Sustainability enhancement of corporate governance regime in India

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Abstract

Purpose – There is lack of research on key governance issues (KGIs) to expedite the sustainability of corporate governance reforms in the Indian context. The purpose of this paper is to formulate a list of KGIs that would help in sustainability enhancement of corporate governance regime in India *vis-à-vis* other global counterparts.
Design/methodology/approach – First, governance issues have been identified after a thorough literature review and after taking opinion and suggestions of experts. Second, data have been collected through the questionnaire survey. Lastly, a model based on fuzzy set theory has been designed to identify the KGIs for the sustainability enhancement of corporate governance regime in the Indian context.
Findings – Five KGIs have been identified in this study based on fuzzy set theory, namely, ownership structure of the companies, code of best practices of corporate governance, regulatory framework including monitoring institutions of the country, untrue independence of independent directors in decision-making and judiciary system of the country.
Research limitations/implications – The KGIs identified for the Indian economy in this study can be a useful reference for the regulators and policymakers to fill the present quality gap and devise measures to curb noncompliance and or implementation of laws on the ground level.
Practical implications – The KGIs identified for the Indian economy in this study can be a useful reference for the regulators and policymakers to fill the present quality gap and devise measures to curb noncompliance and/or implementation of laws on the ground level.
Originality/value – The novelty of this study stems from the fact that very few studies have assessed the perception of stakeholder's about the current corporate regime in India. No study has identified KGIs.

Keywords India, Sustainability, Emerging economy, Fuzzy set theory, Corporate governance regime, Key governance issues

Paper type Research paper

Introduction

Corporate governance problems in corporations boil down to the practice and implementation of best of the best class codes, norms and rules. At the same time, it is believed that mere practice and implementation of existing codes, norms and rules would not suffice. Rather, corporations are to be run in an ethical manner that serves and protects the interests of all its stakeholders. Freeman (1994) originated the stakeholder theory realizing the fact that an organization is an integration of various diverse systems, each requiring equal attention and strategic thinking. The diverse systems represent the various interest groups, namely, shareholders, employees, creditors, lenders, customers, suppliers, public interest groups, government agencies and bodies, etc. having a stake in the growth and well-being of the organization (Ansoff, 1987). The organization owes a responsibility toward all of them. Hence, it has to strive for the fulfillment of economic interests of all the interest groups. In such a scenario, the interaction between the interest groups creates and enhances the value of the organization which is called "the shared sense of the value." Henceforth, the theory of shareholder wealth maximization has been replaced by the stakeholder theory.

In the year 2004, Freeman *et al.* advanced the stakeholder theory which rested on the identification of the purpose of the firm which would drive all its actions and decisions. In this continuum, the concept of responsibility of the firm changed and broadened.

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As per the stakeholder view, the firm is responsible toward all its stakeholders and hence the managers need to first identify their relationships with all stakeholders and try to act in the best interests of all. Practically, it is found that most of the times the economic interests of various stakeholder groups would not align and in such a scenario the mechanism of natural selection "survival of the fittest" would prevail. The managers would decide how they want to do business and the kind of relationships they would create with their stakeholders. They would aim at balancing the interests of various stakeholders and their satisfaction. However, Ansoff (1987) did not agree with the broader stakeholder view and argued that the shareholders have their entire investment at risk and therefore should be the primary, if not sole, recipients of superior firm performance. The other stakeholders enjoy added protection due to the presence of shareholders and thus should be the secondary recipients of benefits of firm performance.

Based on the foregoing, it is established that stakeholders are the center of corporate governance reforms. Various measures which are undertaken to implement and mandate the best of corporate governance codes, norms or rules focus on the fulfillment of interests of all stakeholders. It appears that there is a need to assess the stakeholder's perception of current corporate governance regime and identify the key governance issues (KGIs) in the Indian context. The present study would unfold the present quality gap, if any, and uncover the KGIs for sustainability enhancement of corporate governance regime in India.

