CORPORATE GOVERNANCE: (A Study of Indian Listed Companies)

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

ABSTRACT

Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed. Governance structures identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders).It includes the rules and procedures for making decisions in corporate affairs. Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. Governance mechanisms include monitoring the actions, policies and decisions of corporations and their agents. Corporate governance practices are affected by attempts to align the interests of stakeholders.Considering the importance of corporate governance in the context of sustainable development, the present study intends to judge the responsibility of the Indian corporate units towards various stakeholders. The prime objective of this research paper is to assess the position of the Indian corporate units in the maters of corporate governance reporting in their Annual Report considering Clause-49 of Listing Agreement as a benchmark for the purpose. It is found from the study that Indian corporate sector is fully aware of various issues and guidelines pertaining to corporate governance as laid down by various legislatures and guidelines issued by various committees and bodies. However, its implementation in true spirit will lead to a better corporate world where it can fulfill the requirements and the aspirations of various stakeholders in general and shareholders in particular.

Keywords: Corporate Governance, Stakeholders, Indian corporate sector, Listing Agreement, legislatures, guidelines

Introduction:

"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." 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:

1. To study the board composition of the Indian corporate units.
2. To study the separation of Chairman and CEO in the corporate units in India.
3. To study the size of executive directors on the board of Indian corporate units.
4. To study the contribution of the directors at the board meetings.
5. To study the size of the Audit Committee of the corporate units working in India.
6. To study the independence of the Audit Committee of the corporate units working in India.
7. To study the size of the remuneration committee at the corporate units working in India.
8. To study the size of the executive directors in the remuneration in the corporate units working in India.

9. To study the nomination committee working in corporate units in India.
10. To study the working of investors grievances committee in the corporate units working in India.
11. To study the Whistle Blower Policy working in the corporate units working in India.

Sample Size:

This study seeks to provide evidence on corporate governance practices of the corporate units working in India. For the purpose of the study corporate governance reporting practices of various Indian Units were analyzed for the year ending March 31, 2014. Fifty corporate units having varied share capital listed in BSE were taken as a sample for the study.

Research Methodolology:

A non-probability sampling technique was adopted as only firms with the required information were selected in the study. As a part of the study those sections of annual reports had also been identified where in Indian companies had pre-dominantly disclosed information on their corporate governance.Disclosure of corporate governance activities in the annual reports of the company were considered the most important tools of corporate management. It was premiere documents for communication with all stakeholders of the company about relevant corporate governance issues like the size of the board, various committees formed for governance etc. Required variables are identified for disclosures of corporate governance and for every proper disclosure of the variable one point is given and zero otherwise to know the scope of corporate governance disclosures.

Findings:

1. It is found that the almost all the listed companies are disclosing the company's philosophy on Corporate Governance in the Annual Report. It is found that companies having more paid up capital have shown better disclosures as 75% units from the category of paid up capital Rs. 50 crores or more have better disclosures of Rs. 11 to 50

crores paid up capital and 50% units from the category of Rs. 10 crores or less are found with better disclosures.

2. The first category of the classification of sample, i.e. corporate units having paid up capital Rs. 10 crore or less has 4 samples out of 8 units which have full disclosure to code of conduct, the second category having paid up capital in between Rs. 11 to Rs. 50 crore has full disclosure for code of conduct for 15 units out of 26 units; the third category of classification, units having paid up capital more than Rs. 50 crore 12 units are found to have better disclosures to the same out of 16 total sample units.
3. The data reveals that 27 of the sample units have non-executive directors as Chairman of the board while 23 of the sample units have executive directors in the chair. The sample units having paid up capital up to Rs. 10 crore 38% of samples from this category of units have non-executive director in the chair while about 62 % of sample units have executive director as the Chairman of the unit the sample units having paid up capital in betweenRs. 11 to 50 crore. It is respectfully submitted that 58% of sample units in this category have non-executive director in the chair and about 42% of sample units are found with executive in the chair. Sample units having paid up capital above Rs. 50 crore, 9 units are having non-executive directors and 7 are having executive directors.
4. The data reveals that 27 units of the sample have separate CEO and Chairmanship for their company. In other words 23 out of 50 units are having single person in the chair of CEO and Chairman. Many times it is found that one person cannot justify both the role. For the better performance of the corporate units. The first classification of the sample having paid up capital uptoRs. 10 crore have 5 sample units out of 8 having separation or CEO and Chairman having paid up capital of Rs. 11 to 50 crore has recorded 13 separations out of 26 sample units that 9 sample units out of 16 have separate persons for the purpose. It is respectfully submitted that in all the cases, only about 50% units have separate person to justify the role of the key position of the organization. In other words there is an urgent need of separation of the Chairman and CEO in the Indian corporate board.
5. The data reveals that 35 units have board with 50 percent independent directors on their board. It suggests that Indian corporate boards are balanced with the non-executive

