclosing separately in their annual reports, a report on corporate governance outlining the steps they have taken to comply with the recommendations of the committee (Sanan & Yadav, 2011).

In 2000, on the basis of Mangalam Report, the Department of Company Affairs (now Ministry of Corporate Affairs) prepared a report, which was known as a report of the task force to achieve corporate excellence through corporate governance for the companies. Finally, SEBI incorporated and implemented Birla Committee's report on corporate governance and enforced Clause 49 in its listing agreement phase-wise. One of the significant developments in the field of corporate governance in India was Clause 49 of the Listing Agreement. Clause 49 was based on the principles of the Sarbanes-Oxley Act of 2002. It was developed for the companies listed on the US stock exchanges.

The Ministry of Company Affairs in 2002 constituted the Naresh Chandra Committee. The committee was framed to examine several corporate governance issues and to recommend changes in the diverse areas like the statutory auditor, procedure for appointment of auditors, certification of accounts and financial statement by management (Sridhar, 2017).

Further, the SEBI, in 2002 established another committee known as Narayana Murthy Committee, to main review Clause 49. Finally, in October 2004, SEBI accepted the recommendation by Murthy Committee on Clause 49 of the listing agreement and other changes to the erstwhile Companies Act. The committee report recommended various changes like fairness, accountability, transparency, and ease of implementation, verifiability, and enforceability.

In the last decade the Government of India set up several committees to develop corporate governance and corporate law and policy. In 2015 SEBI has notified SEBI LODR Regulation which has replaced the existing listing agreements and it consolidates and streamlines the provisions of the various listing agreements in operation for different segments of the capital markets.

The consequences of director liability under various penal statutes such as labour and environmental legislations, the Insolvency and Bankruptcy Code, 2016 («Bankruptcy Code»), and the Prevention of Money Laundering Act, 2002, also drive corporate governance practices of companies. Recent decisions of the Supreme Court of India, including the freezing of personal assets of independent directors for defaults by the company, have driven the proactive adoption of stronger governance protocols (Shroff & Katragadda, 2020).

In India, corporate governance came as an effective instrument for companies to communicate with the various types of stakeholders in general and shareholders in particular. An evaluation of India's corporate governance reforms demonstrates that although extensive reforms have been instituted, there remain significant lapses in implementation and enforcement. Moreover, many of the reforms that have been adopted fail to address fundamental areas of concern such as the relationship between majority and minority shareholders, ethical behaviour of board, and the limited activism of shareholders, including institutional investors, and issues with director independence (Afsharipour, 2009).

The corruption, nepotism, and inappropriate treatment of employees (discrimination, bad working conditions) are to be highlighted as the main ethical issues of Indian companies. According to the Transparency International India is one of the most corrupt countries in Asia. Bribery and corruption are very common in the corporate community, and even the literature suggests that top management often ignores the unethical behaviour of employees to achieve revenue targets (Venkataraman, 2018). It is clear that Indian companies need to improve the level of their business ethics. If the behaviour does not change, it is feared that in the future no one will want to cooperate with an Indian company. Furthermore, this bad reputation is not good for ethical companies either. Therefore, in order for Indian companies to be trustworthy in the world, the Indian government has passed a number of laws and measures, the positive effects of which are already being felt in practice.

As stated by Rahul Gandhi, «Nepotism is a culture in India». Nepotism is quite common in family-owned businesses where relatives are given preferential treatment in various aspects like hiring and promotions. With family businesses contributing at least 70% to India's GDP, most of the Indian employees may have encountered nepotism at their workplaces. The high level of stress and low job satisfaction caused by nepotism can trigger a chain of events, ultimately leading to lower employee satisfaction and retention (Kota, 2020).

The coronavirus also had an impact on workplace conditions. Before the COVID-19, there were many problems with labour rights in India, but it deteriorated further after the virus appeared. According to government documents seen by the Thomson Reuters Foundation, legislation guaranteeing minimum wages and the formation of trade unions will be suspended for up to three years. In some states, social security benefits, including welfare funds or provisions for the health and safety of female workers, would also be waived (Srivastava & Nagaraj, 2020).

The COVID-19 crisis has exacerbated the risk of unethical behaviour in corporate governance in India. Businesses have faced serious and widespread challenges in day-to-day operations, supply chains and the workforce, according to EY's Global Integrity Survey 2020. According to the report, the ethical behaviour of top management is 34 percent, while the weakening of corporate governance is 20 percent worse due to the coronavirus in India than before. Arpinder Singh, said, «The COVID-19 pandemic struck the business ecosystem to its core, propelling management to deal with operational distress and business continuity with urgency. As tough decisions are being taken amid the crisis, the risk of unethical behaviour and compliance infractions has increased and can weigh heavily on organizations» (EY India, 2020).

