Comparative Analysis of Corporate governance practices in steel industry in India

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Abstract

Corporate governance is set of principles or guidelines on which a company is governed. It ensures that the corporate works in a way it supposed to work to achieve the desired goals. It makes the corporations accountable to each stakeholder including, directors, shareholders, employees, customers etc. The term governance itself explains the meaning that it is an act of managing a corporate entity.

Good corporate governance is characterised by a firm commitment and adoption of ethical practices by an organisation across its entire value chain and in all of its dealings with a wide group of stakeholders encompassing employees, customers, vendors, regulators and shareholders (including the minority shareholders), in both good and bad times. To achieve this, certain checks and practices need to be whole-heartedly embraced.

Keywords: Corporate governance, board meeting, insider trading.

Introduction :

The entity of a corporation is separate from its officials which makes corporate governance an important subject to study. Corporate governance plays an important role to protect the rights of thousands of shareholders, who have ownership in the company but do not play an active role in governing day to day business activities. Corporate governance is a part of Indian corporate sector since the beginning but corporate governance failure and fraud of Satyam Computer Services Limited increased the concerns about corporate governance in India.

Steel is not new to India. In fact, the history of steel production in India dates back to antiquity. The 'wootz' steel, made in India for many centuries was being used for making swords. The Iron pillar in Delhi bears testimony to the Indian skill in making steel. Steel is a highly wanted alloy over the world. All the countries need steel for the infrastructural development and overall growth.

Steel production in India has increased by a compounded annual growth rate of 9.5 per cent over the period 2006-07 to 2010-11. Going forward, growth in India is projected to be higher than the world average, as the per capita consumption of steel in India, at around 46 kg., is well below the world average (150 kg.) and that of developed countries (400 kg.). Indian demand is projected to rise to 200 million tones by 2015. Given the strong demand scenario, most global steel players are into a massive capacity expansion mode, either through Brownfield or Greenfield route. By 2015, the steel production capacity in India is expected to touch 150 million tones and 275 million tones by 2020. While Greenfield projects are slated to add 28.7 million tones, Brownfield expansions are estimated to add 40.5 million tones to the existing capacity of 55 million tones.

India is one of the few countries where the steel industry is poised for rapid growth. India's share in world production of crude steel increased from 3.21 per cent in 2001 to around 4.82 per cent in 2010. The private sector is considered to be the engine of growth in the steel industry and technological changes and modernisation are taking place in both the Public and the Private sector.

Indian steel players, now, concentrate on the global market as they know the trend of world market of steel. The recent movement of Tata steel is also a big evidence for the development of Indian steel industry. Tata Steel Ltd., with a crude steel making of 28.1 million tones per annum became the sixth largest steel company in the world with presence in several countries across the continent.

Corporate Governance in Steel Industry :

Corporate governance at steel companies has been a continuous journey and the business goals of the companies are aimed at the overall well being and welfare of all the constituents of the system. These companies have laid a strong foundation for making corporate governance a way of life by constituting a board with balanced mix of experts of eminence and integrity, forming a core group of top level executives, inducting competent professionals across the organisation and putting in place best systems, process and technology. These companies combine leading edge technology and innovation with superior application and customer service skills. At the heart of company's corporate governance policy is the ideology of transparency and openness in the effective working of the management and board. It is believed that the imperative for good corporate governance lies not merely in drafting a code of corporate governance but in practicing it.

Issues in Corporate Governance in India :

Although there exist many issues in the field of Corporate Governance especially in India, an effort has been made to highlight only the major ones here:

Board performance :

The requirement of at least one woman director is necessary, and also the balance of executive and non-executive directors are not maintained. Evaluation is not performed from time to time and transparency is lost somewhere. The performance is not result oriented. These requirements are not always met with.

Independent Directors :

Independent directors are appointed for a reason which does not seem to be fulfilled in the current scenario. Even after SEBI guidelines being issued to the corporates, for the appointment of an audit committee or giving of a comprehensive definition of the independent directors, the actual situation appears to be worse.

Accountability to Stakeholders :

The accountability is not restricted to that of the shareholders or the company, it is for the society at large and also the environment. The directors are not to keep in mind their own interests but also the interests of the community.

Risk Management :

The risk management techniques are to be mandatorily be undertaken by the directors as per the Company Laws and they have to mention in their report to shareholders as well. This is not being done in the most sincere manners required for the job.

Privacy and Data Protection

This is an important governance issue. Cybersecurity has evolved to be the most important aspect of modern governance. Good governance can only be achieved once the directors and other leaders in the company are well known about the hazards in this field.

Corporate Social Responsibility (CSR) :

Being among the few countries to legislate on CSR, it is mandatory for companies to invest minimum 2% of the profits in the last 3 years for CSR activities. Otherwise proper reasons should be mentioned in the reports in case of failure. The companies seem to be reluctant towards making such investments.