The rest of the paper is organized as follows: the second section presents the literature review on the existing studies related to the stakeholder's perception of governance issues. The third section discusses the research methodology. The fourth section presents the data analysis which is followed by a discussion of the results in the fifth section. The last section documents the conclusions and policy implications.

Literature review

The contemporary literature on corporate governance has put considerable emphasis on the stakeholder theory. Kay and Silberston (1995) claim no justification to the fact that the interests of shareholders do or should enjoy precedence over the interests of other stakeholders. Cook and Deakin (1999) compare the stakeholder and shareholder approaches to corporate governance. While the shareholder model only considers the financial performance as the sole measure of firm's long-term success, the stakeholder model encompasses both quantitative (financial and market share) and qualitative (trust and commitment) aspects of performance. Practically, the interests of shareholders and stakeholders are closely connected (Charkham and Simpson, 1999). Shareholders are one of the stakeholder groups. Further, stakeholders other than shareholders, namely employees, lenders, customers, etc. may become shareholders. This can be understood from the fact that institutional investors, namely pension funds, insurance companies, mutual funds and others are a large group of shareholders whose assets are drawn from the savings of the individuals, working class, pension plans, etc. These groups are representatives as well as a part of society at large. The role that these groups play or could play in the corporate governance of firms they invest in can be instrumental in sustainability enhancement of corporate governance regime. Institutional investors shareholding, when taken as a proxy for corporate governance improves firm value was found by Singh and Kansil (2016).

Bhasa (2003) studied the shareholder theory and found that companies focus only on shareholder wealth maximization and all other stakeholders are ignored. On the contrary, companies should strive for maximizing stakeholders' wealth instead of only focusing on shareholders' wealth because all the stakeholders who are either directly or indirectly related to the company must be compensated either in monetary or non-monetary terms. Panchali and Baid (2002) in a study found evidence of companies doing well by optimizing the interest of stakeholders which is the result of pursuing the objective of maximizing the wealth of shareholders. Thus, the acceptance of the principle of shareholder wealth leads to optimize the interests of all stakeholders. At the same time, the majority believed that priority of shareholders' interests over other stakeholders would damage the long-term survival and success of the business. Practically, the interests of various groups of stakeholders need to be optimized by striking a balance between the interests of all of them.

There are various factors that influence the quality of governance, namely, the integrity of the management, ability and commitment level of the board, adequacy of the process, quality of corporate reporting and of stakeholders' participation in the management (Arora and Singh, 2003). Amongst them the integrity, ability and commitment of the board is most important because the boards manage and run the businesses. A study by Sonnenfeld (2002) found that most of the performing companies have debatable boards that disagree and treat all subjects as discussable. Further, it reiterated the fact that over a period of time, the boards should build up to a robust group in fulfilling its mission of protecting the interests of entire stakeholders. To conclude, a company is a social institution that is accountable to the members of the society. Its legitimacy comes from its ability and desire to fulfill the needs of the society (Mahajan, 2003). In this context, Indian regulators namely, Securities and Exchange Board of India and stock exchanges have put a major emphasis on ethical behavior, transparency and voluntary disclosures of the company.

Research methodology

In order to assess the KGIs for enhancing sustainability leading to the global competitiveness of corporate governance regime, first, an in-depth literature review has been conducted to find out the governance issues in various emerging economies. Opinion and suggestions of experts have been taken and 16 governance issues are identified in the Indian context. Second, a questionnaire survey has been conducted to collect data from various groups of stakeholders to analyze the significance of selected governance issues. Stakeholders are asked to indicate the significance of selected governance issues as per their own perception by using the five-point Likert scale. Then, data analysis has been conducted with both reliability and validity of the data being checked by the statistical tool Statistical Package for the Social Sciences. Scale ranking for overall and each group has been established based on the mean values of the significance of indicators. Finally, a model based on the fuzzy set theory has been designed to identify the KGIs for enhancing sustainability and competitiveness of Indian corporate governance regime.

