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CONTENTS

2. 3.	TITLE & NAME OF THE AUTHOR (S) IDENTIFICATION OF KEY MOTIVATIONAL FACTORS; AN IMPLEMENTATION OF MASLOW'S HIERARCHY OF NEEDS IN PAKISTANI ORGANIZATIONS MUHAMMAD TAHIR AKBAR & DR. MUHAMMAD RAMZAN	No.
2. 3.		1
3.	PROFITABILITY OF POTATO BASED CROPPING PATTERNS COMPARED TO RICE BASED CROPPING PATTERNS IN MYMENSINGH REGION ROMAZA KHANUM, MD.SHARIFUL ISLAM & D. AFROZA	5
	THE IMPACT OF ACCOUNTING INFORMATION SYSTEMS IN THE QUALITY OF FINANCIAL INFORMATION IN THE PRIVATE JORDANIAN UNIVERSITIES: AN EMPIRICAL STUDY DR. ATEF A. S. AL-BAWAB	11
4.	THE ROLE OF SNNPRS MARKETING AND COOPERATIVE BUREAU IN THE EXPANSION AND DEVELOPMENT OF COOPERATIVES IN SNNPR REGION, ETHIOPIA, AFRICA DR. S. BALAMURUGAN	18
5.	STUDY ON THE HEALTH LIFESTYLE OF SENIOR LEARNERS IN TAIWAN JUI-YING HUNG & CHIEN-HUI YANG	27
	EFFECT OF INFORMATION TECHNOLOGY ON CORPORATE FINANCIAL REPORTING IN NIGERIA AKINYOMI OLADELE JOHN & DR. ENAHORO JOHN A.	31
7.	DIAGNOSTIC STUDY ON INTERACTIVE ADS AND ITS RESPONSE TOWARDS THE FM RADIO EMON KALYAN CHOWDHURY & TAHMINA REZA	36
8.	ACCOMMODATION OF ETHNIC QUEST FOR SELF-GOVERNANCE UNDER ETHNIC FEDERAL SYSTEM IN ETHIOPIA: THE EXPERIENCE OF SOUTHERN REGIONAL STATE TEMESGEN THOMAS HALABO	42
9.	UNIVERSITY PERFORMANCE MEASUREMENT USING THE BALANCED SCORECARD METHOD – SPECIAL FOCUS TO THE LEARNING AND GROWTH PERSPECTIVE W.M.R.B.WEERASOORIYA	46
10 .	INDEPENDENT DIRECTORS IN LISTED INDIAN PUBLIC SECTOR ENTERPRISES: AN ANALYTICAL STUDY MOHINDER SINGH TONK	51
11.	RELATIONSHIP BETWEEN EMOTIONAL & SOCIAL COMPETENCES AND TRANSFORMATIONAL LEADERSHIP STYLE BADRI BAJAJ & DR. Y. MEDURY	56
	ICT DEVELOPMENTS IN HIGHER EDUCATION IN INDIA: THE ROAD MAP AHEAD DR. M. K. SINGH & DR. SONAL SHARMA	60
13 .	CONSUMER SENSITIVITY TOWARDS PRICING OF COSMETIC PRODUCTS: AN EMPIRICAL STUDY DR. D. S. CHAUBEY, LOKENDRA YADAV & HARISH CHANDRA BHATT	67
14.	CONVENIENCE YIELD: EMPIRICAL EVIDENCES FROM INDIAN CHILLI MARKET IRFAN UL HAQ & DR. K CHANDERASEKHARA RAO	74
15.	CELLULAR PHONES: THE HUB OF MODERN COMMUNICATION - AN ANALYTICAL STUDY	78
16 .	DR. A. RAMA & S. MATHUMITHA WOMAN LEADERSHIP IN AXIS BANK: A COMPARISON OF WOMAN AND MAN LEADER USING CAMEL MODEL	83
17 .	ARTI CHANDANI & DR. MITA MEHTA A STUDY OF ANTS TEAMBUILDING TECHNIQUES AND ITS APPLICATION IN ORGANIZATIONAL WORK TEAMS AMAR DATT & DR. D. GOPALAKRISHNA	90
18 .	BASEL II AND INDIAN CREDIT RATING AGENCIES – IMPACT & IMPLICATIONS RAVI KANT & DR. S. C. JAIN	95
19 .	A STUDY ON THE CONSUMPTION PATTERN OF BAKERY PRODUCTS IN SOUTHERN REGION OF TAMIL NADU DR. A. MARTIN DAVID, R. KALYAN KUMAR & G.DHARAKESWARI	101
20 .	e-COMMERCE: AN INVISIBLE GIANT COMPETITOR IN RETAILING IN EMERGING COUNTRIES	107
21 .	NISHU AYEDEE. THE GREAT MATHEMATICIAN SRINIVASA RAMANUJAN	111
22 .	G. VIJAYALAKSHMI ISSUES RELATING TRANSITION IPv4 TO IPv6 IN INDIA	117
23.	ANANDAKUMAR.H QUALITY OF WORK-LIFE: A TOOL TO ENHANCE CONFIDENCE AMONG EMPLOYEES	124
24.	JYOTI BAHL GLOBAL RECESSION: IMPACT, CHALLENGES AND OPPORTUNITIES	128
25 .	SHAIKH FARHAT FATMA	133
26 .	MALIK GHUFRAN RUMI, PALLAVI TOTLANI & VINSHI GUPTA EFFECTIVENESS OF TRAINING IN AUTO COMPONENT INDUSTRY – AN EMPIRICAL STUDY	143
	R.SETHUMADHAVAN THE IMPACT ON MARKETING BY THE ADVENT OF WEB 2.0 INTERNET TOOLS	146
	JAYAKUMAR MAHADEVAN MARKET INFLUENCE ON THE TECHNOLOGY IN THE ENERGY SECTOR - A STUDY OF INDIAN SCENARIO	150
	MANOHAR SALIMATH C SPOT ELECTRICITY PRICE MODELLING AND FORECASTING	154
	G P GIRISH AN ANALYTICAL STUDY OF RURAL MARKETING IN INDIA - OPPORTUNITIES AND POSSIBILITY	158
	BASAVARAJAPPA M T REQUEST FOR FEEDBACK	162