Implementation and Compliance of Corporate Governance in Selected Steel Industries :

To evaluate the status of implementation of policies of corporate governance, a sample of 3 Companies (JSW Steel Ltd., Tata Steel Ltd and Steel Authority of India Ltd. (SAIL) has been selected and the relevant data of 5 years (2006-07 to 2010-11) has been examined in detail.

Board Meetings :

Steel companies tried to adhere to the highest standards of business ethics, compliance with statutory and legal requirements and commitment to transparency in business dealings. A code of conduct for board members and senior management has been adopted by steel companies. Directors of company attended board meetings from time to time. As per Clause 49 of Listing Agreement, none of the directors on the board can be member of more than 10 committees and further a director can not become chairman of more than 5 committees [6]. Disclosure in this regard has been made by steel companies under study.

The number of directors in the company, board meetings held and attended by directors of selected steel companies. It also shows the percentage of directors who attended all meetings and average number of meetings attended by directors.

SAIL has highest number of directors, i.e. 27 in the year 2006-07. This number has been reduced to 20 in the year 2009-10 and 2010-11. Whereas number of directors in JSW Steel Ltd. increased year by year. This number was 12 in the year 2006-07, which increased to 16 in the year 2007-08 and 20 in the year 2009-10. In the year 2010-11 it reduced to 15. Number of directors of Tata Steel Ltd. remained 13 to 15 during the period of study. It was minimum 12 in the year 2006-07 and maximum 15 in the year 2007-08 and 2009-10.

It is apparent that SAIL has done maximum number of meetings in comparison to other selected steel companies. During the year 2007-08 and 2008-09 the number of board meetings held by SAIL increased to 15. Whereas in the year 2006-07 and 2010-11 it has organised only 10 meetings. Apart from SAIL, Tata Steel Ltd. has also organised as many as 11 meetings in the year 2006-07 and as low as 5 meetings in the year 2010-11.

For proper functioning of company it is required that maximum number of directors attend board meeting so that fruitful decisions can be taken after discussion by all directors. But sometimes it is not possible by some directors to attend all the meetings. It is evident that Tata Steel Ltd. directors have attended maximum number of meetings. Out of total directors 53.85 per cent directors attended all the meetings in the year 2010-11 whereas 53.33 per cent directors attended 100 per cent board meetings during the year 2009-10. In the case of JSW Ltd. 33.33 per cent directors attended all the board meetings during the year 2006-07, 2008-09 and 2010-11. In the year 2009-10 only 20 per cent directors attended all the meetings. The position of SAIL is not so good, 47.48 per cent directors attended all the meetings in the year 2008-09. Only 11.54 per cent directors attended 100 per cent meetings during the year 2007-08 and 18.51 per cent directors attended all meetings in the year 2006-07.

Policy for Insider Trading

JSW Steel Limited has adopted the code of conduct for prevention of insider trading and this has been provided in pursuance to clause 49 (D) of the Listing Agreement and the Securities & Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, respectively.

The company has adopted a code of conduct for prevention of insider trading for its management, staff and directors. The code lays down guidelines and procedures to be followed and disclosures to be made by directors, top level executives and staff when dealing in shares of the company.

Minor modifications were made to the "JSW Limited code of conduct for prevention of insider trading" in line with the amendments made to the "Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2008, by SEBI. The amended code was adopted by the board in its meeting held on 07.05.2009. The company secretary has been appointed as the compliance officer and is responsible for adherence to the code.

TATA Steel Limited has adopted the code of conduct in accordance with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as amended, for prevention of insider trading to be followed by directors, officers and other employees. The code is based on the principle that directors, officers and employees of Tata Steel Ltd. owe a fiduciary duty to, among others, the shareholders of the company to place the interest of the shareholders above their own and conduct their personal securities transactions in a manner that does not create any conflict of interest situation. The code also seeks to ensure timely and adequate disclosure of price sensitive information to the investor community by the company to enable them to take informed investment decisions with regard to the company's securities. In terms of the said code, a committee has been constituted on 30th May, 2002, called ethics and compliance committee. Latest meeting of the ethics and compliance committee was held on 12th November, 2010.

The board has also appointed the group chief financial officer as the compliance officer to ensure compliance and effective implementation of the regulations and also the code across the company. During the years under review, the compliance officer submitted monthly committee report of the Tata code of conduct for prevention of insider trading to the board of directors. SAIL and Essar Steel Ltd. have not disclosed their policies for prevention of insider trading.

