CORPORATE GOVERNANCE AND FINANCIAL MISCONDUCT

Purbasha Pattnaik, , Law Student, Symbiosis Law School, Hyderabad, Symbiosis International (Deemed University), Pune, India & Anita Sable, Assistant Professor, Symbiosis Law School, Hyderabad, Symbiosis International (Deemed University), Pune, India.

ABSTRACT

Corporate fraud is any illegal, immoral, or dishonest activity committed by a business or by an individual operating on behalf of the business while holding an official position as an employee. In order to guarantee that risks are assessed, understood, and properly managed, risk management is essential. For improved performance and outcomes, this is important. The economy, the company's financial health, reputation, and brand all face major threats from fraud. Following good corporate governance guidelines, risk management is becoming an increasingly crucial procedure in many firms. Despite shifting and uncertain environments, businesses with enhanced and long-term success are known for their good corporate governance. In order to maximize shareholder value and the performance of the national and international economies, this article investigates whether corporate governance ensures that enterprises are successfully managed. The law, including the laws governing corporations, employment, and other matters, broadly shapes how businesses are governed. Corporate governance fosters an environment that is trustworthy, moral, and ethical. The board and senior management of a firm are able to look at its values and policies and make decisions that can lead to success and balance. Corporate governance has been said to be significant in terms of both conformance and performance. The United Kingdom is one of the most significant investment areas in the world. Because they were thought to be the greatest, other countries like New Zealand and Australia were eager to adopt and include their corporate governance procedures.

The purpose of this article is to examine how corporate governance functions and its procedures in safeguarding organisations against financial fraud. Additionally, it analyses several global viewpoints on corporate governance.

Keywords: Corporate Governance, Financial Misconduct, Corporate fraud, Risk management, international perspective

INTRODUCTION

Corporate fraud is any illegal, immoral, or dishonest activity committed by a business or by an individual operating on behalf of the business while holding an official position as an employee. In order to guarantee that risks are assessed, understood, and properly managed, risk management is essential. One of the most hotly debated problems in business today is corporate governance, which attracts researchers to the sector. Corporate governance was born out of commercial fraud and failures. Corporate governance is receiving more attention than ever in the wake of the world recession. Many investors suffered significant financial losses, especially on investments made in businesses that failed as a result of corporate scandals, poor management, and fraud. Many people are trying to figure out how to stop this from happening in the future and are hoping to identify poorly run businesses before they collapse.

There are three groups that make up the stakeholders in a corporation:

(1) the shareholders who have made financial investments;

(2) the executive management, which manages the company and reports to the board of directors; and

(3) the board of directors is chosen by the shareholders and is responsible to them.

Due to shortcomings in corporate governance processes, there is a rising loss of trust in the world's financial markets. Conflicts of interest between shareholders and the board of directors and corporate managers have arisen as a result of these shortcomings. Corporate executives frequently aim for short-term gains that put them ahead of stockholders. According to media reports, corporate managers receive excessive pay that has been approved by the board of directors even when times are tough. As a result, the board of directors supports corporate executives instead of acting in the best interests of stockholders.

It is challenging for investors and other stockholders to analyse the financial health of various companies since, frequently, investors are taken off guard because, before to going bankrupt, the majority of the companies' financial reports typically showed strong financial performance. All of these businesses operated simultaneously with good governance and met standards. Investors and other stockholders have been forced to reconsider how they would judge a company if its financial records show growth and the corporate governance report demonstrates that it is a well-governed organisation, but that same company suddenly becomes famous for going bankrupt.

Financial misconduct[1]- It is defined as fraud, extreme carelessness, intentional or wilful misconduct, or both, that directly or indirectly affect the Company's financial or operational performance and that is utilised to determine the amount to which any award of cash or shares under the Plan is misstated. This definition applies whether or not the Company must produce an accounting restatement of its consolidated financial statements. A series of events that occurred in a company were caused by financial performance and financial difficulty. It was not easy to compare the financial performance of various organisations because their work environments and governance models varied. As a result, it was difficult to choose the common variables to assess the financial performance of various organisations.

People generally believe that a company's financial performance is influenced by its corporate governance and that there is a strong positive correlation between corporate governance and financial performance. If this is the case, failures such as those of Maxwell, BCCI, Poly Peck in the United Kingdom, Enron, Adelphia, World.Com in the United States, Satyam in India, etc. force us to re-evaluate the situation since the financial reports of all these businesses before they filed for bankruptcy showed remarkably strong financial performance. As a result, corporate governance has emerged as one of the business world's most popular topics, attracting researchers to the discipline.