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STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

INDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

SCOPE FOR FURTHER RESEARCH

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INDEPENDENT DIRECTORS IN LISTED INDIAN PUBLIC SECTOR ENTERPRISES: AN ANALYTICAL STUDY

MOHINDER SINGH TONK DEPUTY GENERAL MANAGER CORPORATE COMMUNICATIONS OIL & NATURAL GAS CORPORATION LTD. NEW DELHI

ABSTRACT

Board of Directors in a company comprise of executive and non-executive directors. Executive directors are full-time employees of the company. They are responsible for managing the affairs of the company. However, given the day to day pressures it can be sometimes extremely difficult for executive directors to remain independent and ensure necessary accountability. Non-executive directors on the other hand bring balance and credibility to the management decisions. The attributes of a non-executive director are independence of mind, integrity and the courage to question the executive members. Non-executive directors can add value to the Boards of companies of all size by ensuring transparency in the operations of a company, maintaining independent checks and balances on the authority of executive directors and CEO, bringing in specific skills and expertise, providing strategic vision, participating in the Audit and Nomination Committees and carrying out other responsibilities assigned from time to time. In order to objectively monitor, non-executive directors must be independent. This implies that non-executive directors are not connected with the company or its promoters or directors on the basis of family relationship and do not have any other relationship, whether pecuniary or otherwise, with the company or its directors or related parties. To be able to effectively monitor, it is imperative that independent directors are given significant representation on the Board.

KEYWORDS

Checks and Balances, Fair Boardroom Practice, , Investor Protection, Transparency & Watchdog.

1. INTRODUCTION

the subject of Corporate Governance has drawn a considerable amount of attention and interest in the recent times both in India as well as all over the globe. The concept primarily rests on basic principles of corporate governance i.e. fairness, integrity, transparency and accountability of the management with an increased focus on investor protection and maximizing of shareholders' wealth.