Questionnaire survey

From the literature review based on Indian and international studies, items of different countries have been borrowed with slight modifications to fit the specific context of corporate governance regime in India. The questionnaire is an adapted version of the scale used by Nam and Nam (2004) in order to determine the issues constituting corporate governance regime. Some modifications, adaptations and eliminations have been done to adapt the content for the Indian capital markets and economy. A corporate governance assessment instrument consisting of 21 items has been formulated and the opinion and suggestions of experts have been sought. Overlapping, complicated and irrelevant items have been eliminated. The original instrument has been modified and the final questionnaire consists of 16 items on a five-point Likert scale. Suitable measures have been taken while designing the same which would result in less of discrepancies arising from missing frequencies and outliers in data. Table I lists the 16 selected governance issues for which data have been collected through the questionnaire survey. In responding the questionnaire, the respondents have been asked to indicate the level of significance of each governance issue. The level of importance is measured on a five-point Likert scale, where extremely unimportant "1," unimportant "2,"

Code	Indicator
GI 1	Companies internal management structure and the board
GI 2	Judiciary system of the country
GI 3	Regulatory framework including monitoring institutions of the country
GI 4	Ownership structure of the companies
GI 5	Code of best practices of corporate governance
GI 6	Culture and value system of the society
GI 7	The standard of CG in India is comparable to that of Asian countries
GI 8	The existing CG regulations are effectively implemented by most Indian firms
GI 9	Regulatory monitoring of CG compliance is adequate
GI 10	Most listed companies have already taken measures to strengthen their CG
GI 11	Lack of integrity and ethics among top management
GI 12	Insider trading
GI 13	Inadequate protection of minority shareholders' rights
GI 14	Conflicts of interest of directors
GI 15	Drain off of funds through associate or subsidiary companies
GI 16	Independent directors do not exercise true independence in decision making

Table I.
Selected governance issues

neutral "3," important "4" and extremely important "5." Similarly, strongly disagree "1," strongly agree "5;" extremely bad "1," extremely good "5;" extremely unlikely "1," extremely likely "5;" extremely low "1," extremely high "5;" very infrequently "1," very frequently "5."

In addition to the above, the respondents provided information related to their demographic profiles for the purpose of classification, such as their designation, age, experience. An extensive section of respondents have been covered through an online source. Some respondents who did not respond to the questionnaire through an electronic mode where contacted in person and/or through telephonic calls to increase the responses and sample representation. The respondents have been chosen from all over India falling in any of the stakeholder group using convenience sampling. Special care has been taken as to in which capacity the respondent is answering. The responses of the respondents who could fall in more than one group were cross-checked and analyzed. While collecting the data through the questionnaire, it has been personally monitored and administered that no field is left unanswered by the respondent. Moreover, special care is taken to ensure that each of the research subjects who responded to the questionnaire had a basic understanding and knowledge relating to various aspects of current corporate governance regime and thus could strengthen the representativeness of perceptions received from these respondents.

Nearly 450 respondents have been contacted and only 235 responses have been received after a repeated follow-up and reminders on a weekly basis. After a thorough data-cleaning exercise, only 215 responses have been finally taken for data analysis giving a response rate of 47 percent. The overall response rate is favorable as to previous studies (Balasubramanian *et al*, 2008; Ho, 2005; Nam and Nam, 2004) due to a combination of methods used for collecting responses.

Table II presents the summary of the survey respondent groups. Out of the total responses received 62 (28 percent) were received from employees, 85 (39 percent) were from independent analysts, auditors, accountants, representatives of regulatory authorities, capital markets, centers of governance and others 68 (31 percent) were researchers, professors, bankers and investors. Most of the respondents were male (84.65 percent) as compared to 15.35 percent of females. With regard to age, the data show that most of the respondents were 50 years of age and over with a nearly equal number of respondents were of age 30-39 and 40-49. With respect to qualification, nearly half (48 percent) of the respondents had a professional degree while 32 percent had done post-graduation and rest 20 percent were graduates.

Data analysis

Internal consistency and reliability of the five-point scale have been tested using Cronbach's α. The value of Cronbach's α is 0.684 and therefore, the data do not suffer from sampling bias. Three statistical analyses, namely, scale ranking, ANOVA and fuzzy set theory have been undertaken on the data. The detailed analysis and findings of the study are presented in the following sections.