Corporate governance best practices will, in general, contain a code of best practices addressing the makeup of the Board of Directors, and its various Committees, outlining their objectives and tasks, investigating preferable internal control methods, and specifying disclosure standards. Corporate excellence and good governance share many similarities, and it is challenging to attain excellence without excellent governance over the long term. The path to greater business excellence is through good governance. The highest standards of value creation, openness, accountability, professionalism, social responsiveness, and ethical business practices must be adopted by corporations committed to increasing stakeholders' value as a self-regulatory code for corporate governance.

[1] *Financial misconduct definition*. Law Insider. (n.d.). Retrieved November 25, 2022, from https://www.lawinsider.com/dictionary/financial-misconduct

Fairness, openness, accountability, and responsibility are the cornerstones of corporate governance standards. The Naresh Chandra and Narayan Murthy Committees have established the regulations and standards that are relevant to Indian-listed corporations. Although there is no one model of excellent corporate governance that is universally accepted and its principles are generally agreed upon, they must be modified to take into account the unique conditions and requirements of many firms. The government, corporate sector, and professionals must collaborate in order to strengthen corporate governance, which is fundamentally an ongoing effort. A system of corporate governance holds management responsible to the stakeholders for the efficient operation of the company.

RELEVANCE OF THE TOPIC

Numerous studies on the topic have shown that researchers worldwide are very interested in understanding how corporate governance affects financial performance and the underlying mechanism. Prior studies have randomly employed a variety of governing models with varying degrees of success. Which financial performance metric has a strong correlation with corporate governance is unknown. Since there are contradictions and a lack of consistency in the corporate governance literature to support the continuance of a major relationship between corporate governance and financial performance, it is urgent and necessary to conduct a study to further explore this relationship.

RESEARCH OBJECTIVE

Only the relationship between corporate governance and financial performance is the focus of this investigation. The objectives are stated below:-

1) To research the connection between corporate governance and firm value.

2) To research how corporate governance and return on investment are related.

3) To research how corporate governance and return on assets are related.

4) To research how corporate governance and financial crisis are related.

RESEARCH METHODOLOGY

The researcher has chosen **Doctrinal methodology** for this research on the designation of an individual as a terrorist in India and their treatment under the ambit of human rights. The researcher has taken into account both the primary and secondary sources of data. The **primary data** is the statutes, laws, bare acts regarding human rights, and laws regarding terrorists.

The **secondary data** includes journals, articles, e-sources, books, interviews, etc.

LITERATURE REVIEW

In order to highlight the findings of research that aim to link corporate governance with financial performance, this chapter examines the review of the body of existing literature. I have read through the pertinent academic material that is currently accessible on the subject under consideration. The goal of a literature review is to identify any research gaps that need to be filled in light of the body of existing literature.

1. "Corporate Governance in India: Concept, Needs, and Principles" - by **Raksha Talathi**
2. "Principles of Corporate Governance" -by **Business Roundtable**
3. "The link between corporate governance and corporate financial misconduct. A review of archival studies and implications for future research" - by **Patrick Velte**
4. "Financial Misconduct, Reputation Damage and Changes in Employee Satisfaction" **by Yuqing Zhou and Christos Makridis** -the University of California at Los Angeles, Anderson School of Management National AI Institute, Department of Veterans Affairs
5. Corporate Governance: Principles, Policies and Practices - By **Pearson**

HISTORY OF CORPORATE GOVERNANCE: FROM A GLOBAL PERSPECTIVE

Corporate governance was born out of commercial fraud and failures. In 1991, the Cadbury Committee on Corporate Governance was established as a result of the UK failures of Maxwell, BCCI, and Poly Peck. In order to investigate the financial facets of corporate governance, the London Stock Exchange and Financial Reporting Council[2]—which is in charge of accounting standards in Britain—appointed the Cadbury Committee[3]. The UK Committee[4] on the Financial Aspects of Corporate Governance's 1992 report was presided over by Sir Adrian Cadbury, a former chairman of Cadbury Schweppes and a director of the Bank of England (Cadbury 2002)[5]. The Cadbury Report's recommendations had an impact on how corporate

[2] Babío Arcay, M. R., & Muiño Vázquez, M. F. (2005). Corporate characteristics, governance rules and the extent of voluntary disclosure in Spain. *Advances in Accounting*, *21*, 299–331. https://doi.org/10.1016/s0882-6110(05)21013-1
[3] ibid
[4] ibid
[5] ibid

governance evolved worldwide, not simply in the UK.

