

CORPORATE GOVERNANCE (A Survey of Retail Investors)

Dr. Laxmi Kant Sharma,
Associate Professor
PG Department of Commerce & Management
DAV College, Amritsar.

ABSTRACT

Corporate Governance is maximizing the shareholders' value in a corporation while ensuring fairness to all stakeholders i.e. customers, employees, investors, vendors, the government and the society-at-large. Corporate governance is about transparency and raising the trust and confidence of stakeholders in the way the company is run. It is about owners and the managers operating as the trustees on behalf of every shareholder – large or small."There are various provisions in law regarding the corporate governance which the Indian Corporate Sector has to adhere for transparency and accountability in their day to day functioning. The present paper contains a study of retail investor's awareness regarding various issues of Corporate Governance in place in the country. The present study indicates that the retail investors are either not aware of various legal provisions pertaining to corporate governance like Listing Agreements, Audit Committee, Remuneration Committee, Executive Directors, Whistle blower policy or they are not interested in knowing about those. They put their hard earned money in the hands of company managers without knowing their rights and utilization of their funds. The retail investors are not so eager to go into the day to day functioning of the corporate and only rely on the advice of their friends or agents and brokers while investing.

Keywords:

Corporate Governance, Listing Agreements, Audit Committee, Remuneration Committee, Executive Directors, Whistle blower policy.

Introduction:

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered and controlled. An important theme of corporate

governance is to ensure the accountability of certain individual in an organization through mechanism that try to reduce or eliminate the principle agent problem. The shareholders invest their hard earned money in companies in the expectation of good return. The huge funds of the investors are available to the management at their disposal. Whenever there is a case of corporate failure, there is a virtual outburst against management action. The investors complain that their funds are not judicially deployed whereas managements claim to be the most lawful entities governed by various statutes, rules, regulation and guidelines issued by various statutory bodies and regulator.

Objectives:

The study aims at finding the awareness level regarding corporate governance issues with respect to the retail investors in India.

Research Methodology:

The paper contains the outcome of the study conducted in Amritsar (Punjab). The prime objective of this study was to assess the awareness level among the small investors regarding the issues related to Corporate Governance. A sample of 100 investors was selected on random basis. A questionnaire related to various aspects of Corporate Governance was framed and the responses of investors gathered. The responses given by the respondents have been tabulated and further analyzed to rank the awareness level of the retail investors regarding the issues of Corporate Governance. Appropriate statistical techniques have been applied for the analysis.

Findings & Conclusions:

1. There is a substantial growth in the investment habits of people as 59% of the respondents were investing in the Stock Market for the last 10 years.
2. There is a preference of the retail investor to invest either through primary market or in mutual funds as 72% of the respondents choose one of the two options.
3. The top preference given to the word of mouth of the investment advisor as 37% banked upon the same while 28% invested through advertisement media followed by 25% who were inspired by their friends.

4. Normally 75% investors invest 10% to 20% of their income in the stock market.
5. Interestingly 71% of the respondent sought the opinion of experts while investing where as 21% tracked the record of the company.
6. Majority of the respondents were having the knowledge of the sector the company is operating in and only 23% were not aware.
7. Surprisingly only 7% of the respondents read the offer document thoroughly whereas 93% respondents either took an overview or did not bother to go through.
8. Nearly half of the respondent were aware of the legal framework governing the Indian Security Market i.e. half of the people were not aware of the same.
9. Majority of the people (76%) were not satisfied with the legal framework governing the Indian Security Market.
10. A quite handsome (63%) majority of respondents were aware of the existence of SEBI.
11. Interestingly only 28% could tell the role of SEBI i.e. 7% could not tell about the function(s) of SEBI.
12. About 2/3 of the retail investors could tell about the concept of listing i.e. 1/3 were unaware.
13. Quite a handsome number of respondents (59%) could tell the purpose of listing of securities.
14. Quite a small percentage of respondents (22%) knew about the listing agreement i.e. 78% respondents were unaware of such agreement.
15. So far as corporate governance is concerned only 11% could tell about various committees, formed to strengthen CG by SEBI.
16. Shockingly only 7% people were aware that the publication of corporate governance report is mandatory under the listing agreement. It means 93% respondents were not knowing it.
17. Quite a large number of people (62%) received the Annual Reports regularly and 38% of the respondents were either not receiving or never bothered about it.
18. Investors rarely analyze the vital statistics of the company. 97% of them don't pay attention to this.

19. Only 7% respondents were in the habit of reading the Annual Report thoroughly and 93% either took and overview or did not bother to read.
20. Surprisingly only 2% respondents were in receipt of any formal communication on the important developments apart from the Annual Report.
21. Less than the half (46%) of the respondents were getting the dividends on their investments regularly it means more than half (54%) were not getting it.
22. Shockingly 98% of the respondents never attended an AGM in their life time which is the only platform available for the investors to interact with the management and other functionaries.
23. Only 1% respondents felt that the business in AGM is transacted in a democratic manner.
24. Shockingly 96% of the respondents were having no information about the track record of the top brass of the company.
25. A vast majority (87%) in favour of linking of remuneration with performance of the directors.
26. Almost everybody was in favour of declaration of related party transaction and its effect on the company.
27. Only 2% of the respondents could appraise the role of Remuneration Committee as a tool to strengthen the corporate governance practices. It means 98% respondents were not convinced with this relationship.
28. Only 2% respondents were aware of Investors' Grievances Committee and its constitution as recommended by law.
29. Only 2% of the respondents could appraise the role of Investors Grievances Committee as a tool to strengthen the corporate governance practices. 98% were unaware of such committee.
30. A small percentage 10% of retail investors gave weightage to the ethical behavior of the organization while investing in the company.
31. Further still smaller percentage (8%) of the respondents gave high weightage to the environmental issues i.e. 92% of the respondents either ignored the issue or gave lesser importance.

32. Shockingly only 8% of the respondents gave high weightage to the social responsibility issue. Rest of the respondents either ignored or gave lesser importance to social responsibility issue.
33. Quite a small number of respondents (27%) knew the Insider Trading.
34. Surprisingly 73% respondents were not aware of the adverse effects of this evil.
35. Almost a negligible percentage (1%) knew whether or not there is a Whistle Blower Policy in their company.
36. Shockingly 85% of respondents had never attended any Investor Awareness Seminar in their life.
37. A very few people (14%) were ready to pay for formal training in security market.
38. In spite of highly volatile security market only 31% respondents thought it a risky proposition to invest in Indian Security Market.

BIBLIOGRAPHY

1. Report of the committee on regulation of private companies and partnerships (Naresh Chandra Committee-II) report, July 2003.
2. The report of the SEBI committee on corporate governance, February 8, 2003.
3. Report of the committee (Naresh Chandra) on corporate audit and governance committee (Report I) SEBI, December 23, 2002.
4. Report of the Kumar Mangalam Birla Committee on corporate governance (SEBI), May 7, 1999.
5. The Financial aspect of Corporate Governance by Adrian Cadbury 1992.
6. Good practice suggestions from the Higgs Report June 2006.
7. Recommendations of the Narayana Murthy Committee on the Revised Clause 49 – Corporate Governance.
8. Annual Reports of various companies under consideration, various issues March 31, 2014.
9. The Economic Times, (daily) New Delhi.
10. The Financial Express (Daily), New Delhi.

11. Business Standards (Daily), New Delhi.
12. The Hindustan Times (Daily), New Delhi.