independent directors. In other words, Indian Boards are fulfilling the provision of Clause-49 of the listing agreement. While looking at the data of the sub group of the sample, the first group i.e. corporate having paid up capital uptoRs. 10 crore, has 6 units out of 8 sample having ½ independent directors on their boards, in other words 2 units have 1/3 independent directors on their board. The second group having paid up capital of Rs. 11-50 crore has total 26 units as sample of which 18 units have ½ independent directors on their board and rest 8 units have 1/3 independent directors on their board. The third group consists of samples having paid up capital more than Rs. 50 crore has 12 units with ½ independent directors on their board out of total sample of 16 units.

6. There is considerable emphasis on the induction of independent directors on the Board of Directors in the listing Agreement. The induction of independent directors results in more objective and fair decision making by the board that will improve the confidence of the outsiders in the business. It is respectfully submitted that Indian Boards have sufficient independent to fulfill the requirements of various code.
7. The date reveals that 9 of the sample directors were present in less than 1/3 of the various board meetings, 12 of the sample directors were present in between 33% to 50% at the board and 29 of the directors were present at the board meetings more than 51%. This makes it clear the commitment of the directors towards their role. However, the physical presence of directors during the board meetings does not give any guarantee of his true contribution to the discussion. Corporate should encourage the members of the board to contribute to attend, the real sense the board.
8. From the given data it is evident that almost 28 sample of the study has 3 to 4 members in their audit committee, while sample of the study has 5 to 6 members in the audit committee and 9 of the sample units fulfill the requirements of the Clause-49 i.e. having minimum 3 members in the committee. This shows the importance of the audit committee in the corporate world.
9. The independent director representation on Audit Committee of the Corporate Governance of the Indian corporate world. It is a very good signal for Indian Governance that 28 of the sample units have more than 51% independent directors in the Audit Committee, while 18 of the sample units have independent directors in between 33% to

50% and 04 of the sample units have less than 33% of independent directors involvement in the Audit Committee.

10. While looking to the solely independence of the committee, the small size company has 6 units out of 8 independent members. The medium size company has 13 sample units out of 26 are independent members. In the large size company, 9 out of 16 have cent percent independent member the committee. It is respectfully submitted that small size of the corporate has better composition of the committee as more percentage of units have solely independent directors in the committee. It is followed by large size and then it comes to the medium size of corporate.
11. The data provides clear picture of the Audit Committee of the corporate world of India, as all the companies are fulfilling the provisions of the Clause-49 i.e. 4 minimum meetings per annum. 18 corporate units of the sample have 6+ meetings in a year that reflects the positive growth of the corporate governance in India. About 28 sample units have meetings in between 4 to 5 in a financial year.
12. It is respectfully submitted that 44 sample corporate units in India have disclosed remuneration committee in their Annual Report. It is respectfully submitted that only 13 units have disclosed remuneration policy in their Annual Reports disclosing their fixed and performance based remuneration.
13. IT is respectfully submitted that 37 sample units have made better disclosure about the investors grievances committee in their Annual Report. These units have made healthier disclosure for the matter of compliances received and solved and predominantly for the unsolved complaints in the Annual Report.
14. It is respectfully submitted that only 8 companies of the sample units have clearly mentioned about the operation of the Whistle Blower Policy in their Annual Reports. In other words majority of the companies may not have established such committee or not created environment where employees feel free to draw attention of the management about the existence of unethical practices in their unit without the fear of his jobs cuts. It is respectfully submitted that there is an urgent need to create such a free environment in the Indian corporate world for better corporate governance.

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