Constitution of Remuneration Committee :

All the selected steel companies other than SAIL have constituted a remuneration committee. The major tasks of the remuneration committee are as follows:

- Review the performance of the managing director and the whole-time directors, after considering the company's performance.
- Recommend to the board remuneration including salary, perquisites and commission to be paid to the company's managing director and whole-time directors.
- Finalise the perquisites package of the managing director and whole-time directors within the overall ceiling fixed by the board.
- Recommend to the board, retirement benefits to be paid to the managing director and whole- ime directors under the retirement benefit guidelines adopted by the Board. The remuneration committee also functions as the compensation committee as per SEBI guidelines on the employees' stock option scheme.

The number of members of remuneration committee and number of meetings held during the years under study. SAIL has not constituted remuneration committee because it is government sector company. The remuneration policy is decided by the government in accordance with pay commissions. JSW Steel Ltd. has 4 members in remuneration committee during the year 2006-07 but in the year 2007-08 it reduced to 3 and increased to 5 in the year 2008-09 then in the year 2009-10 and 2010-11 it reduced to 4. JSW Steel Limited did not hold any meeting during the year 2008-09. During other years it held only 1 or 2 meetings. In the year 2006-07 and 2010-11 it held only one meeting and in the years 2007-08 and 2009-10 it held two meetings. Tata Steel Ltd. has 3 directors as members of remuneration committee, and this number remained constant during the period of study. Number of meetings held by Tata steel Ltd. was maximum 3 in the year 2009-10 but in the years 2006-07, 2008-09 and 2010-11 it held only one meeting. In the year 2007-08 it held 2 meetings.

Constitution of Audit Committee :

Steel companies constituted an audit committee to conduct various activities in a smooth manner. The scope of the activities of the audit committee is as set out in Clause 49 of the listing agreements with the stock exchanges read with Section 292A of the Companies Act, 1956 [11]. The scope of work of the audit committee is broadly as follows:

- To review compliance with internal control systems;
- To review the findings of the internal auditor relating to various functions of the company;
- To hold periodic discussions with the statutory auditors and internal auditors of the company concerning the accounts of the company, internal control systems, scope of audit and observations of the auditors/internal auditors;
- To review the quarterly, half-yearly and annual financial results of the company before submission to the board;
- To make recommendations to the board on any matter relating to the financial management of the company, including statutory and internal audit reports;
- Recommending the appointment of statutory auditors and branch auditors and fixation of their remuneration.

The number of members of audit committee and number of meetings held during the period under review. Tata Steel Ltd. has organised maximum 11 meetings during the year 2007-08. Whereas in the year 2008-09 it held 9 meetings and in 2009-10 it held 8 meetings. SAIL held maximum 8 meetings in the year 2008-09 and minimum 5 meetings in the year 2010-11.

JSW Steel Ltd. organised maximum 7 meetings in the year 2009-10 and 2010-11. SAIL has maximum 9 members in audit committee during the year 2009-10. During the year 2008-09 and 2010-11 SAIL has only 4 members in audit committee. Tata Steel Ltd. has 5 members in the year 2006-07 and 2007-08 but in the next year this number reduced to 4 and it remained 4 upto 2010-11. JSW Steel Ltd. has only minimum 3 members in the year 2007-08. During the year 2008-09 it has 5 members but in the year 2009-10 and 2010-11 JSW Steel Ltd. has 4 members.

Grievance Resolution System :

Every company tries to minimise the number of complaints from stakeholders. Shareholders are real owner of company, they invest their hard earned money in company, so it is first duty of directors to resolve the problems faced by the shareholders. For this purpose every company forms a special grievances redressal cell. In order to achieve high standards of corporate governance, steel companies have also done very well in the field of grievances resolution. Detail about number of grievances pending at the beginning and end of the year and grievances received during the year. It also shows the percentage of complaints resolved and remained unresolved during the period of study.

Detailed information about grievances received and resolved during the period of study. Such analysis has been done with the help of figures and percentages. It is clear from the analysis that JSW Steel Ltd. is very efficient in grievances resolution.

Out of five years of study, three years it has solved 100 per cent grievances and during the year 2006-07 it has solved 99.23 per cent and during 2007-08 it has solved 99.74 per cent grievances. It is very prompt in solving the problems of shareholders. This is very good for shareholders and gives satisfaction to shareholders. SAIL also has equally good system of complaint resolution. During the year 2006-07 it solved 98.73 per cent complaints and during the year 2007-08 it solved 98.04 per cent of complaints received. After 2007-08 it achieved 100 per cent complaint resolution target. It maintained this level during the years 2008-09, 2009-10 and 2010-11. Numbers of complaints received are very less in comparison to JSW Steel Ltd. Therefore JSW Steel Ltd. can be ranked first in adoption of grievances resolution process in an efficient manner. Number of complaints received by JSW Steel Ltd. is reducing year by year. Whereas number of complaints received during 2006-07 was 7342 which reduced to 4538 during 2007-08 and further reduced to 2701 during 2008-09. This reduction shows that administration of company is improving year by year. In the year 2009-10 the number of complaints received reduced to a great extent and reached at the level of 696.