Ranking of governance issues

The ranking of selected governance issues has been obtained by calculating the means for the overall sample as well as for separate groups of respondents. If two or more issues have the same mean then the one with lower standard deviation has been assigned a higher rank. The ranking results are shown in Table III. The results indicate that independents and others consider ownership structure of companies (GI 4 Rank 1) as the most important governance issue in India. However, employees consider the independence of directors (GI 16 Rank 1) as the most important one and rank ownership structure of companies (GI 4) as rank 2. Further, code of best practices (GI 5) is ranked second by independents whereas others rank judiciary system of the country (GI 2) as the second major issue in corporate governance.

Furthermore, there exist some noticeable differences between the rankings of governance issues across various respondent groups. Lack of integrity and ethics among top management is ranked high by employees whereas others rank inadequate protection of minority shareholders rights as more important. Independents consider regulatory framework including monitoring institutions of the country as the third important key issue in corporate governance regime.

Analysis of variance (ANOVA)

The one-way ANOVA has been conducted to explore the presence of divergence in perception among various stakeholder groups. The p-values of one-way ANOVA comparing the mean scores of selected governance issues of corporate governance regime have been obtained. From the results, it can be inferred that the significant difference of opinion exists for four governance issues, namely, ownership structure of the companies, regulatory framework including monitoring institutions of the country, code of best practices of corporate governance and companies internal management structure and the board. The three groups of respondents agree on rest of the governance issues.

Analysis of KGIs based on fuzzy set theory

Zadeh (1965) introduced fuzzy set theory which has been widely applied in management and social sciences. In this paper, survey data have been gathered from three groups of respondents, namely, employees, independents and others. The three groups will result in different means, standard deviation (SD), z-values (standard normal variable), which are presented in respective columns of Table IV as, $z = \text{Mean}-4/\text{SD}$. The fuzzy sets of the three groups are represented by A_E, A_I and A_o, respectively. Accordingly, the degree of

Table II. Summary of respondent groups

Respondent group	Number	Percentage
Employees	62	28.84
Independents	85	39.53
Others	68	31.63
Total	215	100

Table III. Ranks and ANOVA for different groups of respondents

SGI		Employees ($n = 62$)			Independents ($n = 85$)			Others ($n = 68$)			Total ($n = 215$)			ANOVA	
		Mean	SD	Rank	Mean	SD	Rank	Mean	SD	Rank	Mean	SD	Rank	F	Sig.
Independent directors do not exercise true independence in decision making	GI 16	3.984	0.922	1	3.871	0.870	6	3.853	1.123	3	3.897	0.968	3	0.344	0.709
Ownership structure of the companies	GI 4	3.887	0.851	2	4.282	0.983	1	4.088	0.805	1	4.107	0.903	1	3.537	0.031*
Insider trading	GI 12	3.823	1.079	3	3.635	1.163	10	3.824	1.064	5	3.749	1.107	8	0.737	0.480
Lack of integrity and ethics among top management	GI 11	3.806	1.199	4	4.047	1.101	5	3.779	1.244	6	3.893	1.177	4	1.215	0.299
Inadequate protection of minority shareholders' rights	GI 13	3.790	1.073	5	3.812	0.970	9	3.853	1.149	4	3.819	1.054	6	0.060	0.942
Regulatory framework including monitoring institutions of the country	GI 3	3.774	0.965	6	4.071	0.923	3	3.706	0.882	7	3.870	0.933	5	3.418	0.035*
Judiciary system of the country	GI 2	3.774	0.948	7	4.047	0.962	4	4.029	1.007	2	3.963	0.976	2	1.644	0.196
Code of best practices of corporate governance	GI 5	3.694	0.898	8	4.071	0.768	2	3.603	0.900	8	3.814	0.872	7	6.597	0.002**
Most listed companies have already taken measures to strengthen their CG	GI 10	3.677	0.988	9	3.859	0.966	7	3.544	1.085	10	3.707	1.015	9	1.867	0.157
Regulatory monitoring of CG compliance is adequate	GI 9	3.661	1.101	10	3.812	0.880	8	3.603	1.024	9	3.702	0.993	10	0.909	0.404
The standard of CG in India is comparable to that of Asian countries	GI 7	3.629	1.028	11	3.376	1.123	12	3.412	0.981	13	3.460	1.053	11	1.138	0.322
The existing CG regulations are effectively implemented by most Indian firms	GI 8	3.452	0.970	12	3.471	1.097	11	3.441	1.164	12	3.456	1.079	12	0.015	0.986
Companies internal management structure and the board	GI 1	3.032	1.159	13	3.035	1.219	13	3.515	1.178	11	3.186	1.205	13	3.798	0.024*
Drain off of funds through associate or subsidiary companies	GI 15	2.145	1.053	14	2.318	1.026	15	2.059	1.006	15	2.186	1.029	14	1.267	0.284
Conflicts of interest of directors	GI 14	2.939	1.067	15	3.022	1.064	13	2.970	1.069	14	2.982	1.073	14	2.100	0.709
Culture and value system of the society	GI 6	2.854	1.074	16	2.933	1.072	13	2.887	1.072	15	2.896	1.079	15	2.128	0.031*

