



# A Study of Corporate Governance Practices of Corporate Sector in India

## KEYWORDS

Corporate Governance, Stakeholder

Komal

Research Scholar, MDU, Rohtak

**ABSTRACT** Competition is multiplying every day and that has given birth to number of good or bad aspects. Some want to survive in cutthroat competition by applying unethical practices, while some wants to enjoy healthy competition through ethical and transparent activities. Good governance is the expectations of every stakeholder, specially, shareholder. But the implementation of 'Corporate Governance' is not that much simple as its meaning. It is very wide subject and it includes lot of discussion. Corporate governance is the practice which requires transparency, accountability and good performance from the corporate executives. It has its strong base from the internal management of company to the shareholders' value as well as corporate social responsibility. Reasons for selecting corporate level units which are functioning in India for this research is to find out whether corporate governance is actually being practiced by the corporate level executives or not.

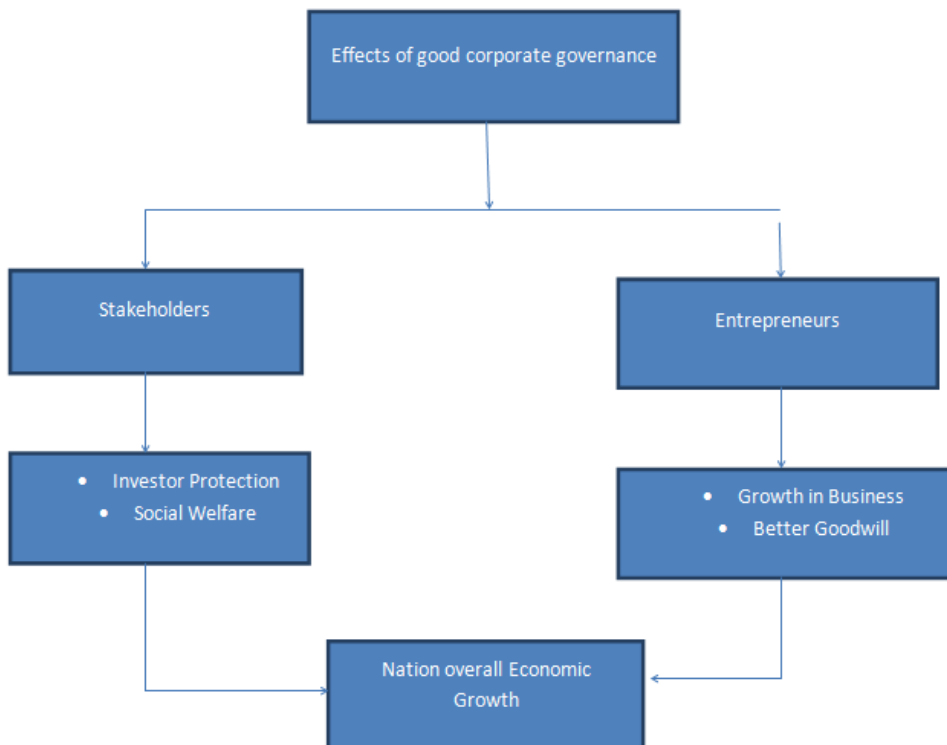
## Introduction

Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting return on their investment. Each corporation obtains its funds from different class of the investors. When they obtain that, it becomes their prime responsibility to see that the funds are used & using in proper direction. The investors are also even need assurance for such matter. Corporate governance is a way to inform them that the funds are not being wasted & going in productive way. Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights & responsibilities among different participants in the corporation, such as, the board, managers, shareholders, and other stake-

holder and spells out the rules and procedure for making decisions on corporate affairs. By doing this it also provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring the performance. Hence corporate governance clarifies rights & responsibilities of every person who is responsible for the management of company like B.O.D., manager etc. It has specified the boundaries of working also. It suggests rules & regulations to them for the protection of different classes of stakeholders.