3. Purpose

The purpose of the paper is to examine the relationship between the ethical behaviour of boards and corporate governance in Asia, with a focus on India. My study is focused on the general framework, the main pillars of the ethical behaviour of boards, which has an impact on corporate governance. The approach to the topic and the research method are novels, which may provide a basis for other similar research.

4. Materials and Methods

The research method is fundamental researches, using empirical research technique. The study is based on the existence of two variables: the efficiency of corporate governance and the ethical behaviour of companies. The data used in the study were sourced from the Global Competitiveness Report of the World Economic Forum. The data of the study comprised 38 Asian countries, focusing on India. The Global Competitiveness Report is one of the most comprehensive and respected sources of evaluating national competitiveness. Basis on the literature was formulated the following research hypothesis:

H1: The ethical behaviour of the board has a significant effect on corporate governance

I have considered for my analysis the dependent variable, ***ethical behaviour of companies***, expressed by the behaviour of national companies in their relationships with officials, politicians, other companies, society, and the environment. The independent variable, ***corporate governance efficiency*** reflects how corporate governance is characterized in a country from the perspective of investors and leaders. The data were evaluated using a SPSS.21 statistical program.

5. Results and Discussion

The following part of the study is a brief summary of the results of own research. Table 1 shows the descriptive statistics. The smallest value in the case of the ethical behaviour (2.80) within Asian countries showed Yemen, while the maximum value (6.2) showed Singapore.

Table 1:
Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
				Statistic	Std. Error	
Ethical behaviour of firms	38	2.80	6.20	4.2921	.13427	.82769
Efficiency of corporate boards	38	3.30	6.10	4.7158	.10658	.65699

Source: Own research, 2020

India is situated above the average of the ranking with a score of 4.60. India has one of the most stringent corporate governance frameworks in the world. Over the last two decades, the government has been introducing various changes in the governance structure of companies and various other investment vehicles to make them more transparent and robust. There is no doubt that regulations are being complied by most, but the intent or the spirit still needs to be inculcated, which can be enhanced through ethical practices in the organization. Rules and regulations by itself cannot lead to good governance. Today's corporate required to look beyond black and white letters. Questions about ethical business practices are inherent in all aspects of corporate governance and in every board decision and action (Beena, 2000). Basically, India's business ethics is the application of general ethical principles to business dilemmas and encompasses a broader range of issues and concerns than laws do, as everything that is legal is not always ethical. If the organizations are run with the defined processes and a degree of serious and ethical guidelines, then it will always be getting a benefit in the competitiveness. Companies displaying a clear commitment to ethical conduct consistently outperform companies that do not display ethical conduct.

An effective ethics programs require continual reinforcement of strong values. To ensure the right ethical climate at companies a right combination of spirit and structure is required. Whilst no one can deny the efforts and the intent of the SEBI in bringing in various regulations to ensure transparency, proper disclosures, and alignment of the interest of all the stakeholders, often personal interest takes precedence, and this is manifested in the form of various failures. At this juncture, it is important for the key players who participate in the decision making for corporate to understand that the need to find the balance between transparency, good governance and profits both in the short as well as in the long term.

In 2019, India's Wipro Limited and Tata Steel have been selected among 135 of the world's most ethical companies by the Ethisphere Institute (Ethisphere.com, 2020). These are companies have set an example to others through innovation and growth. These companies have maintained high standards of corporate governance, display of utmost transparency and have always been disclosing information to their investors. Further, Infosys Technologies, the Tata Group, Larsen & Toubro, Mahindra & Mahindra, HDFC, Bajaj Finserv, Piramal Enterprises, Steel Authority of India, HCL Technologies, Hindalco Industries, and Wipro Indian companies rated among the world's best-regarded companies by Forbes (Forbes.com, 2019). These companies had not only acquired the best position for itself but by its best corporate governance practices, it has made a great image of Indian companies in the international market (Bishnoi & Sh, 2015).

According to Table 1, the least efficient leaders of companies are located in Yemen, with an average of 3.3, while Singapore (6.1) companies are considered to have the most efficient leaders. India, in this case, is slightly below the average with the score of 4.5. In India, the board of companies should ensure that they comprise members with diverse skills, knowledge, and experience, including leadership skills, technical expertise and sufficient independence and strength to account, appointing and removing executive directors. For better governance, the board should continually assess their effectiveness to ensure that they are operating optimally, with the right governance structures, processes, and behaviour. Under regulation 17(10) SEBI, the board of the company shall evaluate the performance of the independent director's performance (Charumathi & Murali Krishnan, 2011).