It is evident that in Tata Steel Ltd. No. of grievances registered in 2006-07 was very low but it increased drastically to 4656 during 2007-08. During this year company is able to solve only 91.61 per cent problems of shareholders. During the next year 2008-09, the number of companied received reduced at the level of 2647 and company has solved 99.80 per cent complaints. Next year 2009-10 witnessed some less number of grievances. During this year number of grievances were only 1492 which further reduced to 755 in the year 2010-11. Continuous reduction in number of grievances is due to efficient management and effectively working of grievance reddressal cell.

Essar Steel Ltd. has not disclosed any information about board meetings, meetings of remuneration committee, meetings of audit committee and grievances resolution process. It shows lack of implementation of policies of corporate governance. It is imperative for the company to disclose all of these information in its annual reports so that stakeholders of the company could know that how company has performed for implementation of corporate governance practices.

Review of Literature :

Suresh C. Senapathy (2005) has observed that one of the most powerful notions in corporate governance is the presence of independent or non-executive directors on the board of a company. These are the white knights of shareholders, expected to provide an ongoing strategic direction and support to the executive management through their expertise, experience and most critically, their independence.

Mallin, (2007) Conceded that NEDs should be paid a fee commensurate with the amount of time that they are expected to devote to their role, but she argues that remunerating NEDs with share options is inappropriate as it may give NEDs a rather unhealthy focus on the short term share price of the company. Osma (2008) 135 explored different types of earnings manipulation and analyses the effect of independent boards on constraining research and development (R&D) spending manipulation.

Siregar and Utama (2008) Investigated the effect of ownership structure, firm size and corporate governance practices on earnings management using Indonesian companies listed on the Jakarta Stock Exchange. They do not find evidence that firms with independent boards engage in informative earnings management.

Adams et. al. (2009) Conducted a large survey to investigate outside directors roles as advisors and monitors of management. He found that directors who primarily monitor management perceive that they participate less in boardroom discussion than other directors and that the CEO often asks them for advice.

Dimitropoulos and Asteriou (2010) Examined the impact of board independence on earnings management for 97 non-financial firms listed on the Athens Stock Exchange in Greece for the years 2000 through 2004. They use discretionary current accruals to measure earnings management and consistent with Anglo-American countries studies, they find that board independence is significantly and negatively related to their EM proxy.

Objectives :

1. To study the role of corporate governance in steel industry in India.
2. To find out the problems in corporate governance implementation in any industry.

Research Methedology And Data Collection :

The present study is based on the secondary data published by iron and steel industry in India. The required data and literature for the study purpose were collected from the number of reference books, Journals and Internet.

Research Hypothesis :

The main hypothesis of this paper is:

- Steel companies are not properly implementing corporate governance rules.

Conclusion :

The more the level of corporate governance, the stronger is the company in the eyes of the shareholders of the company. The independent and the active directors are the ones who infuse and contribute towards displaying the corporate as that of having a positive outlook. When it comes to investment, the investors also seek to find the companies with stronger corporate governance in them. The corporate governance requirements in India deliberate the companies to audit their working culture and give the shareholders community a more positive outlook as their actions have moral and legal implications. The new norms after the Companies Act 2013 came into the picture, are very balanced and innovative. They have helped reformed the growth of Indian companies as per international standards. Shareholders are involved in the decision making of the companies and various safeguards have been put in order so that the interests of the shareholders and the society as a whole is not sidelined. Corporate Governance imbibes the much-required transparency in the corporates. Therefore, it pushes India ahead in the race of emerging economies of the world.

The main research hypothesis was “steel companies are not properly implementing corporate governance rules.” In light of the above facts, the main hypothesis stands rejected in case of JSW Steel Ltd., Tata Steel Ltd. and SAIL. These companies were well managed and following corporate governance rules as directed by law, SEBI and by various committees. In the case of Essar Steel Ltd., the hypothesis is accepted as company has not followed corporate governance rules and also not disclosed corporate governance practices in its annual reports.

In line with the issues mentioned above, there is a greater onus upon the directors of the companies to adapt to the standards and best practices provided in various laws and guidelines. Other than the laws and norms prescribed by various institutions from time to time, the companies are also expected to act responsibly towards the society as a whole because the corporates are so huge in the current times, that they affect each and every individual citizen of the country equally. The burden on the companies is already reduced as they are made to follow a set of guidelines and they are not required to make any amends to that. It is also required that the stakeholders also participate in the decision making processes to make it a contributory job altogether.

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