## Need for corporate governance

"Governance" means that to rule or to command. But without basic reasons this is worthless. A question may be raised in one's mind that why there is a need for governance.



**Problem Identification**

Researcher has framed following problem for this work.

**"A STUDY OF CORPORATE GOVERNANCE PRACTICES OF CORPORATE SECTOR IN INDIA"****Objective of the study:-**

- To examine the practice of the corporate governance for Board of Director
- To study the transparency and related disclosure
- To study shareholder's satisfaction and practice for their various claim
- To document the level of corporate social responsibility.

**Scope of the study: -**

The scope of the study is very wide. All units registered under the companies Act 1956 can be the census for the study. However, the researcher has selected 5 groups. All these groups are selected from the published issue of the 'Business Today-November 2013' titled "India's top 500 companies". Total 50 companies have been covered for the study.

**List of the companies for the study**

Group-I :	Group II :	Group III :	Group IV :	Group V :
Overall top 10 companies	Top IT companies	Top Pharma and Healthcare Companies	Top Banking and Financial Service sector	Top FMCG companies
1. Reliance Industries limited	1. Infotech	1. Novartis	1. Corporation Bank	1. Navneet Publication
2. Wipro Limited	2. Patni	2. Cipla	2. UCO Bank	2. Titan
3. Infosys	3. NIIT	Bio Con	3. KarurVysya Bank	3. Nirma
4. ITC	4. Mastek	4. Cadila	4. Kotak Mahindra Bank	4. Britannia Industries
5. HDFC	5. Zensar	5. Merck	5. Bank of Maharashtra	5. Asian Paints
6. ICICI Bank	6. HCL	6. Pharmacia	6. Allahabad Bank	6. Dabur
7. Bharti Enterprise	7. Sonata	7. Glaxo Smith Kline	7. The Karnataka Bank	7. Nestle
8. Dr. Reddy's lab	8. Mrotek	8. Lupin	8. Reliance Capital	8. Bata
9. Ranbaxy	9. Javelin	9. Pfizer	9. Global trust Bank	9. RayBan
10. Hindustan Lever Limited	10. Tata Infotech	10. Aventis	10. Bank of Punjab	10. Colgate

**Research Methodology:-**

For this study researcher has used secondary data as a source of information e.g. the Annual reports and websites and other publications. For sampling researcher has used stratified sampling technique. The number of corporate sector is very large and it is beyond the capacity of individual researcher to conduct the study with census. So researcher has taken the survey conducted by "Business Today November 2013" for the selection of the group. The 5 groups, which are selected for the research are Overall

top ten companies, Top IT companies, Top Pharma and Healthcare companies, Top Banking and financial sector companies, and Top FMCG companies. Each group has 10 companies. Researcher has taken total 50 companies for the study. After this researcher has collected information from all these sampled units' annual reports of 2012-13. After that, researcher has developed various tables and then 1 point has been given to the each disclosed items and 0 points for non-disclosed items. On this basis researcher has developed corporate governance disclosure index with following formula.

$$\text{Corporate governance index} = \frac{\text{Total disclosure of units}}{\text{Maximum disclosure of corporate governance}} \times 100$$

Finally, researcher has also classified various companies in the group as

A - High CG index companies

B - Moderate CG index companies

C - Low CG index companies

**• Analysis of the CG disclosure related to board and management structure**

The researcher has analysed the disclosure related to board and management structure which includes 23 parameters. The researcher through corporate governance disclosure index has evaluated each of the parameter

$$\text{Corporate governance Index} = \frac{\text{Actual score}}{\text{Expected score}} \times 100$$

The Score points and respective index of the parameters of the CG disclosure in relation to the Board and Management Structure

