

A Study on Practices of Corporate Governance In Indian Companies

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Abstract : Corporate governance is basically a system of policies, mechanisms and processes by which the performance and administration of the companies are controlled and supervised. The purpose of this research paper is to find out the current scenario of corporate governance practices in Indian companies and for this purpose the annual reports (2015-16, 2016-17) of 10 companies from one industry, i.e. pharmaceutical industry are analyzed. The results show that the companies are following the both binding and non-binding guidelines under clause 49 of listing agreement regarding corporate governance issued by SEBI. But still there is gamut for upgrading towards an ideal state of governance in India for excellence.

Index Terms -Corporate Governance , Annual Report, SEBI, Disclosure Practices, Clause 49.

I. INTRODUCTION

Corporate Governance is a multi-faceted area of study; it covers a wide range of subjects like accounting, ethics, finance, economics, law and management. Corporate governance includes the procedures through which companies' objectives are set and achieved in the context of the social, regulatory and market environment. Securities Exchange Board of India has mentioned number of compulsory and non-compulsory necessities for the corporations to be in agreement related to corporate governance beneath clause 49 of the listing agreement. The phrase 'Clause 49' means the clause of the Listing Agreement amongst the company and the Stock Exchange on which it is listed. This clause is a vital addition to the Listing Agreement with the objective of upliftment of Corporate Governance in all listed companies following the recommendations of Kumar Mangalam Birla Committee. These requirements relate to the Board, its committees, meetings, transparency, etc. Before we continue further, it would be very important to look at the current literature on this topic to have better understanding.

II. LITERATURE REVIEW

Corporate governance importance arises in modern companies due to segregation of management and ownership control. There are many definitions of corporate governance because it is viewed from different angles. The corporate governance guidelines and their repetitive developments in developed and developing countries are mostly similar, however, the degree of conformity is found to be different in countries (Crowser and Arsoy 2008).

There exists differences among countries in compliance to corporate governance guidelines as companies gives importance to different parameters as per the capitalization of market and the laws pertaining to that particular industry (Patel and Patel, 2012). Vithalani (2014) summarized that the seven Maharatana Companies conformed with the disclosure practices as given by SEBI under Clause 49 to a greater extent.

Gupta and Parua (2006) stated that more than 70% Indian private complies 80% or more of codes as given by SEBI. All the companies listed on various Stock exchanges of India have complete agreement with compulsory Corporate Governance guidelines, however, in case of non-compulsory needs and the extent of corporate social responsibility disclosure the outcomes were quite disappointing (Sharma, 2009).

There is still gap present between implementing governance guidelines and required governance norms for the efficient and effective system. (Bhasin, 2010)

III. OBJECTIVES OF STUDY

The main objective of the study is to traverse and examine the present corporate governance mechanisms in India.

IV. RESEARCH METHODOLOGY

To achieve the purpose of this study, latest available reports (2015-16 & 2016-17) of the companies from one industry, i.e., pharmaceutical industry are examined. Obligatory and non-obligatory needs given under Clause 49 of listing agreements are considered as benchmarks to marks companies for disclosing their corporate governance practices. For the objective of analysis and interpretation, weight-age method is applied to give a suitable standard score to all the

benchmarks of checklist according to their magnitude, out of which companies get scores for their adoption to those parameters. Companies are given scores out of 100 for their corporate governance disclosures and practices.

V. RESULTS AND DISCUSSION

The results of the parameters prescribed on checklist of corporate governance are discussed below:

5.1 Company's ideology on code of governance:

The first variable for the evaluation of the corporate governance score is the proclamation of the company's ideology on code of governance with the weight-age of 1 score on a 100 marks scale. All the 10 companies have made satisfactory disclosure of the proclamation of their ideology on code of governance. So all companies scored 1 mark in this parameter.

5.2 Composition of Board Members and Board Meetings held:

Composition of the board and BOD meetings held is the second parameter with a weight age of 5 points as score 1 for each point given in Table 1

Table5.2 :Compliance/Non-compliance of firms to board composition and meeting requirements

Particulars	Compliance	Non-compliance	Total
Not less than 50% of the Board of directors consisting of non-executive directors	9	1	10
In case of Non-Executive Chairman, at least 1/3 rd of Board comprise of independent directors and in case of an Executive Chairman, at least half of Board comprise of independent directors	8	2	10
Atleast one woman director	6	4	10
Atleast four BOD meetings a year	10	0	10
Attendance information of BOD meetings	10	0	10

The table shows the number of corporations which have conformed and not conformed with board member composition and Board Of Director meetings related requirements given under clause 49 of the listing agreement. The results show that 9 companies out of 10 sampled companies have a Board with at least 50% of non-executive directors, so these companies get the score of 1 & left over 2 companies scored 0 for non-conformity of this requirement. However, 8 of the 10 scored 1 mark by conforming with there requirement of the lowest strength of independent directors and remaining 2 companies do not get any point. Further, 6 firms get 1 point in having at least one woman director on their board, whereas other 4 get 0 for non-conformity of this requirement. Moreover, 10 firms score 1 as they held at least four Board Of Directors meetings during the year. As well as, all the 10 companies show the attendance record of directors at Board Of Directors meetings and get 1 point for that.

