CODES AND PRACTICES

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The CII Code

- CII set up a committee to examine corporate governance issues, and recommend a voluntary code of best practices. The committee was driven by the conviction that good corporate governance was essential for Indian companies to access domestic as well as global capital at competitive rates. The first draft of the code was prep~red by April 1997, and the final document (Desirable Corporate Governance: A Code), was publicly released in April 1998. The code focuses on listed companies.

- It pointed out that: ' the objective of good corporate governance is maximising long-term shareholder value. Since shareholders are residual claimants, this objective follows from a premise that, in well performing capital and financial markets, whatever maximises shareholder value must necessarily maximise corporate prosperity, and best satisfy the claims of creditors, employees, shareholders,and the State.

- "Any listed company with a turnover of Rs.l billion and above should have professionally competent, independent, nonexecutive directors, who should constitute at least 30% of the board if the Chairman of the company is a non-executive director, or at least 50% of the board if the Chairman and Managing Director is the same person." • "No single person should hold directorships in more than 10 listed companies." • "To secure better effort from non-executive directors, companies should: • Pay a commission over and above the sitting fees for the use of the professional inputs.

- Board of Directors • "The key to good corporate governance is a well functioning, informed board of directors. The board should have a core group of excellent, professionally acclaimed non-executive directors." • "The full board should meet a, minimum of six times a year, preferably at an interval of two months.

- "Listed companies with either a turnover of over Rs.l billion or a paid-up capital of Rs.200 million should set up Audit Committees within two years. Audit Committees should consist of at least three members, all drawn from a company's non-executive directors, who should have adequate knowledge of finance, accounts and basic elements of company law.

- The CII code is voluntary. Since '1998, CII has been trying induce companies to disclose much greater information.

A more subtle, yet pronounced, effect of the CII initiative is a distinct trend among larger listed companies to look positively towards corporate governance, and to stop discounting it as 'the favour of the month'.