Parameters	Overall top ten	IT	Pharma and healthcare	Banking & financial services	FMCG	Index Score%	Rank
Number of B.O.D. and independent B.O.D.	20	20	20	20	20	100	A
Nature of Relationship among the directors	17	2	6	4	14	12.29	C
Category of Chairman	10	10	10	10	10	100	A
Category of Chairman & independent directors	20	20	20	20	20	100	A
% of independent directors to the total directors	10	10	10	10	10	100	A
Directorsholding directorship in more than 15 co.	0	1	2	0	0	6	C
Office of chairman and chief Executive officer	10	10	10	10	10	100	A
Written code of Conduct	10	10	10	10	10	100	A

Formal policy of succession planning	10	10	10	10	10	100	A
Internal trading transaction prevented	10	10	10	10	10	100	A
Structural Training programme	10	10	10	10	10	100	A
Board committee Existence	34	32	27	36	29	52.6	B
Attendance in board committee	32	26	23	28	26	54	B
Chairman of the Board Committee Meeting	10	10	10	10	10	100	A
Attendance of the Board meeting	9	10	10	10	10	98	A
Number of the Board meeting	9	10	10	10	10	98	A
Intervals of the Board meetings	10	10	10	10	10	100	A
Average member present in the board meetings	9	10	10	10	10	98	A
Average member present in the board meetings	9	10	10	10	10	98	A
Attendance (%) of the Board in the Board meetings	10	10	10	10	10	100	A
Agenda and information circulated before the Board meeting	4	1	0	0	0	10	C
Specification about the information circulated	10	8	3	4	4	14.5	C
Attendance of any director less than 50% in B.O.D. meetings	10	10	9	9	7	90	A
Compliance Officer	10	10	10	8	8	92	A
Total (B)	284	260	250	259	252		
Expected score (A)	430	430	430	430	430		
B/A	66%	60%	58%	60%	58.6%		

The performance of the board and management has been evaluated among five sampled group companies like overall top ten companies, ten IT companies, ten Pharma companies, ten banking and financial service companies and ten FMCG companies. The researcher has included total 23 parameters and relative corporate governance index has been obtained through obtained score.

- The disclosure aspect likes total number of B.O.D. and total no. of independent director has been 100% disclosed by the sampled group companies.
- The disclosure about nature of relationship has been least disclosed by IT group companies as well as other sampled group companies as its score is 12.29% out of 100%.
- The disclosure which one efficiently disclosed and scored 100% out of 100% score are category of chairman and percentage of independent director, office of chairman and chief executive officer.
- The code related to directors' conduct has been efficiently disclosed and score 100%. The disclosures in relation to the board and management structure which are efficiently disclosed are formal policy of succession planning, prevention of internal trading transaction, structural training programme, chairman of the board committee meetings, internals of the board meetings

and attendance of the board in the board meetings.

- The disclosure about director who is holding directorship in more than 15 companies has being least disclosed and scored only 6% among the sampled group. The same disclosure has scored 0% in overall top ten, banking and financial service units and FMCA companies.
- The disclosure about existence of board committee has been moderately disclosed, as the score is 52.6%.
- The attendance of directors in board committee meetings is also disclosed moderately as the score index reflects the score of 54%.
- The disclosure of attendance in board meetings which has been included as director wise attendance, number of the board meeting, and average member present in board meeting have been efficiently disclosed. These disclosure have similar score index of 98%.
- Agenda and information circulated before the board meeting has been least disclosed by the sampled group companies, its score is only 10%.
- The disclosure of specification about the information circulated has also been least disclosed, as its score is 14.5%.
- The parameters like attendance of any director less than 50% in B.O.D. meetings and reappointed as well as disclosure of compliance officer have been efficiently disclosed among the sampled group. The score is more than 90%.
- **Analysis of the disclosure related to transparency and disclosure.**

Researcher has evaluated total 17 disclosures made by the company with required or expected disclosures and found that which disclosure is efficiently disclosed and which disclosure is least disclosed, each disclosure is followed with comparative analysis of disclosure and researcher has made attempt to check efficiency of disclosure through following index formula.

$$\text{Corporate Governance Index} = \frac{\text{Total disclosure}}{\text{Expected disclosure}} \times 100$$