The idea of corporate governance was first popularised in the USA and the UK before spreading to other nations such as Germany, France, Japan, India, etc. In the UK in the late 1980s and early 1990s, a slew of scandals and financial meltdowns caused banks and shareholders to worry about their investments.

Not so much the fact that these companies had failed as the fact that their reports and accounts looked to have given no notice of the true status of their financial problems just before their failure, which caused concern on the part of the London Stock Exchange and others. The stunning collapse of Enron, a former major American energy corporation, served as a demonstration of the same issue. The corporation had perfect policies relating to strong corporate governance[6].

The Sarbanes-Oxley[7] Act was passed by the U.S. federal government in 2002 with the goal of regaining public trust in corporate governance. The US Sarbanes-Oxley Act of 2002 was passed with the goal of guaranteeing the transparency of financial reporting as well as the integrity, responsibility, and accountability of the Board of Directors[8]. Consequently, the following International Committees Reports played a significant role in the phrase "corporate governance" gaining popularity.

Following are the committees:

1. The Cadbury Committee Report, 1992, United Kingdom.

2. The Mervyn E Kings Committee Report, 1994

3. The Greenbury Committee, 1995 (UK)

4. Cal PERS, 1996

5. The Hampel Committee Report, 1998

6. The Blue Ribbon committee Report, 1999

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[6] Agrawal, A., and Knoeber, C.R. (1996). Firm Performance and Mechanisms to Control Agency Problems Between Managers and Shareholders. The Journal of Financial and Quantitative Analysis, 31(3), 377-397

[7] ibid

[8] ibid

7. The Combined Code of Best Practices (London Stock Exchange), 1998

8. OECD (The Organization for Economic Cooperation and Development) Principles of Corporate Governance, 1999.

9. The CACG Principles for Common wealth Countries, 1999

10. The DEREK HIGGS Committee Report, 2002

11. Finally, the Sarbanes-Oxley Act, 2002 of USA.

Due to recent corporate governance failures, there are now many corporate governance regulations that place a strong emphasis on accountability and conformity criteria. Some corporate governance codes, such as the Cadbury Code in the UK, the ASX rules, and the OECD corporate governance principles, make assumptions about the governance elements that contribute to a high-performing organisation.

EVOLUTION OF CORPORATE GOVERNANCE IN INDIA

With the implementation of economic reforms in 1991, the Indian government started taking steps toward corporate governance. To make recommendations for corporate governance measures, the Confederation of Indian Industries (CII), the Associated Chambers of Commerce and Industry (ASSOCHAM), and the Securities and Exchange Board of India (SEBI) established committees[9]. The removal of the Government Control on the Issue of Capital by Companies was one of the significant actions that the Government of India performed after the announcement of the Liberalized Industrial and Foreign Investment Policy on July 24, 1991. The Capital Issues (Control) Act of 1947 was subsequently abolished with effect as of May 29, 1992.

The Ms. Shoes Scam was followed by the securities frauds of Harshad Mehta in 1992. Investor confidence has been damaged by CRB fraud, the threat of fake IT company scams by plantation firms, the Ketan Parekh scam of 2001, and defrauding investors by the CRB group and agro plantation enterprises. More than 4,000 enterprises raised more than $54,000 crore from investors through public hybrid offerings between April 1992 and March 1996. More than Rs.

[9]Ijlmh. (2020, October 23). *Globalization and corporate governance in the Indian context*. International Journal of Law Management & Humanities. Retrieved November 25, 2022, from https://www.ijlmh.com/globalization-and-corporate-governance-in-indian-context/

34.000 crores was raised by another 1500 companies through rights offers at very high premiums.

The majority of the firms quickly disappeared in the air, leaving investors high and dry, with essentially no monitoring from the SEBI, the Stock Exchanges in which these companies listed themselves, or the department of company affairs working through the various Registrar of Companies (RoCs).[10]

In order to improve the standard of corporate governance, the Securities Exchange Board of India (SEBI)[11] established Clause 49 of the Listing Agreement in accordance with the recommendations of the Kumar Manglam Birla Committee, Naresh Chandra Committee, and Narayan Murthy Committee[12]. The updated Clause 49 of the listing agreement is to be implemented immediately by all Stock Exchanges in place of the current Clause 49.