Note: *,**Indicate 5 and 1 percent levels of significance

Table IV.
The degree of membership of indicators of KGI

Governance Issues		Employees				Independents				Others				Integrated m (xi)	
		Mean	SD	z	CUM	Mean	SD	z	CUM	Mean	SD	Z	Cum		
Ownership structure of the companies	GI 4	3.887	0.851	0.465	0.679	4.282	0.983	0.389	0.651	4.088	0.805	0.492	0.689	*0.726*	KGI 1
Code of best practices of corporate governance	GI 5	3.694	0.898	0.419	0.662	4.071	0.768	0.517	0.697	3.603	0.900	0.402	0.656	*0.724*	KGI 2
Regulatory framework including monitoring institutions of the country	GI 3	3.774	0.965	0.402	0.656	4.071	0.923	0.431	0.667	3.706	0.882	0.428	0.666	*0.710*	KGI 3
Independent directors do not exercise true independence in decision making	GI 16	4.000	0.923	0.432	0.667	3.871	0.870	0.454	0.675	3.853	1.123	0.352	0.638	*0.710*	KGI 4
Judiciary system of the country	GI 2	3.774	0.948	0.409	0.659	4.047	0.962	0.414	0.661	4.029	1.007	0.396	0.654	*0.705*	KGI 5
Regulatory monitoring of CG compliance is adequate	GI 9	3.661	1.101	0.346	0.635	3.812	0.880	0.443	0.671	3.603	1.024	0.361	0.641	0.699	
Most listed companies have already taken measures to strengthen their CG	GI 10	3.677	0.988	0.383	0.649	3.859	0.966	0.409	0.659	3.544	1.085	0.337	0.632	0.694	
Inadequate protection of minority shareholders' rights	GI 13	3.790	1.073	0.365	0.642	3.812	0.970	0.404	0.657	3.853	1.149	0.344	0.635	0.691	
Insider trading	GI 12	3.823	1.079	0.365	0.642	3.635	1.163	0.326	0.628	3.824	1.064	0.370	0.644	0.684	
The standard of CG in India is comparable to that of Asian countries	GI 7	3.629	1.028	0.364	0.642	3.376	1.123	0.304	0.620	3.412	0.981	0.340	0.633	0.677	
Lack of integrity and ethics among top management	GI 11	3.806	1.199	0.328	0.629	4.047	1.101	0.362	0.641	3.779	1.244	0.316	0.624	0.677	
The existing CG regulations are effectively implemented by most Indian firms	GI 8	3.452	0.970	0.351	0.637	3.471	1.097	0.324	0.627	3.441	1.164	0.305	0.620	0.673	
Companies internal management structure and the board	GI 1	3.032	1.159	0.243	0.596	3.035	1.219	0.239	0.595	3.515	1.178	0.311	0.622	0.649	
Conflicts of interest of directors	GI 14	2.097	1.051	0.074	0.529	2.329	1.117	0.117	0.546	2.059	1.006	0.062	0.525	0.573	
Drain off of funds through associate or subsidiary companies	GI 15	2.145	1.053	0.080	0.532	2.318	1.026	0.101	0.540	2.059	1.006	0.062	0.525	0.571	
Culture and value system of the society	GI 6	2.065	0.866	0.038	0.515	1.953	0.898	0.033	0.513	2.029	0.846	0.031	0.512	0.550	

