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CORPORATE GOVERNANCE MECHANISMS IN INDIA: A CASE STUDY OF SELECTED FIRMS FROM TEN SECTORS

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ABSTRACT

In this research paper, an attempt is made to find out the existing position of corporate governance practices in India and keeping in mind this, an analysis of previous annual reports of (2013-14 and 2015-16) of 30 companies from ten diverse industry sectors is made. Governance practices are presently followed by the companies in India by complying with the binding and non-binding guidelines issued by SEBI in clause 49 of listing agreement regarding corporate governance, are pointed out by the outcome of the study. Yet, a lot of scope is there for up gradation for ideal state of governance in India for excellence. Besides, firms across different sectors have uniformity with respect to corporate governance practices followed.

KEYWORDS

Indian corporate governance, disclosure practices, listing agreement, mandatory and non-mandatory requirements, SEBI.

INTRODUCTION

Corporate governance is a multidisciplinary field of study it covers a wide range of disciplines – accounting, consulting, economics, ethics, finance, law, and management [1]. The main function of corporate governance is to make agreements that describe the privileges and tasks of shareholders and the organization. In case of disagreements because of conflict of interest, it is the responsibility of corporate governance to bring everyone together. It also has the function of setting standards against which corporations work can be managed and administered. One of the question that come to mind while thinking about corporate governance is - why do different countries follow or do not follow same corporate governance practices. The answer lies in the history of corporate governance, earlier the corporate governance theory was divided in two ways Anglo-American and Continental European. Anglo-American was characterized as short-term equity finance, dispersed ownership, strong shareholder rights, active markets for capital control, and flexible labor markets, where as Continental European was characterized as long-term debt financing, concentrated block holder ownership, weak shareholder rights, inactive markets for capital control and rigid labor markets. None of the countries around the world can follow either pure Anglo-American policies or pure Continental European system. It depends on various factors like globalization, world presence;