The Department of Company Affairs formed a group named the Working Group to examine suggestions for good corporate governance. The secretary of company affairs and the chairman of SEBI jointly supervised a strong central coordination and monitoring committee, which was set up to oversee the actions taken against disappearing companies and dishonest promoters who misused the money they raised from the general public. Based on the recommendations of this Committee, seven Task Forces have been constituted in Mumbai, Delhi, Chennai, Kolkatta, Ahmedabad, Bangalore, and Hyderabad to locate businesses that have vanished or who have misappropriated investor funds. According to the SEBI Act or the Companies Act of 1956, these Task Forces would advise on the best course of action to take against defaulting firms.

FINANCIAL MISCONDUCT IN COMPANIES

Billions of pounds have been paid in fines as a result, which has a negative impact on consumers and the economy. Businesses can experience financial misconduct in a number of ways,

[10] Ijlmh. (2020, October 23). *Globalization and corporate governance in the Indian context*. International Journal of Law Management & Humanities. Retrieved November 25, 2022, from https://www.ijlmh.com/globalization-and-corporate-governance-in-indian-context/

[11] *Document in Microsoft internet Explorer - Securities and Exchange Board ...* (n.d.). Retrieved November 25, 2022, from https://www.sebi.gov.in/cms/sebi_data/attachdocs/1293168356651.pdf

[12] CII. (n.d.). Retrieved November 25, 2022, from http://www.cii.in/, *The Institute of Chartered Accountants of India*. ICAI. (n.d.). Retrieved November 25, 2022, from http://www.icai.org/

including bill forgery, fraud, and misuse of company credit cards[13]. Financial misconduct is defined as follows under Section 1H of the Financial Services and Markets Act of 2000 (FSMA)[14]:

1. Falsehood or deceit
2. Misconduct in the financial industry or improper use of information there
3. Handling narcotics proceeds
4. The financing of terrorism
5. For the sake of upholding integrity, promoting fair competition, and safeguarding customers, financial services firms' and markets' conduct must be regulated[15].

Corporate scams are defined as:

a) Illegal activities are carried out by a person or organisation;

b) done dishonestly or unethically.

c) consists of dishonest acts carried out by a business or a person who works for the business.

This form of commercial fraud frequently serves to benefit the person or corporation carrying out the unethical act. Corporate fraud can take many different forms, such as fake bookkeeping and misrepresenting services or goods. Numerous accounting fraud tactics designed to artificially increase a company's apparent earnings are common in business, and their detection can take years.

MAIN REASONS FOR CORPORATE SCAMS:

1. Mergers and amalgamations present a chance for fraud.

2. Lack of internal controls, a competent audit department, and checks.

3. The necessity to attract or keep investors, real or imagined.

4. Issues or flaws with a business's products

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[13]*What are the causes of financial misconduct?* DeltaNet. (2022, April 12). Retrieved November 25, 2022, from https://www.delta-net.com/knowledge-base/compliance/fca-compliance/what-are-the-causes-of-financial-misconduct/

[14] ibid

[15] CFI, corporate fraud, https://corporatefinanceinstitute.com/resources/esg/corporate-fraud/, last visited Nov 3, 2022

5. Bank/financial institution defaulters.

6. Poor performance is a result of weak financial controls.

FEW OF THE MAJOR CASES OF SCAMS

1. **ENRON: THE FALL OF A WALLSTREET DARLING-**

Enron became the seventh-largest firm by riding the dot-com wave to superstardo in the United States[16]. From 1996 through 2001 (the year it filed for bankruptcy), Fortune Magazine named Enron "America's Most Innovative Company." In truth, the corporation disguised any losses in shell companies while using mark-to-market accounting to give the impression that it was more profitable than it actually was. By evaluating the security's current market value rather than its book value, this method assesses a security's value. While this may be useful while trading securities, it could be deadly for real businesses[17]. After the truth was disclosed, Enron's stock plunged, going from $90 per share to 65 cents in four months, finally settling at a few cents.[18] Dec. 2, 2001, saw the bankruptcy filing of Enron. From 2004 through 2011, the business paid its debtors more than $21.7 billion[19]. A number of Enron officials were charged with various financial offenses, and Arthur Andersen, Enron's auditor, collapsed. Corporate governance breakdown at Enron Corporation[20].