membership for each indicator (CUM) has been calculated as using NORM.S.DIST function in excel which gives the standard normal cumulative probability of the distribution. The final integrated fuzzy set for performance indicators as calculated from the union of three fuzzy sets resulted from three groups of data, is described as follows (Xu *et al.*, 2012):

$$A = A_E \cup A_I \cup A_O = \{x, m_{A_E \cup A_I \cup A_O}(x)/x \in X\}$$

where:

$$m_{A_E \cup A_I \cup A_O}(x) = \text{Integrated } m(xi) = \min\left\{1, \left(m_{A_E}(x)^n + m_{A_I}(x)^n + m_{A_O}(x)^n\right)^{\frac{1}{n}}\right\}$$

N is the number of indicators, i.e. $n = 16$ (Li and Moosa, 2015). In order to identify the KGIs, λ cut set method is adopted where λ is set at 0.7. So, considering the indicator x_i, if integrated $m(xi)$ is equal or greater than 0.7 (Xu *et al.*, 2012), x_i is selected as KGI. In this study five KGIs for enhancement of sustainability of current corporate governance regime are identified and ranked by their degree of membership (Table IV). The identified KGIs are: ownership structure of the companies (KGI 1), Code of best practices of corporate governance (KGI 2), regulatory framework including monitoring institutions of the country (KGI 3), untrue independence of independent directors in decision making (KGI 4) and judiciary system of the country (KGI 5).

Discussion on findings

KGI 1 – Ownership structure of the companies

The ownership structure of companies has been ranked first by independents and others while employees have ranked ownership structure as second. Thus, there emerges a strong consensus on the role and importance of ownership structure in the corporate governance of Indian firms. It is important to note that all stakeholders together perceive ownership structure as the KGI. The findings are consonant with the findings of several previous studies which have examined the role and importance of different types of owners in corporate governance of the firms they have invested in. It is well established that firms differ across ownership structures as to the type of owners (insiders, foreign, institutional) and the type of ownership (whether concentrated or not). Studies by Imam and Malik (2007) and Mishra and Kapil (2016) examined how corporate governance is practiced through ownership structure and how firm's performance as well as its dividend payout policy is influenced by different ownership pattern. It was found that foreign holding is positively and significantly related to the firm performance. Further, Singh and Kansil (2017) suggest that better governance can be achieved by strengthening both the internal and external corporate governance mechanisms wherein ownership structure is the most important internal governance mechanism.

Foreign investors lay considerable amount of emphasis on the appointment of independent directors thus leading to improved corporate governance was found by Bowman and Min (2012). Kansil and Singh (2016c) presented important evidence and vision on the activism of institutional investors in corporate governance of companies they invest in. It is suggested that institutional investors must actively exercise their voting rights and must demonstrate their fiduciary duties toward the investors. Further, it was found that institutional investors when act as activists lead to improved corporate governance and restrain boards' expropriation behavior (Gillan and Starks, 2003).

Previous studies have also studied the relationship between large shareholders and corporate monitoring and governance wherein mixed results have been advocated. Sarkar and Sarkar (2000) revealed the role of large block shareholders in monitoring company value for India. Singh and Kansil (2017) found evidence that non-controlling stake of foreign shareholders impacts corporate governance. On the contrary, Ananchotikul (2006) found that large stakes of foreign industrial companies do not improve corporate governance because they can exploit minority due to their large stakes. Thus, the type of owner and the type of ownership matters.