INDIA AND CORPORATE GOVERNANCE

Corporate governance has played a very important role in the present economic condition of India. India successfully started its move towards open and welcoming economy in 1991. From then onwards it has seen an amazing upward Corporate Governance —If India wants to attract more countries for foreign direct investments, Indian companies have to be more focused on transparency and „Shareholders value maximization‟. Even though corporate governance practices can be backdated to as early as 1961 around the world, India was lagging behind. It was not until 1991 when liberalization took place and corporate governance established an international context. The most important initiative of 1992 was the reform of Securities and Exchange Board of India (SEBI). The main objective of SEBI was to supervise and standardize stock trading, but it gradually formed many corporate governance rules and regulations. The next major change was formation of Confederation of Indian Industry (CII) in 1996, which developed the set of laws for Indian companies as to initiate the act towards corporate governance. Then two committees Kumar Mangalam Birla and Narayan Murthy under Securities and Exchange Board of India started laying the groundwork for formalizing the best practices on corporate governance. Based on suggestions from these committees, Clause 49 was introduced as part of the listing contract for the companies listed on the Indian stock exchange. However, due to scandals like Enron, Satyam, WorldCom etc. forced the clause 49 to be reformed to incorporate and overcome the problems that caused these companies to collapse and shatter the economies of the respective countries. Clause 49 of the listing agreement of Indian stock exchange took effect from 2000 to 2003. It contained all the regulations and requirement of minimum number of independent directors, board members, different necessary committees, code of conduct, audit committee rules and limits, etc. Firms that were not following these principles were removed from the listing and were given financial penalties [7]. We can compare the Sarbanes-Oxley Act of 2002 and Clause 49. Clause 49 was based on the principles of Sarbanes-Oxley Act of 2002. It was developed for the companies listed on the US stock exchanges. As far as the responsibilities of management and number of directors were concerned, they are both the same. They also have same rules regarding insider trading, refusal of loans to directors and so on. The important difference between the two is under Sarbanes-Oxley legislation if fraud or annihilation of reports takes place up to 20 years of imprisonment can be charged, but in case of Clause 49, there is no such condition. Being the controller of the market SEBI can commence a criminal proceeding. If in case SEBI decides to give a severe punishment then it can commence a criminal proceeding or raise the fine for not agreeing with Clause 49, which automatically delists the company. Corporate governance affects corporations as well as countries in different ways such as firm's access to outside financing increases, which leads to more investment, better growth opportunities and that causes the job market to flourish. Capital cost is decreased and so the firms are valued at higher cost. Firms can be attracted by this, which directs it to growth and again to reduced unemployment. Wealth is generated by better distribution of resources and good management practices, which is because of better operational performance. Better corporate governance can be associated to reduce financial crises. As these crises, have devastating effects of any countries economy. If corporate governance practices are followed properly this creates better rapport with the stakeholders. We can further see what significant role does corporate governance plays in the investment process. As corporate governance provides property protection and safe modes of ownership registration, it automatically affects the firm's capital mobilization. For any firm to receive funds from the market effectively it has to be consistent and transparent in disclosing its details. Finally, to effectively handle the capital received, any company should have proper resource allocation, authority distribution, and well-planned incentive schemes as some of the necessary steps. Fraudulent behavior of companies has caused countries to go through financial crisis. Corporate governance hence became a critical issue for all the countries around the world. From Satyam Computer Limited of India to Enron of the U.S., pattern is more or less same. Failure of companies of these massive sizes created havoc in the industry and had caused the economic meltdown. The immediate action that the Indian authority took in response to the scandals reveal how government in emerging economies also feel the need to promote good corporate governance practices. Furthermore, understanding corporate governance standards and issues is also important to executives of foreign multinationals planning to do business with India [6]. In this section, the study showed how in India corporate governance has become an inseparable entity; next, we will discuss some specific issues regarding corporate governance: ethics, internal governance, and selection of auditors and audit committee. In recent years, corporate governance has attained significance all over the world. Two important factors have led to rapid developments in the field, namely the integration and globalization of financial markets and a surge of corporate scandals such as Enron, World Com and others. Lately, Brazil, Russia, India and China (BRIC) countries have emerged as an influential economic power in the global economy. It is estimated that the combined GDP of the BRIC countries is likely to be higher than that of developed countries. Studies have projected that amongst the BRIC economies, India has the potential to grow the fastest over the next 30-50 years. The phenomenal growth has changed the nature and character of the world economy including the foreign investment flows Foreign investments in India come directly and through secondary markets. There has also been a significant increase in cross border acquisitions and a number of firms list their shares in multiple exchanges. Foreign institutional investors have made substantial investments in the capital market.

Investors from developed countries are demanding that Indian Companies follow international best practices with an emphasis on corporate governance. A McKinsey survey conducted in 2002, found that investors were willing to pay a premium of up to 25% for a well governed company (Barton, Coombes, & Wong, 2004). The scandals related to the Indian markets (Goswami, 2002), the global financial crisis of 2008 and the more recent corporate fraud at Satyam has raised a lot of concerns about governance practices in India. Consequently, there has been an increasing effort around corporate governance structures and mechanisms by both regulators and corporations.

LITERATURE REVIEW

As far as corporate governance is referenced; many studies are existing recitation to the compliance status of companies with view to specific corporate governance guidelines. The corporate governance codes and their iterative development are similar in developing and developed countries, however, the degree of compliance is found different between the countries

Mishra S. and Mohanty P. (2014) in their study examined the corporate governance issues in India in order to establish the relationship between corporate governance and financial performance using a sample of 141 companies belonging to the A group stocks listed in the Bombay Stock Exchange of India covering 18 industries. They developed a composite measure of corporate governance comprising of three indicators-legal, board and proactive indicators. The results of the multiple regression performed step-wise using ROA as a proxy for firm performance revealed that the board indicators (CEO-duality, board size, board composition, number of board meetings, Frequency of attendance in the board meetings) and proactive indicators influence the firm performance significantly. The results concluded that composite corporate governance measure is a good predictor of firm performance.