Today, whatever the company is doing internally or externally, that is required to be informed to the concerned stakeholders of the company. Across the world, the historical trends have proved that there are stricter mechanisms are required to uphold the corporate governance practices in the interest of the stakeholder, at the utmost level. In India, listed companies are now required to disclose in their annual report granular details on directors' compensation, and their performance evaluation. Moreover, corporate governance cannot depend on single factors or elements. As understood from the above analysis, SEBI LODR Regulations has streamlined the compliance requirements as regards Indian company's obligations.

According to the scientific literature (Gold & Dienhart, 2007; Bonn & Fisher, 2005; Berrone, Surroca, & Tribo, 2007; Bhimani, 2008; Rodriguez-Dominguez, Gallego-Alvarez, & Garcia-Sanchez, 2009), there is a relationship between the ethical behaviour of board and corporate governance. Therefore, in the second part of our research, we searched the statistically justifiable relationship between the ethical behaviour of firms and corporate governance in the case of

Asian countries. All 38 Asian countries were included in the evaluation. The results of the correlation analysis between the factors of the ethical behaviour of firms and the efficiency of corporate boards are shown in Table 2. This result also confirms that the two-variable have a significant relationship with each other.

Regression analyses have been conducted to validate the hypothesis of study. Table 3 shows that Durbin-Watson coefficient is relatively close to the value 2 and that R Square is .714 (Sig F Change .000), which reflects the fact that directors' governance efficiency explains the variation of ethical behaviour to a percentage of approximately 71.4%.

The regression analysis clearly indicates that the efficiency of corporate boards has a positive impact on the ethical behaviour of firms and thereby supports our hypothesis. Overall we can say that, in the long run, ethical behaviour has a positive impact on the company's performance. In the competitive era corporate governance and ethical values cannot be separated from day to day issues, regardless of the size or complexity of the business. Good corporate governance practice is vital for Indian companies to integrity and efficiency in international markets.

Table 2:
Correlations table

		Ethical behaviour of firms	Efficiency of corporate boards
Pearson Correlation	Ethical behaviour of firms	1.000	.845
	Efficiency of corporate boards	.845	1.000
Sig. (1-tailed)	Ethical behaviour of firms		.000
	Efficiency of corporate boards	.000	

Source: Own research, 2020

Table 3:
Regression model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
				R Square Change	F Change	df1	df2	Sig. F Change	
.845[a]	.714	.706	.44851	.714	90.008	1	36	.000	2.367

a. Predictors: (Constant), Efficiency of corporate boards
b. Dependent Variable: Ethical behaviour of firms

Source: Own research, 2020

6. Conclusions

In the case of India, when the term «corporate governance» topic came to limelight, its focus was on business ethics, values and morals. Subsequently, the board compilation and functioning, corporate disclosures and transparency were in discussion throughout the decade of the 1990's. Today, we can find the corporate governance mechanisms in codified policies and laws. Corporate governance is a crucial tool and mechanism for the very survival and success of corporations in a competitive environment.

In India, corporate governance is the buzzword word and it is playing an immense role in the governance practices of companies. In the last decades India, several mechanisms are introduced to adopt and follow the corporate governance practices in companies The SEBI has changed the entire face of corporate governance in India. Today, corporate governance is not based on single dimensions rather it has multiple dimensions to influence it. Over the past five years, companies have acknowledged the necessity of excellent corporate governance practices in the overall growth and hence have devoted adequate time and efforts in implementing good corporate practices around board diversity, woman representation in the board, competency of the board members and disclosure practices.

Many companies in India choose to make a public commitment to ethical business by formulating codes of conduct and operating principles. My research has also shown between the ethical behaviour of business leaders and good corporate governance has a significant correlation so that in the long run, positive relationships can develop with existing and potential future stakeholders by the ethical business practice.

The COVID-19 crisis has given businesses a chance to review and redesign their relationships with stakeholders. The crisis has made very clear that organizations need to be more proactive in reinforcing ethical behaviour. It is appropriate for all businesses to have an ethical framework conducive to efficient and well-functioning corporate governance.

The final conclusion is that good corporate governance goes beyond rules and regulations that the government can put in place. Good corporate governance practice has to guarantee by the board, which the absence would definitely lead to corporate failures.

For future research, more developing countries can be compared to see the effects of national regulations on corporate governance practices.

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