KGI 2 – Code of best practices of corporate governance

The presence of best practices of corporate governance through codes and rules has been ranked second by independents and eighth by other two categories of respondents. The survey results reveal that independents who are the lawmakers and/or regulators of codes and rules place them at second rank whereas employees and others do not agree to the importance of codes and rules amongst top five governance issues. This may be due to the fact that employees might not wish to have stringent and mandatory codes and rules to comply with. Consequently, it can be expressed that Indian employees and others recognize high importance of some other issues in corporate governance. This is an interesting finding because it is believed that voluntary commitments and business practices would ensure an efficient corporate governance regime.

The development of adequate norms, guidelines, and codes is the first most important step toward improving corporate governance has been iterated by Chakrabarti (2005). Once these are at place then their proper implementation becomes the bigger challenge. At present, India has best of the best corporate governance laws but their poor implementation has affected the desired outcome. Anyhow, whatever codes and rules may be framed and mandated today, they would certainly require adjustments in future due to changes in business circumstances and new experiences accruing to firms and economies (OECD, 2004). Thus, high level of commitment amongst employees and practitioners would only facilitate the enhancement of sustainability of current corporate governance regime.

KGI 3 – Regulatory framework including monitoring institutions of the country

The regulatory framework including monitoring institutions of the country has been ranked third by independents, fifth by others while employees have ranked regulatory framework as sixth. The respondents are not in consensus on the importance of regulatory framework including monitoring institutions of the country in enhancing the sustainability of present corporate governance regime. Regulation pertains to the overall regulatory setup of the economy (Li and Moosa, 2015). Also, regulation has a significant influence on economy's institutional structure and further investments by institutional investors would depend upon the regulatory setup and investor protection (Mayer, 2000). At the same time, the regulation would decrease the importance of managerial function as well as the costs of observing managerial performance in a firm (Kole and Lehn, 1997). However, it would provide protection to minority shareholders and reduce wealth misappropriations. Thus, the present literature expressed out the benefits as well as costs of regulation. Regulators enjoy the powers of the legislature, executive as well as the judiciary. In their functioning, they need to strike a balance between the interests of the public and businesses because they cannot outrightly favor one (Agarwal, 2013). This in itself is quite challenging and debatable.

KGI 4 – Untrue independence of independent directors in decision making

The independence of directors has been ranked first by employees, and third by both independents and others. There exists a consensus on the need for the existence of an independent board of directors amongst all respondent groups. Many previous studies have emphasized on the idea of independent boards. Demirbas and Yukhanaev (2011) concluded that the independence of the board through the presence of outside directors on the board can be a useful tool for good corporate governance within the organizations. However, there is little evidence of the real independence of boards in practice. As a result, the boards are not discharging their functions properly. The reason for this in the Indian context is that most of the boards comprise of controlling insiders, who enjoy considerable opportunities to exploit minority shareholders (Sarkar, 2010). In such a scenario, the board and its independence is just a statutory addition (Okpara, 2011). The firms are practically managed and governed by as well as in best interests of controlling insiders.

The effectiveness of the board is considerably affected when management and decision making are in the hands of concentrated owners (Fama and Jensen, 1983). In such a scenario, the boards play a passive role in corporate affairs. Okpara (2011) opined it as managerial hegemony theory and Xue (2001) called it as window dressing. Here, the governing board of the organization plays no role in management and decision-making. Also, Zhang (1999) called independent directors as symbolic with no ability to give useful suggestions and exert substantial influence on owners or the board. At present, it is important to increase the effectiveness of independent directors in monitoring the board, especially to strengthen their independence.

KGI 5 – Judiciary system of the country

Judiciary system has been ranked second by both independents and others while employees have ranked judiciary system as seventh. It seems as if employees do not want litigation and courts to enter the corporate governance regime. But, independents and others feel that judiciary would play an extremely important role in corporate governance regime. The result is in line with the recent literature that has documented mixed responses toward the role of the judiciary in corporate governance. Since, corporate governance framework of a country would depend upon local laws, customs and cultures (Anderson, 2010), they together make legal systems.