Patel and Sondhi (2014) [8] consider the major changes anticipated by the Companies Bill, 2012 as comparing to the 1956 Act and observed during their study that the not all Indian listed companies comply with the provisions stated under the Company Bill, 2012 and many of them are yet to comply with these changed provisions.

Vithalani (2014) [12] studied corporate governance practices of seven Maharatna Companies in India and summarized that all the seven companies complied with the corporate governance disclosure practices with regards to guidelines given by SEBI under Clause 49 to a massive extent.

Sahu T. K. and Manna A. (2013) empirically investigated the effect of corporate board composition and board meetings on performance of 52 Indian manufacturing companies listed in Bombay Stock Exchange over a period of 5 years (2006-2011). They represented Board composition by board size, number of executive directors, board independence, and Chairman's identity. Corporate performance is measured through Net sales, Net Profit, Return on Capital Employed, Earning per share, Tobin's Q, Economic value added and Market value added. Multiple regression Ordinary Least Square model results indicated that board size and board meetings have a positive impact on corporate performance whereas the independence of the board and presence of non-executive chairman in the board has negative impact whereas the proportion of executive directors in the board was found insignificant.

Bijalwan J. G. and Madan Pankaj (2013) analyzed the relationship between board composition and firm performance for 121 firms listed on BSE for the year 2010-2011. Financial performance of the firm is measured with the financial ratios viz. Return on Capital employed, Return on the equity, Profit after tax and Return on assets. The study found that there exists a significant positive relationship between board composition and firm performance. Also board size and firm performance are significantly related but the strength of relationship is not strong. Larger boards are less effective than smaller boards except in case of PSUs in India. Also the standard board sizes vary according to the nature of the industry.

The efficacy of outside directors on the corporate boards of 157 non-financial Indian companies listed on BSE in the year 2008 was examined by Kumar N. and Singh J.P. (2012). Using Tobin's Q as a performance measure, it was found that outside directors have a negative effect on the firm value mainly due to non-executive non-independent directors, where as independent directors have a positive but insignificant effect. It was concluded that the companies with a greater proportion of independent directors have more market value. Thus independent directors require a greater representation on board in lieu of other non-executive outside directors.

Kota, H.B., and Tomar, S. (2010) examined the effect of corporate governance practices on the performance of 106 mid-sized firms in India between 2005 and 2007. When Tobin's Q was used as a measure of financial performance, it was found that the ratio of non-executive directors to total directors have no significant relationship with the performance. However, it was found that CEO duality structure contributes positively and significantly to the firm performance. A significant inverse relationship between board size and firm performance was also reported.

Arsoy and Crowther 2008) [1]. There exist inter-company differences in adherence to corporate governance norms, as different parameters are given importance by companies as per the level of Market capitalization and working laws pertaining to the industry.

Garg A. K. (2007) studied the data of 164 companies from the BSE 200 companies for six financial years from 1997-98 to 2002-03 to examine the relationship between board independence, board size and firm performance. He used Tobin's Q, Ratio of operating income to assets, ratio of assets to sales and Market-adjusted stock price returns as measures of firm financial performance. According to the findings of his study smaller boards are more efficient than the larger ones; the board size limit of six was suggested as ideal, as the study founded an inverse association between board size and firm performance. Also board independence was inversely related with firm performance and the study suggested that the proportion of independent directors should be between 50 and 60 percent. Board size and performance as also board independence were found to be inversely related which means that a bad performance leads to an increase in both size as well as board independence.

Ghosh Saibal (2006) examined the nexus between corporate performance and boards of 127 non-financial listed manufacturing firms for the year 2003 by using two accounting measures i.e. ROA and PERF (arithmetic mean of ROA, ROS, ROE) and market based method i.e. Tobin's Q. The results suggested that board size exerts a negative influence on corporate performance irrespective of accounting and market based measures. This means that larger boards tend to have a dampening influence on firm performance. Also there exists a positive association between the number of non-executive directors and firm performance. The study also found evidence to suggest that CEO compensation has a positive influence on corporate performance, judged in terms of accounting measures.