The Sarbanes-Oxley[21] Act, which was passed in 2002 and created stronger accounting regulations for public firms and stiffer penalties for those who broke them, was a positive development.

2. **SATYAM COMPUTER SCAM:**

In 1987, Satyam Computers was established. 1992 conversion to a public limited company.

The business provides consulting and IT services for a variety of industries. The network of Satyam includes 66 nations. 53,000 personnel working on 6 continents The AP police detained Raju and his brother B Rama Raju on suspicion of betrayal of trust, conspiracy, cheating, and

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[16] *7 of the biggest corporate frauds in history*. WTOP News. (2020, July 23). Retrieved November 25, 2022, from https://wtop.com/news/2020/07/7-of-the-biggest-corporate-frauds-in-history/

[17] ibid

[18] ibid

[19] U.S. Congress, Joint Committee on Taxation, via Internet Archive. "Report of Investigation of Enron Corporation and Related Entities Regarding Federal Tax and Compensation Issues, and Policy Recommendations, https://web.archive.org/web/20200928104439/http://www.jct.gov/s-3-03-vol1.pdf Pages 77 and 84 (Pages 99 and 106 of PDF).

[20] *7 of the biggest corporate frauds in history*. WTOP News. (2020, July 23). Retrieved November 25, 2022, from https://wtop.com/news/2020/07/7-of-the-biggest-corporate-frauds-in-history/

[21] ibid

falsification of records[22]. Raju has deceived a number of investors. Raju has also traded Satyam's shares using fictitious accounts. He transgressed the insider trading rules.

Money taken from Satyam and given to Mayas On January 22, 2009, CID informed the court that there were actually only 40,000 employees, not the 53,000 that had been previously stated, and that Mr. Raju had allegedly been withdrawing INR 20 crore to pay these 13,000 fictitious employees[23].

RESULTS OF THE FRAUD:

- Over 5000 jobs were in danger.
- India's reputation abroad suffered
- Indian stocks plummeted sharply.
- largest one-day drop in Satyam share price of Rs. 175 on January 6th
- GDP decreased by 0.4%.
- IT industry experienced a downturn.

3. Harshad Mehta scam:

The year 1992 has a distinct place in Indian scam history. For the first time in that year, the nation witnessed a clever manipulation of its stock market. The "Securities Scam," as it came to be called, involved an estimated Rs 4,000 crore in fraud, making it one of the largest stock market frauds to date in India[24].

The stock market eventually crashed as a result of a sophisticated fraud that involved stamp papers and bank receipts. The fraud rocked the nation and ultimately altered Dalal Street's game.

1. The Bombay Stock Exchange (BSE) was manipulated by registered and well-known broker Harshad Mehta and his associates using holes in the banking system.[25].

[22]AlmeidaAron, A. (2022, March 22). *Satyam scam - the story of India's biggest corporate fraud!* Trade Brains. Retrieved November 25, 2022, from https://tradebrains.in/satyam-scam

[23] ibid

[24]*Harshad Mehta Scam: 10 key points of the scam that jolted India in 1992*. Moneycontrol. (n.d.). Retrieved November 25, 2022, from https://www.moneycontrol.com/news/business/markets/harshad-mehta-scam-10-key-points-of-the-scam-that-jolted-india-in-1992-5939931.html

[25] ibid

2. Mehta is accused of fabricating bank receipts by collaborating with bank staff (BRs). He pretended that these BRs were financing against government securities in order to persuade other banks to lend him money. (G-Secs)[26].

3. 3. Share prices were subsequently raised by up to an incredible 4,400 percent using the stock market. Mehta later sold these shares for a substantial profit, and the banks got their initial investment back[27].
4. 4. This money was then invested in the stock market, increasing share values by as much as 4,400%. Mehta later sold these shares for a substantial profit, and the banks got their initial investment back[28].
5. 5. Mehta defrauded the banks of close to Rs 4,000 crore in total. Once his stock market trading approach was revealed, banks eventually realised they had fake BRs with no value in their possession[29].

6. As a result, in March 1992, the BSE Sensex increased from the 2,000 mark to the 4,000 mark.

7. People began to regard him as the "Big Bull" and began purchasing the companies he invested in as the markets proceeded to reach new highs. Many retail investors ultimately made large stock investments[30].

8. On February 28, 1992, the tax department raided the Mehtas after the scheme was discovered. Share certificates and various documentation were taken[31].