The acid test of good governance lies in managing a company in a transparent manner ensuring investor protection and maximizing long-term worth of the investments. A key element of good governance remains in maintaining transparency which incorporates a system of checks and balances between key players like Boards, Management, Auditors, investors and other prominent stakeholders.

In this context, the role of Independent Directors has come to be viewed as significant since they are expected to bring an element of objectivity and independence in the boardroom practices and management decisions. The subject of Independent Directors has shot into prominence ever since the courts in India ruled in Satyam saga that the Independent Directors are equally to share the burden of negligence of duties⁴ same as for the functional directors.

2. A BRIEF REVIEW

BOARD OF DIRECTORS

i. Board of Directors is a team of professionals at the highest level of hierarchy in a company, working full time or part time and entrusted to make business decisions with a view to ensure that the company succeeds in achieving its predetermined goals while surviving and prospering as a perpetual entity.

ii. Directors comprise the Board as its members. They are trustee managers of a company who are entrusted to keep the business going with a view to ensure that the outfit survives to stay in business and grows to prosper and diversify to succeed in the long run to accomplish the goals set by the promoters. Section 2(13) of the Companies Act, 1956⁵, defines a Director as "any person, occupying the position of Director, by whatever name called. They are professional men, hired by the company to direct its affairs. But, they are not the servants of the company. They are rather the officers of the company". The Directors are of two types-

a. Executive Directors also called Functional / Full time Directors.

b. Non-Executive Directors are also called Non-functional / Part time Directors. In the corporate circles such individuals are termed as "Independent Directors"⁶ if they are not nominated by FIIs and do not have any other relationship with the company or any member of its management. The officers in the Ministries concerned nominated by the Government on the Board of the listed PSEs as well as the listed Joint Ventures under the administrative control of the respective Ministries are not to be considered as Independent Directors.

INDEPENDENT DIRECTORS

The term 'Independent Directors' became a part of the Indian corporate glossary subsequent to release of the Kumar Mangalam Birla Committee Report⁶ in 2000 which resulted in introduction of the concept. Three years later the Naresh Chandra Committee⁸ gave governance further thought. Finally, in 2004 the Narayana Murthy Committee⁹ recommendations lead to inclusion of clause 49 in the listing agreement¹⁰. As at present, the existing company law does not mention the term "independent directors".

IDs are appointed with an objective to bring a fresh and independent orientation coupled with transparency in the decision making by the board. Further, this is done with a view to ensure investor protection as well as taking the business forward. The guidelines¹⁰ on the subject prescribe that a company headed by an executive chairman shall have not less than 50% independent directors. A company with a non-executive Chairman should have 1/3 rd of its Board constituted of independent directors.

The Independent Directors are looked upon as agents of change in the field of corporate governance and considered to be cornerstones of good governance¹⁴. The institution of Independent Director seeks to bring credibility to the Board of directors. The attributes of IDs are independence of mind, integrity and the courage to question the decisions in the broader interest of stakeholders and the company itself¹⁶.

As per the recent guidelines¹⁵ released by the Department of Public Enterprises, Government of India it is mandatory to have 50% of the Board strength constituted by Independent Directors for a public sector company to be classified as Maharatna i.e. the top rank in the classification for the PSEs.

3. STATEMENT OF THE PROBLEM

It is to be examined whether the much hyped institution of Independent Directors has been able to deliver any value both to the corporate hiring them and to the common investors by bringing about a sense of investor protection. For the common investors good governance lies in ensuring transparency, investor protection and maximizing long-term worth of their investments. Have the IDs made any difference in the scenario?

4. AN ANALYTICAL STUDY

I. OBJECTIVES OF THE STUDY

- i. The study has been carried out to delve deeper into the psyche of a key segment of stakeholders with a view to get a broader perspective on the Independent Directors, their appointments, qualifications, training, role, functioning, compensation, and value addition in raising the level of corporate governance.
- ii. To make suitable recommendations to bridge the shortcomings with a view to enhance the value addition by the Independent Directors.