OBJECTIVE OF THE STUDY

This study is an effort to explore and examine the current corporate governance mechanisms in India.

DATA AND METHODOLOGY

With the purpose of the study, latest available annual reports (of 2013-14 or 2014-2015) of 30 companies from ten sectors, namely, automobiles, banks, FMCG, IT, oil & gas, pharmaceuticals, power, steel, telecommunication services and transport and logistics, are examined. Mandatory and non-mandatory needs precise under clause 49 of listing agreement are considered as standards to marks companies for revealing their corporate governance practices. For the purpose of analysis and interpretation, weight-age method is applied for assigning a suitable standard score to all the standards of checklist according to their magnitude, out of which sampled firms get scores for their adoption to those parameters. Companies are scored out of 100 for their corporate governance practices and disclosures.

RESULTS AND DISCUSSION

The results for all the checklist parameters of corporate governance are discussed separately below:

I. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The first parameter for the assessment of corporate governance score is the declaration of the company's philosophy on code of governance with a weight -age of 1 on a scale of 100. All the 100 companies made satisfactory disclosure of the declaration of their philosophy on code of governance. So, all companies get a score of 1.

II. COMPOSITION OF THE BOARD AND BOD 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.

TABLE 1: COMPLIANCE/NON-COMPLIANCE OF FIRMS TO BOARD COMPOSITION AND MEETING REQUIREMENTS

	Number of Firms		
Particulars	**Compliance**	**Non-compliance**	**Total**
Not less than 50% of the Board of directors comprising of non-executive directors	28	02	30
In case of non-executive Chairman, at least one-third of Board comprise of independent directors and in case of an executive Chairman, at least half of Board comprise of independent directors	15	15	30
At least one woman director	17	13	30
At least four BOD meetings a year	27	01	30
Attendance record of BOD meetings	30	00	30

The table shows the number of companies which have complied and not complied with board composition and BOD meetings related requirements given under clause 49 of the listing agreement. The results disclose that 28 firms out of 30 sampled firms have a Board with atleast 50% of non-executive directors, so get the likely score of 1 & left over 2 firms scored 0 for non -compliance of this requirement. However, 15 of the 30 scored 1 by complying with the requirement of the lowest strength of independent directors and remaining 15 firms did not get any point. Further, 17 firms get 1 point as having atleast one woman director on their board, whereas other 13 get 0 for noncompliance of this requirement. Moreover, 27 firms score 1 as they held atleast four BOD meetings during the year under consideration and only one firm did not comply with this requirement. As well as, all the 30 firms disclose the attendance record of directors at BOD meetings and get 1 point for that.

III. CHAIRMAN & CEO DUALITY

Another important parameter is Chairman and CEO duality with a maximum score allotted is 5. Firms with non-executive autonomous directors are taken as ideal chairmanship and scored 5 for this parameter. Firms consisting non-promoter non-executive Chairman of their Board are scored 4 and firms with promoter non-executive chairman are scored with 3 marks. Then, firms with non-promoter executive Chairman and promoter executive Chairman has scored 2 and 1 respectively. Distribution of firms on the basis of this criterion is discussed below with the help of Figure 1.