9. The Mehtas were the subject of a search by the CBI on June 4, 1992. The tax return that Harshad Mehta submitted for the assessment year 1992-1993 was subsequently denied. In 1992, Mehta was put behind bars.

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[26] ibid
[27] ibid
[28] ibid
[29] ibid
[30] *Harshad Mehta Scam: 10 key points of the scam that jolted India in 1992*. Moneycontrol. (n.d.). Retrieved November 25, 2022, from https://www.moneycontrol.com/news/business/markets/harshad-mehta-scam-10-key-points-of-the-scam-that-jolted-india-in-1992-5939931.html
[31] ibid

10. The Reserve Bank of India constituted the Janakiraman Committee in 1992 to provide a comprehensive examination of the fraud. A joint parliamentary committee (JPC) was also constituted in 1993 in response to the Harshad Mehta incident to investigate potential irregularities in banking and securities transactions[32].

11. Mehta was accused of 74 criminal offenses and found guilty by both the Bombay High Court and the Supreme Court. His legal disputes continued on until 2001 when he suffered a heart collapse and died in custody. He was 47[33].

12. Numerous changes to India's financial regulatory structure were brought about by the Harshad Mehta incident. The Securities Laws (Amendments) Act, passed in 1995, gave Sebi new regulatory power over depositories, FIIs, venture capital funds, and credit-rating agencies. To sustain investor interest, Sebi may impose disclosure requirements on companies issuing securities[34].
13. Since the scandal, the Indian stock market has advanced significantly. Other stock market frauds over the years have bankrupted investors and embarrassed regulatory organisations. Mehta, however, was the one who got things going. The incidents he staged continue to serve as a warning to investors and authorities to exercise constant vigilance.

CORPORATE GOVERNANCE AND ITS NEED TO TACKLE FINANCIAL MISCONDUCT

Before getting into the issue of why we need corporate governance to tackle financial misconduct let us 1st know about what corporate governance is and a few of its definitions:

The foundation of corporate governance is the management's complete honesty, reliability, and responsibility. J. Wolfeusohu, a former president of the World Bank, said that corporate governance aims to advance corporate justice, openness, and responsibility.

Building trust and confidence among all stakeholders, including shareholders, creditors, employees, customers, suppliers, and the general public, is the main goal of corporate

[32] Website of Institute of Cost Accountants of India (ICSI) http://www.icmai.in/home, last visted on nov. 3, 2022
[33] Adams, Renee B., Benjamin E. Hermalin, and Michael S. Weisbach. 2010. "The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey." *Journal of Economic Literature*, 48 (1): 58-107.
[34] Adams, Renee B., Benjamin E. Hermalin, and Michael S. Weisbach. 2010. "The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey." *Journal of Economic Literature*, 48 (1): 58-107.

governance. "Transparency and ethics" should be the governing philosophy in the business sector. Standard & Poor defines corporate governance as "the method a corporation organises and administers itself to guarantee that all financial stakeholders receive their fair share of a firm's earnings and assets." Corporate governance refers to the entire set of societal, institutional, and legal frameworks that establish the rights and obligations of public corporations, as well as who controls them, how that control is exercised, and how the risks and rewards associated with the activities they engage in are distributed.

Definitions:

"*The system by which companies are directed and controlled*". (**Sri Adrian Cadbury**)

"Corporate governance is a set of mechanisms that regulate the actions of corporate insiders and ultimately affects the corporate financial performance". **(Bebchuk, L., 2004**)

"*Corporate governance refers to the whole set of legal, cultural, and institutional arrangements that determine what public corporations can do, who controls them, how that control is exercised, and how the risks and return from the activities they undertake are allocated*". (**Blair, 1995**)

NEED OF CG TO TACKLE FINANCIAL MISCONDUCT:

NEED:

Organizations' general direction is described as governance, which emphasises achieving high performance while guaranteeing commitments are met.

Effective governance is crucial, and ineffective governance has frequently resulted in financial catastrophes for specific businesses and even entire economies.

The structure of governance ensures responsibility while providing direction and control to businesses.

The law, including corporate law, employment law, and other laws, broadly shapes how businesses are governed.[35]

[35]Velte, P. (2021). The link between corporate governance and corporate financial misconduct. A review of archival studies and implications for future research. Management Review Quarterly. https://doi.org/10.1007/s11301-021-00244-7

The first responsibility of directors is to make sure the business complies with the law.