II. RESEARCH METHODOLOGY

- a) Data Collection: A structured questionnaire was designed incorporating issues relevant to appointment and functioning of Independent Directors. The responses were obtained accordingly.
- b) Sample: CPSEs i.e. Public Sector companies owned and managed by the Government of India and listed under NIFTY-50¹¹ in the National Stock Exchange were chosen as the target sample for the study. The respondents were chosen at random. Since the total population of stakeholders of these companies could run into a huge figure, only a sample of 75 individuals who are employees cum shareholders and working in the corporate offices of these companies based in the National Capital Region(NCR) of Delhi were administered the questionnaire. Only 40 valid responses were received back which makes a 53.33%.
- c) Target Respondents: It was felt that the employees cum shareholders employed in the NCR based corporate offices of the PSUs covered in the sample are in a good stead to give a realistic picture on the functioning of IDs. Accordingly, they were approached to respond to fill up the questionnaires.

5. DATA COLLECTED

Sr No	Statement	SA	Α	NC	D	SD	Total
A	Appointments						
1	IDs are appointed purely on professional considerations	2	4	6	13	15	40
2	Persons appointed IDs are not relatives or friends of promoters	3	3	10	9	15	40
3	Women get a fair representation in appointment of IDs	1	1	1	12	25	40
4	Individuals appointed as IDs are not too old for the Job	12	13	5	5	5	40
5	After the vacancy arises, IDs are appointed without much of a delay	3	7	6	11	13	40
6	Independent Directors should be appointed for a fixed tenure	26	12	2	0	0	40
7	50% of Board should comprise of IDs like in Maharatna PSEs	8	8	8	8	8	40
B.	Qualifications						
8	IDs should possess a certain minimum qualifications	15	13	9	2	1	40
9	No of directorships held by one individual should be restricted	29	8	2	1	0	40
10	Suitably qualified & experienced professionals are appointed as IDs	9	7	6	9	9	40
11	IDs possess integrity and do not seek any favors to endorse decisions	8	8	8	8	8	40
C.	. Training						
12	IDs do not take too long and start appreciating the nuances of business	2	2	8	14	14	40
13	Independent Directors should be imparted appropriate training.	16	16	4	2	2	40
D.	. Role						
14	IDs bring definite value addition to decision making in the Board	16	11	8	3	2	40
15	IDs help improve networking with various stakeholders	20	10	5	4	1	40
16	Presence of IDs leads to accuracy & timeliness of disclosures	5	6	9	8	12	40
17	Presence of IDs encourages well deliberated decisions by the Board	3	4	4	12	17	40
18	Legal compliances by the company improve with IDs on the board	7	4	5	8	16	40
19	Presence of IDs makes a company more sensitive to environmental issues	2	3	8	12	15	40
20	Companies with IDs do not conceal material information	3	3	4	10	20	40
21	IDs regularly seek information on reasons of non-performance	5	2	9	12	12	40
22	IDs devote sufficient and quality time to company matters	3	4	8	11	14	40
23	IDs should share the onus for failures with other directors	13	11	9	5	2	40
E.	Compensation						
24	Present rate of compensation to IDs is quite reasonable.	20	10	5	4	1	40
25	Compensation to IDs from one single company should be restricted	27	11	2	0	0	40
F.	Contribution						
26	IDs on the board of a company enhance its corporate image	13	12	8	5	2	40
27	Corporate Governance improves substantially with IDs on the board	10	10	12	5	3	40

6. ANALYSIS AND DISCUSSIONS

Abbreviations: SA- Strongly Agree, A=Agree, NC-No Comments, D-Disagree, SD-Strongly Disagree.