The Score points and respective index of the parameters of the CG disclosure in relation to transparency and disclosure

Parameters	Overall Top ten	IT	Pharma And Health Care	Banking	FMCG	Score %	Rank
Shareholders information Disclosure	340	340	340	340	340	100	A
Salary component of Director	10	37	37	35	31	75	A
Resume of the director for appointment	30	30	30	30	30	100	A
Relative conflict	10	10	10	10	10	100	A
Commission to the non executive directors	10	10	10	10	10	100	A
Record of the share holding pattern	10	10	10	10	10	100	A

Loans and advances	10	10	10	10	10	100	A
Investment in subsidiaries	10	10	10	10	7	94	A
Employees Stock option-Plan	10	10	10	10	10	100	A
Following of the ICSI Norms	10	10	10	10	10	100	A
Any case pending in the DRT court	10	10	10	10	10	100	A
Financial Risk policy	4	4	2	10	0	10	C
Major financial transaction	10	10	10	10	10	100	A
Any major joint venture	10	10	10	10	10	100	A
Sole licensee in the world through joint venture	10	10	10	10	10	100	A
Level of the subsidiaries	0	1	0	2	2	10	C
Information about the Borrowing	10	7	4	8	3	64	B
Total (B)	504	529	523	535	513		
Expected score (A)	580	580	580	580	580		
B/A (%)	86.8	91.2	90.1	92.2	88.4		

Researcher has collected the data in this reference and has been evaluated with corporate governance index.

- The disclosure about shareholders information, which is mandatory disclosure, required by corporate governance norms are efficiently disclosed and scored 100%.
- Salary component of the directors has been efficiently disclosed, as its score is 75%.
- The disclosure which are included as the parameters and which are efficiently / completely disclosed are resume of the directors for appointment, relative conflict, commission to the non-executive directors, record of the share holding pattern, loans and advances. The disclosure score index is 100%.
- 94% score index is obtained by the sampled group companies in the aspect of investment in subsidiaries. Researcher has found that this disclosure has been efficiently disclosed.
- Level of subsidiaries disclosure has been least disclosed as it's obtained score index 10% and obtained score is 5 against expected score of 50.
- Disclosure about the borrowings has been moderately disclosed as its score is 32 against expected score 50 thus researcher has concluded that the disclosure has been disclosed 64% among sampled group.
- Employee stock option plan, following of the ICSI norms, case pending in DRT court, major financial transaction, any major joint venture and sole licensee in the world through joint venture are highly disclosed parameters with 100% corporate governance index with expected score of 50 and actual score of 50 for each parameter.
- While the parameter of financial risks the sampled group units have least disclosed policy.
- Corporate governance disclosures in relation to the Stakeholders claim satisfaction and financial disclosure.**

In this total 16 parameters are included and total 4 parameters have been highly disclosed among sampled group

units. The parameters which are efficiently disclosed are existence of the investor's grievance cell, share application money pending, outstanding money written off and internal audit department. This disclosure has expected score of 50 each with actual score of 50.

The Score points and respective index of the parameters of the CG disclosure in relation to the Stakeholders claim satisfaction and Financial disclosure

Parameters	Overall top ten	IT	Pharma and healthcare	Banking & financial services	FMCG	Score%	Rank
Existence of the Investors Grievance Cell	10	10	10	10	10	100	A
Complaints Resolved	24	15	21	27	24	74	B
Time taken in grievance Solution	8	3	4	5	3	46	C
Last AGM complaints	0	0	0	0	0	0	C
Share Application money Pending	10	10	10	10	10	100	A
Outstanding money written off	10	10	10	10	10	100	A
Auditors checking the accounts of the subsidiaries	10	10	10	10	5	90	A
Unclaimed dividend	8	10	10	0	6	64	B
Technological Advancement	8	8	8	0	3	54	B
Financial parameters Used	2	1	2	0	1	12	C
Value of share	0	0	0	0	0	0	C
Financial information of Company	87	90	81	73	78	81.8	A
Information about dividend and bonus	6	6	5	2	6	25	C
EVA (Economic Value Added) Information	6	3	5	0	0	9.33	C
Category of EVA	2	1	2	0	1	4	C
Internal Audit department	10	10	10	10	10	100	A
Total (B)	201	187	188	157	167		
Expected score (A)	330	330	330	330	330		
B/A (%)	59.1%	55%	52.3%	46.1%	49.1%		