A recent study by Madhani (2016) with respect to Indian-listed companies reiterated the fact that legal and regulatory environment influence firm-level governance practices. The effective legal systems would bring benefits to all the stakeholders. Strong legal protection of shareholders makes ownership concentration inconsequential and thus redundant (Kansil and Singh, 2017). La Porta *et al.* (1998) has emphasized that effective legal systems would ensure the protection of minority shareholders' interests. Further, the protection of minority shareholders would improve firm's performance and value (Shleifer and Vishny, 1997) and hence better corporate governance. Thus, one can assert that effective and strong legal systems would enhance the sustainability of current corporate governance regime.

The legal systems and levels of corruption are relevant in establishing corporate governance systems (Floyd and Summan, 2008). In this context, firms need to adapt to the limitations of the existing legal system, if any, and operate within those limitations. Weak legal system and high level of corruption due to poor regulation is a major threat to sustainability enhancement of corporate governance regime. One of the possible solutions could be legal regulatory merger. Lazarides and Drimpetas (2010) expressed that legal regulatory merger in case of distinct institutional and governance systems may cause problems and not a solution to the real issue of corporate governance. Hence, legal and regulatory systems are to be dealt carefully in a holistic manner.

Conclusions and policy implications

The international capital inflows in an economy are dependent upon political, economic as well as legal factors. The capital providers constantly review the governance regime of the economies they invest in. Corporate governance plays a major role in augmenting the external capital inflows leading to an economy's growth and development. In this context, corporate governance regime should deserve the utmost attention in emerging economies like India who need external capital inflows for their growth and development. The present study identified and ranked five KGIs as per fuzzy set theory according to their importance based on the perception of stakeholders regarding the current corporate governance regime. The stakeholders include employees, practitioners, policymakers, regulators, researchers and investors. The key issues identified in this study that can hinder the sustainability enhancement of corporate governance regime in India include: Ownership structure of the companies, Code of best practices of corporate governance, regulatory framework including monitoring institutions of the country, untrue independence of independent directors in decision making and judiciary system of the country. It can be concluded that India has codes and laws that are designed to ensure good corporate governance regime but the implementation of existing laws, as well as voluntary commitments and business practices constitute a major challenge in corporate governance regime.

The previous literature unfolds two distinct schools of thought about the most appropriate approach to corporate governance, namely, regulatory approach and free market approach (Farrar, 1999). The regulatory approach also called prescriptive approach relates to prescription of specific corporate governance rules and practices by regulations. The free market approach also called non-prescriptive approach leaves the development of corporate governance regime to market forces allowing companies to incorporate practices that would help them to sustain in the competitive business environment. It is debatable as to which approach would be the best. It is the stakeholders at large who would have to set the tone for the quality of corporate governance systems through any approach that they seem fit. However, a mixed approach wherein only the basic framework and regulations of corporate governance would be prescribed and companies would be allowed to develop more detailed practices by their own could also be a possible solution.

Furthermore, the path dependence theory suggested by Bebchuk and Roe (1999) highlighted two sources of path dependence, namely, structure driven and rule driven. On one hand, Indian corporate governance regime has adopted and mandated the best of the best international practices (Sarkar, 2010). But, the structure of corporates in India remains as high leveraged firms with significant control of owners, despite having lesser equity. This highlights the fact that there exists suitable corporate governance regime while controlling owners control their firms. These controlling owners should act in the best interests of all stakeholders and if not, the non-controlling owners would bear the costs. Two parallel lines of action emerge: first, controlling owners, top management and board of directors should not be allowed to exploit or abuse the non-controlling owners. Second, the non-controlling owners must exercise their rights and entitlements as owners. In this context, the policymakers and regulators need to restrict hands of controlling shareholders and work toward aligning the interests of all the stakeholders.

Based on the above, it is expected that in the times to come, the corporate governance regime within the framework of present codes, laws and model of corporate governance would be strengthened. The present quality gap which emerges from the implementation of the present framework and structural setup is likely to be narrowed down. The policymakers and regulators will have to devise measures to curb noncompliance and/or implementation of laws at the ground level, and take all possible actions that would enhance and support investor confidence. The more the investor confidence, the more would be the foreign capital inflows.

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