S.No	Statement	SA	Α	NC	D	SD	Total
ointments	the second se						
1	IDs are appointed purely on professional considerations	2	4	6	13	15	40
Explana	tion: 70% of the respondents have answered in negative. About	ıt 15 % are r	non-commit	tal on th	e subjec	t. About 15	5% agree with
the stat	tement. The pre-dominant negative response supports the co	mmon belie	ef amongst	the inve	stors th	at IDs are	appointed by
promot	ers merely with the objective to comply with the statutory de	efinition of i	ndependen	ce. This	contenti	ion is also	supported by
Market	analyst Prithvi Haldea ² in his paper titled "Independent director	rs or insiders	s?"				
2	Persons appointed IDs are not relatives or friends of	3	3	10	9	15	40
	promoters						
Explana	tion: 61% of the respondents have rejected the statement. 25	% opinions a	re neutral.	Only 149	% agree	with the st	atement. It is
practica	Illy seen over the years that even in the highly rated profe	essional ma	naged com	panies I	Ds are	appointed	from among
acquain	tances especially from among the acquaintances of the promo	ters. This tre	end has bee	n delibe	rated at	length by I	Haldea ³ in his
article o	on the subject						
3	Women get a fair representation in appointment of IDs.	1	1	1	12	25	40
Explana	tion: Only 4% agree while 3% are non-committal. 93% hav	e rejected t	he content:	ion. In t	his rega	ard data av	vailable from
	ary sources ¹³ shows that the representation of women as IDs is a						

4							ISS
	Individuals appointed as IDs are not too old for the Job	12	13	5	5	5	40
Explana	tion: 62% of the respondents support the statement and find t	hat the IDs a	appointed a	are not t	oo old fo	r the job. 2	26% disagr
with the	e statement. 12% refuse to commit their views on the subject. T	Гhere appea	rs to be a d	onflictin	g situatio	on in this co	ontext as t
seconda	ary data ¹³ reveals that 48% of total Independent Directors in In	idia are abov	ve the age	of 60, 13	80 abov	e 70, 199 a	are above
and 8 a	re even above 90 years.						
	After the vacancy arises, IDs are appointed without a delay	3	7	6	11	13	40
	tion: Only 26% respondents agree to the statement. 59% hav						
Guidelir	nes ¹⁰ on the subject provide 180 days to fill up a vacancy which i	s rather too	long a per	od and t	here is a	possibility	of exploiti
the gap							
6	Independent Directors should be appointed for a fixed	26	12	2	0	0	40
	tenure.						
	tion: As many as 95% believe that Independent Directors shou						
taken n	eutral stance. Some argue that IDs should retire after a reasona	bly long per	riod say 6 o	r 9 years	as by th	en too mu	ch familiar
may sta	rts creating ineffectiveness. As per indications available from the	ne Ministry	of Corpora	te Affairs	¹² (MOC	A), the new	v companie
bill is lik	ely to restrict the appointment period to 6 years.		•				
7	50% of Board should comprise of IDs, as in Maharatna	8	8	8	8	8	40
	PSEs						
Explana	tion: 40% agree, 40% disagree and 20% take a neutral stance of	on whether	the IDs sho	ould com	prise hal	f strength	of the Boa
	mandatory for being recognized as a Maharatna ¹⁵ PSE. Not sur				tna PSEs	have been	empower
by the O	Government of India with greater autonomy in decision making a	as compared	l to other P	SUs.			
ifications							
8 I	Ds should possess a certain minimum qualifications.	15	13	9	2	1	40
Explana	tion: 69% recommend that Independent Directors should poss	ess a certai	n minimum	n qualific	ations fo	r the task	whereas 2
take a r	eutral stance. In this context Indian Institute of Corporate Gove	ernance und	ler MOCA o	an take a	a positive	e initiative.	The Institu
of Com	pany Secretaries of India (ICSI) and Indira Gandhi National Op	oen Universi	ity (IGNOU) jointly	started a	a PG Diplo	ma course
Corpora	te Governance sometime back.						
					—	- r	
	No of directorships held by one individual should be	29	8	2	1	0	40
	estricted.						
	tion: 92% respondents feel that the number of directorships he						
	th a view to increase the effectiveness it is being proposed in th			hat the r	umber o	of directors	hip should
	ed ¹¹ to a maximum of three as the IDs have a huge responsibility				-	_	1
10	Suitably qualified & experienced professionals are	9	7	6	9	9	40
	appointed as IDs						
	tion: Opinion is quite divided here with 40% responding in affi er comments. SEBI has issued only non-mandatory guideline						
3,500 a 11	re only graduates. IDs possess integrity and do not seek return favors to endorse decisions	8	8	8	8	8	40
			the IDs no	coss inte	grity an		
Explana	tion: 40% agree, 40% disagree and 20% take a neutral stance of	on whether	the 103 po.	3C33 IIIC		a ao not se	eek favors
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	tion: 40% agree, 40% disagree and 20% take a neutral stance of	on whether		55555 1110	.8		eek favors
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VOLUME NO. 3 (2013), ISSUE NO. 02 (FEBRUARY)