5.3 Chairman & CEO Duplexity

Another important variable is Chairman and CEO duplexity with a maximum score assigned is 5. Companies with non-executive independent directors are taken as ideal Chairmanship and scored 5 for this variable. Companies comprising non-promoter non-executive Chairman of their Board are scored 4 and companies with promoter non-executive chairman are scored with 3marks. Then, companies with Non-promoter and promoter Executive Chairman will be given scores 2 and 1 respectively.

5.4 Disclosure of tenure of Directors:

The fourth checklist variable of corporate governance, showing director's tenure, has weight-age of 1 score. Results show that 9 firms out of 10 sampled firms get a score of 1, making suitable disclosure regarding the tenure of directors. Remaining 1 firm did not get any point for this variable.

5.5 Disclosures regarding definition, selection criteria for independent directors and separate meetings

The fifth variable is related to disclosures regarding definition, selection criteria for directors including independent directors and separate meeting of independent directors and, have a weight-age of 3 points, one point for each.

TABLE 5.5.- Distribution of firms for disclosure/non-disclosure of items under 5th variable

Particulars	Disclosed	Not Disclosed	Total
Definition of independent director	3	7	10
Selection criteria for directors including independent Directors	1	9	10
Separate meetings of the independent directors	2	8	10

5.6 Board meeting follow-up mechanism and conformity with the Board Process:

Disclosure practice of about post Board meeting follow-up mechanism and conformity with the Board procedure is the sixth vital variable having weight-age of 2 marks on a scale of 100. Out of all 10 sampled companies 3 get a score of 2 by making appropriate disclosure relating to post Board meeting follow-up mechanism and conformity with the Board process while remaining 7 firms do not get any point as they have not disclosed the same.

5.7 Appointment of main Independent Director:

Another variable with a weight-age of 2 points is in reference to the selection of main independent director. Results revealed that only 2 companies out of 10 have formally selected a main Independent Director and get 2 score in the case. Whereas, other 8 companies scored 0 for not appointing the main Independent Director in the company.

5.8 Committees' membership/Chairmanship of directors across all companies and Directorships:

The eighth variable of Corporate Governance is about disclosing of directorships and committees' membership/Chairmanship of directors among all companies in which she/he is a director, having a weight-age of 2 points. For this variable all the 10 companies scored 2 points by making suitable disclosure.

5.9 Code of conduct:

The another variable is to assess the company's Corporate Governance score is about the code of conduct having weight-age of 2 points score and all the 10 companies scored 2 points as for making relevant disclosure regarding code of conduct

5.10 Whistle-blower policy:

The outcomes depict that 8 companies out of 10 sampled companies get a score of 2 by implementing a policy of the whistle blower, whereas, remaining 2 companies do not get any point for this policy.

5.11 Means of Communication and General Shareholder Information:

For this variable every company made a relevant disclosure of this information and 2 ideal score was given to them.

5.12 Compliance of Corporate Governance and Auditors' Certificate:

This variable comprises of a weight-age of 5 points on the scale of 100 and the results showed that all the 10 companies have a clean certification from the auditor and got full scores.

5.13 EVALUATION OF CORPORATE GOVERNANCE STATUS

The state of governance and the quality of the selected companies have obtained is recognized by observing their corporate governance score card. Table 3 shows the bifurcation of the sampled companies based on the scores achieved by them under different categories.

Table 5.13:Distribution of firms on the basis of their achieved grade on CG score card

SCORE RANGE	GRADE	NO. OF COMPANIES
100-85	A-EXCELLENT	02
84-75	B-VERY GOOD	05
74-65	C-GOOD	02
64-50	D-AVERAGE	01
BELOW 50	E-POOR	00

The above table shows that the maximum number of companies are in the group 84-75 score range with B-grade. So it can be concluded that most of the companies pursue very good governance and disclosure practices in Indian Companies but there is still a scope of excellence perfection.

VI. CONCLUSION

The present study is an attempt to explore the present corporate governance practices of Indian Companies depending on the study of annual reports of 10 sampled companies from one industrial sector i.e. pharmaceutical industry. It can be judged that from the analysis that 5 companies out of 10 companies selected as sample, by following very good governance practices got B grade and 2 companies with C grade have enough good governance practices in their organizations. From the outcomes it can be concluded that companies in India are following good governance practices as per binding and non-binding guidelines of clause 49 of listing agreement given by SEBI but still there is huge scope for towards the achievement of ideal state of excellence of corporate governance.

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