- Complaints resolved by the sampled group units has been moderately disclosed with 74% score index with actual score of 111 with expected score of 150 score.
- Time taken in grievance solution has been least dis-

closed among sampled group units with 46% with actual score of 23 against expected score of 46.

- Two disclosures have been least disclosed with zero (0) score corporate index. These parameters are least AGM complaints and value of share.
- Auditors checking the accounts of the subsidiaries have been efficiently disclosed with 90% of score index with actual score of 45 score and expected score is 50.
- Unclaimed dividend disclosure has been moderately disclosed with 64% score index.
- Technological advancement score index has been least disclosed with 54%.
- Financial parameters used parameter has been least disclosed with 12% score index with 6 score point.
- The information of financial position has been efficiently disclosed with 81.8% score with 409 score point with expected score point of 500.
- The disclosure score index of inform about dividend & bonus is 25% with score point of 25 and expected score of 100.
- The parameters like EVA and category of EVA have been least disclosed and the score index is less than 10%.
- **Corporate governance disclosure in relation to the corporate social responsibility.**

To survive in today's world, every corporate unit has to fulfill their responsibility towards society in which it is living. As society provides its resources to the business, it becomes responsibility of business to pay close attention to the social responsibility aspect.

With regards to the corporate governance, corporate social responsibility is one of the important disclosures that every business has to make in front of the stakeholder that it is fulfilling its social responsibility in efficient manner. For this purpose researcher has collected the data by putting various parameters and tabulated it. Researcher then has evaluated each of the parameter with the help of comparative analysis of disclosure and corporate governance index.

$$\text{CG Index} = \frac{\text{Actual score of disclosure}}{\text{Expected score of disclosure}} \times 100$$

The Score points and respective index of the parameters of the CG disclosure in relation to the Corporate Social Responsibilities (CSR)

Parameters	Overall top ten	IT	Pharma and healthcare	Banking & financial services	FMCG	Score%	Rank
Social Obligation	60	35	50	43	28	72	B
Employees Welfare Activities	40	34	40	31	25	85	A

Parameters	Overall top ten	IT	Pharma and healthcare	Banking & financial services	FMCG	Score%	Rank
Environment Audit	10	10	10	10	10	100	A
Social Audit	10	10	10	10	10	100	A
Pollution Control	10	10	10	10	10	100	A
Women Representation at top level	9	7	7	6	3	64	A
Information about price sensitivity	0	0	0	0	0	0	C
Total (B)	139	106	127	110	86		
Expected score (A)	150	150	150	150	150		
B/A (%)	92.6%	70%	84.6%	73%	57%		

- The parameters, which are highly disclosed with complete disclosure, are audit of environment, social audit and pollution control. The expected score of each of these parameters is 50 and actual score is 50.
- The disclosure of social obligation has score points 216 and expected score of 300.
- Employee's welfare activities have been efficiently disclosed with 85% score index.
- The disclosure of women representation at top level has been moderately disclosed with 64% and the actual score of sampled group units is 32 and expected score of this disclosure is 50.
- The disclosure of price sensitivity has been least disclosed with zero score corporate governance index.

### Conclusion

On the basis of obtained score companies are divided into three categories like,

Category – A Efficiently disclosed (Score index 75% to 100%)

Category – B Moderately disclosed (Score index 50% to 75%)

Category – C Least disclosed (Score index less than disclosure companies. 50%)

Researcher has found that out of total 50 sampled companies 13 companies are covered in A – category while 37 companies are covered in B – category companies and not a single has been covered in C-category companies.

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