	Legal compliances by the company improve with IDs on the board.	7	4	5	8	16	40
Explanat	ion: 27% respondents find that the presence of IDs help	ensure con	npliance of	the lega	l require	ments. A	s many as
	the statement. It is sometimes argued that they hardly get th						
details b	eyond the Board and Committee meetings.						
19	Presence of IDs makes a company more sensitive to	2	3	8	12	15	40
	environment.						
Explanat	ion: 12% respondents find that presence of IDs make a comp	any enviro	nment sensi	tive. Wh	ile a majo	ority of 68	% have reje
	20% have no comments to offer. In this regard it would	indeed be	interesting	to carry	out a s	pecific stu	udy of diffe
	es for their comparative environmental sensitiveness.		· · · · ·				
20	Companies with IDs do not conceal material	3	3	4	10	20	40
	information.						
	ion: Only 15% respondents agree that with IDs around, t						
	this idea. It is argued sometimes that IDs should have access	ss to all info	rmation rat	her thar	what is	provided	to them in
· · · · ·	ned Folders.						
21	5 1	5	2	9	12	12	40
	performance.						<u> </u>
	ion: 60% respondents do not agree to this. Only 17% agree	and 23% ar	e neutral. T	his, once	e again, a	ppears to	be depend
	me available with IDs for a particular company.			1.6			
22	IDs devote sufficient and quality time on company	3	4	8	11	14	40
	matters						
	ion: Only 17% respondents find that the IDs spend sufficient						
	nt. 20% have preferred no comments. In this context, SEC Charles and the second s						
time "I	don't care how talented you are, you can't be a good watch	idog if you'	re only on p	batrol th	ree times	a year" r	ne is quoted
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ii. Th iii The sample taken is very small.

8. RECOMMENDATIONS

On the basis of the findings it is recommended that-

A certain minimum age, qualifications and experience should be prescribed as eligibility conditions for appointment of Independent Directors. i.

ii. Keeping into consideration the crucial role of IDs for transparency, investor protection and professionalization of management, it is recommended that an independent agency like Indian Institute of Corporate Governance (IICG) should set up and maintain a pool of suitable candidates for appointment as Independent Directors. This shall facilitate suitable and timely appointments.

9. CONCLUSION

Based on the responses to the questionnaire and their analysis this study concludes that the functioning of IDs in the Indian companies has a long way to go. The findings from the study reveal that the concept is still in a nascent stage after more than a decade of the seeding. In fact the results of this study in a way seem to reinforce the findings of an earlier study by Umakanth Varottil¹⁷ in his research paper entitled "Evolution and Effectiveness of Independent Directors in Indian Corporate Governance". Varottil had come out in his study that the concept of IDs was originally ushered in countries with diffused ownership structures

VOLUME NO. 3 (2013), ISSUE NO. 02 (FEBRUARY)

in order to operate as a monitoring mechanism over managers in the interest of large number of shareholders. However, a transplantation of the concept in India with insider ownership structure without factoring the prevalent corporate structures and other associated factors is not likely to yield the same results.

10. SCOPE FOR FURTHER RESEARCH

The mandated role of Independence Directors is under the prying watch of billions of investors, both prospective and present employees and several other key stake holders. Further dedicated research could be taken up on how the induction of IDs shall make a difference and add value to the companies, investors and different stakeholders and benefit economic development of a resurgent economy like India on a sustainable basis.

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