Good governance is a defining characteristic of businesses that function better and longer even in dynamic and unpredictably changing contexts.

But in addition to requiring a board of directors to carry out particular obligations like the duty of care and diligence, corporation law also gives directors a wide range of discretion to act in the company's best interests[36].

At this phase, critical governance abilities include the ability to identify and assess the company's strengths and weaknesses as well as how to guide the organisation toward business success while upholding accountability and fostering constructive relationships with all stakeholders[37].

Corporate governance frameworks are necessary for organisations to maintain individual accountability, avoid negative consequences on shareholders and other stakeholders, and minimize conflicts of interest.

Conformation and performance are emphasised as crucial components of how businesses are run in this paradigm.

HOW TO TACKLE:

The Role of Board of Directors' duties include:

1) Prevent conflicts of interest and, when they do arise, make sure they are properly stated and handled in accordance with the law.
2) Act in the corporation's best interests.
3) Utilize your authority for legal purposes.
4) Maintain prudence and refrain from passing off the director's accountability
5) Be diligent, skillful, and cautious.
6) Know the business's operations inside and out.
7) Stop trading insolvently.

[36]Lutui, R., & 'Ahokovi, T. (n.d.). *Financial Fraud Risk Management and corporate governance*. Research Online. Retrieved November 25, 2022, from https://ro.ecu.edu.au/ism/200/?cv=1
[37]Lutui, R., & 'Ahokovi, T. (n.d.). *Financial Fraud Risk Management and corporate governance*. Research Online. Retrieved November 25, 2022, from https://ro.ecu.edu.au/ism/200/?cv=1

8) Monitoring the assessment of the danger of fraud
9) Monitoring management-related activities connected to control and fraud
10) Putting in place a successful company ethics program
11) Selecting management, determining their pay, and monitoring their performance
12) Establishing the proper tone at the top.

Other approaches include:

a) Information on Pledged Securities
b) Increased disclosure in financial accounting
c) International standards adoption
d) The ministry of corporate affairs has created a new code of conduct for corporations.
e) The auditing company is ethical.
f) SEBI participates actively.
g) Independent directors should periodically evaluate reports on legal compliance.
h) Because they maintain monitoring and reduce the opportunities for fraud, governance systems are a crucial preventative tool for corporate governance

CONCLUSION

Numerous studies on the topic have shown that researchers worldwide are very interested in understanding how corporate governance affects financial performance and the underlying mechanism. Prior studies have randomly employed a variety of governing models with varying degrees of success. Which financial performance metric has a strong correlation with corporate governance is unknown. However, some research-based findings revealed that corporate governance procedures are also influenced by geography. The investigations are frequently influenced by the study interests, country cultures, local laws, and securities rules.

Corporate governance is essential to the smooth operation of the economic engine even though it may not be the main driver of growth. Both domestic and foreign investors will remain steadfast in their investment commitments in Indian enterprises if they follow all corporate governance best practices. Additionally, in order to foster and strengthen this loyalty, our companies must send a clear message that the words "your company" mean something. This necessitates an effective board of directors, extensive transparency, better management techniques, and a setting for corporate governance that is more transparent, interactive, and dynamic. Simply put, support from shareholders and creditors is essential for the survival, expansion, and competitiveness of Indian enterprises.

In order to improve the nation, draw foreign direct investment, win back society's and investors' lost faith, and much more so to conduct business internationally, good corporate governance is now a national requirement. Major regulatory initiatives and discussions about effective corporate governance have taken place all over the world, with an emphasis on related party transactions, investor protection, and the operation of the board of directors. The Directors should continually realign the operations of the companies with the social, economic, and political environmental changes in addition to their traditional role of border management.

Implementing corporate governance standards is crucial for an organization's smooth operation, although it is still contested whether they always positively correlate with a company's financial performance. The 2013 Companies Act is a step in the right direction for corporate governance.

Corporate governance is crucial in spotting and preventing many types of fraud within the company. Profitability, stability, and market openness were the main goals. The well-known corporate frauds, such as the stock and market fraud, the UTI fraud, the Ketan Parikh fraud, and the Satyam fraud, entirely disregarded moral and legal commitments. The stakeholders have harsh criticism for the seemingly infinite list of these schemes. Investors from large firms and regulatory bodies have lost faith in them. Companies must remember the sustainable form of governance and engage in ethical competition if they want to win back the public's trust.

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