Research Paper Commerce

Corporate Governance Practices in Listed Companies in Andhra Pradesh

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ABSTRACT

The concept of Corporate Governance has become global. A number of international agencies like OECD, the World Bank and International Monetary Fund, besides more than a dozen of individual Countries are busy in framing the corporate governance codes. A healthy corporate governance not only avoids accidental and temporary mishaps, but also leads to excellent corporate management. In other words, discussion concerning corporate governance should deal with topic "for whom, for what and how should a company be run?" in a broad context.

In the present paper, the authors have tried to describe the prevalent corporate governance practices in India. The study attempts to study the corporate practices in India from the governance point of view. The study describes the position of Board of Directors Vis-a-Vis corporate governance.

The study is synchronic in nature in which the data were collected from the secretaries of the listed companies with the help of a pre-prepared questionnaire. The study is of survey type in nature in which the data were collected by applying random sampling technique from the respondents. The collected data were analyzed with the help of percentage analysis and the results of the data were discussed in the analysis. The authors used five point Likert scale to measure the attitude of the company secretaries towards the independence of the Board Members.

he authors concluded that the Board of Directors is at the core of corporate governance practices and oversees how the Management serves and protects the long – term interests of all the stakeholders. The authors felt that an active, well informed and independent Board is necessary to ensure highest standards of corporate

Keywords : Optimal Portfolio, Beta Coefficient, Expert beta

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Thanks to globalization, there is increasing integration of economies around the world through trade and financial flows as well as movement of people and knowledge across borders. Today, global trade accounts for around 30 percent of world GDP. The developing countries too have grasped the incomparable advantages of globalization.

An ideal system of corporate governance will function in the following manner:

a) The system empowers shareholders as the owners of the company to elect directors and constitute the Board of Directors. If the Board fails to deliver the expected results, they should be capable of reshuffling the Board.
b) The Board of Directors is an independent organ which runs the company by appointing the Chief Executive Officer, called "Managing Director". The Managing Director in turn constitutes a second-tier management team. The board entrusts the necessary authority to the M.D, to run the affairs of the company. If the second-tier fails to deliver the results, the board shall be empowered to replace the M.D with a suitable candidate i.e., the board of directors should be independent of the management team headed by the M.D.
c) Another organ in the corporate governance mechanism is the auditor, who is appointed by the shareholders. His function is to attest the genuineness of the accounts submitted by the Board to the shareholders. If the accounts fail to reflect the true and fair view of business of the company, the auditor should disclose the fact to their appointing authority, i.e., shareholders. In short, the auditors should be independent of the Board as well as the second-tier of management headed by the Managing Director.

In the prevailing scenario, the Indian corporate sector does not impress one that the shareholders are empowered to shuffle the board as they are supposed to do, whenever the Board fails to deliver the results.

Similarly, the Managing Director is supposed to be appointed by the Board of Directors. The board of directors is supposed to change the M.D, whenever he fails to deliver the results. In reality, it is doubtful whether the Board has such independence.

OBJECTIVES OF THE STUDY:
The main objectives of the study are:

i) To identify the different corporate governance models in practice
ii) To study the composition of the Board of Directors of the listed companies in A.P.
iii) To assess the independence of the Board.
iv) To ascertain the functions of the Board and
v) To ascertain how the Board meetings are being conducted

METHODOLOGY AND TOOLS OF STUDY

The authors have made an attempt to sketch the present scenario of the corporate governance practices in the listed companies of Andhra Pradesh by conducting a survey among the Secretaries of the companies to collect the data about the composition of the Directors and their independence. The authors have specifically constructed a questionnaire to collect the data from the Secretaries. The present study is an empirical research based on both primary and secondary data. The list of companies was collected from the A.P. Stock Exchange Year Book.

SAMPLING

The authors applied random sampling method for the selection of the companies for the present study. The geographical scope of the study covers the listed companies in A.P. The number of listed companies in A.P. was 162 as on 31-12-2011. Out of these 168 companies, 65 listed companies (40 per cent of the population) were selected as a target population for the study. From 162 listed companies, 65 secretaries were selected using Tippets's random Table. Necessary information/data were collected by administering the pre-prepared questionnaire.

SUMMARY OF FINDINGS AND CONCLUSIONS:

Board of Directors is the executive organ through which the company is achieving its objectives and corporate mission. The Board translates the wishes of the shareholders' into reality. The authors have evaluated the Boards of the companies in Andhra Pradesh by including 3 items in the questionnaire. On the basis of the response it can be concluded that 47 per cent of the boards can be classified into constitutional board, 37 per cent into the consultive board and 16 per cent under the collegial model. None of the companies is managed by a full time manager, as stipulated in the Companies Act, 1956. Similarly, no company is being managed by the board directly, without having a managing director.

90 per cent of the companies never evaluated the performance of the Board. There is no practice of setting the objectives for the Board in 90 per cent of the companies. Companies accounting for 50 per cent have given notice of the board meetings more than 21 days in advance, which speaks well about the corporate practice. Majority of the companies (90 per cent) have the practice of sending the agenda along with the notice of the company, therefore, it is clear that the companies seriously consider the board meeting.

Companies representing 80 per cent have a separate venue for the conduct of the meetings. This fact impresses one about the board practices of the company. In 40 per cent of the companies, one is able to notice more than 90 per cent of attendance of the directors.

The average number of board meetings conducted per annum works out to 4.98, for the companies selected for the study. The median happens to be 5 meetings. 25 per cent of the companies had conducted six meetings per annum. On the basis of the number of meetings, one can conclude that 25 per cent of the Boards are constitutional boards.

The survey results revealed that two-thirds of the boards are only constitutional boards from the angle of this criterion, as the duration of a meeting is less than an hour. Only 15 per cent of the companies are conducting the meetings for duration of more than 2 hours.

55 per cent of the companies are maintaining minutes of the resolution and only 12 per cent of companies are maintaining minutes of narration. 33 per cent of the companies are maintaining the minutes and the narration. It is a thing to be appreciated.

The attendance record of the executive directors in the annual general meeting is very poor. Nil attendance is reported by 19 per cent of the companies, 77 per cent of the companies reported that the attendance record of executive directors is up to 50 per cent. Only 4 per cent of the companies reported an attendance record of more than 50 per cent. It is highly disappointing performance of executive directors vis-à-vis attendance in the annual general meeting.

The average number of directors is 7.99. The average number of executive directors is 1.8 compared to 5.33 for non-executive directors. Nominee directors' representation among the responded companies are a meager i.e., 0.11. None of the companies have given representation to workers. Similarly, there is no alternate director in the target population. The species of independent director are also rare, with an average of 0.46. In a majority of the companies, the number of non-executive directors is in the range of 4-6 and the range for the executive directors is 1-3.

The survey results revealed that both the executive and non-executive directors actively participate in the board meeting discussions in a majority number of companies. Hence from the angle of the board meeting discussion and deliberation, one can conclude that the directors are independent.

The survey results disclosed that 80 per cent of the companies have provided some information to the shareholders though not compelled by the legislation. It can be concluded that the companies listed in Andhra Pradesh are doing well in this regard.

The survey revealed that in 15 per cent of the companies the Board is numerically dominated by the promoters' relatives. The survey further revealed that the Secretaries of the company sensed the domination of a single individual in as many as 60 companies. Only in 25 per cent of the companies there is domination. It is also further noticed that the directors are not independent.