FIG. 1: DISTRIBUTION OF FIRMS ON THE BASIS OF BOARD CHAIRMANSHIP

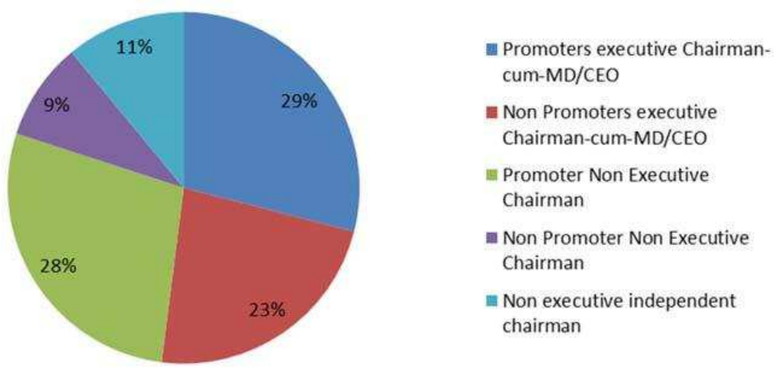

Figure 1, exhibiting different chairmanship wise distribution of sampled firms, reveals that the firms having a promoter executive Chairman of Board and having a promoter non-executive chairman are almost equally distributed as their percentages are 29 and 28 respectively. Out of the total, 23 percent firms have non-promoter executive Chairman and 11 percent firms have a non -executive independent Chairman of Board of members. On the other hand, merely 9 percent firms have non-promoter non-executive Chairman in their firms.

IV. DISCLOSURE OF TENURE OF DIRECTORS

The fourth checklist parameter of corporate governance, disclosing director's tenure, has weightage of 1. Results reveal that 29 firms out of 30 sampled firms get a score of 1, making adequate disclosure regarding the tenure of directors. Remaining 1 firms did not get any point for this parameter.

V. DISCLOSURES REGARDING DEFINITION, SEPARATE MEETINGS AND SELECTION CRITERIA FOR INDEPENDENT DIRECTORS

The fifth parameter is concerning disclosures regarding definition, separate meeting of independent directors and selection criteria for directors including independent directors, having a weightage of 3 points, one point for each.

TABLE 2: DISTRIBUTION OF FIRMS FOR DISCLOSURE/NON-DISCLOSURE OF ITEMS UNDER 5th PARAMETER

	Number of Companies		
Particulars	**Disclose**	**Not-Disclose**	**Total**
Definition of independent director	11	19	30
Separate meetings of the independent directors	06	24	30
Selection criteria for directors including independent Directors	03	27	30

In reference to Table 2 shows that 11 firms out of 30 sampled firms scored 1 as they disclosed the classification of independent directors in their annual reports and remaining 19 firms don't resort to this practice. In addition, 06 of 30 firms gets a score of 1 by disclosing the information regarding separate meetings of independent directors, while a majority of firms (24) did not get any point on this parameter. Further, only 03 firms get 1 point for making disclosure regarding selection criteria of independent directors whereas remaining 27 firms got 0 for non-disclosure for this parameter.

VI. BOARD MEETING FOLLOW-UP SYSTEM AND COMPLIANCE WITH THE BOARD PROCEDURE

Disclosure practice of about post Board meeting follow-up system and compliance with the Board procedure is the sixth important parameter having weight-age of 2 on a scale of 100. Out of all 30 sampled firms, 11 get a score of 2 by making appropriate disclosure regarding past Board meeting follow-up system and compliance with the Board procedure while remaining 19 firms did not get any point as they do not disclose the same.

VII. APPOINTMENT OF LEAD INDEPENDENT DIRECTOR

Seventh parameter with a weight-age of 2 points is in relation to the selection of lead independent director. Outcome revealed that only 03 firms out of 30 have formally selected a lead independent director and get a score of 2 in the case. Whereas, other 27 firms scored 0 for not entertaining the post of lead independent director in the company.

VIII. DIRECTORSHIPS AND COMMITTEES' MEMBERSHIP/CHAIRMANSHIP OF DIRECTORS ACROSS ALL COMPANIES

The eighth parameter of Corporate Governance is about revealing of directorships and committees' membership/Chairmanship of directors across all companies in which he/she is a director, having a weightage of 2 points. For this parameter all the 30 companies scored 2 points by making adequate disclosure.

IX. CODE OF CONDUCT

The ninth parameter to evaluate the companies CG score is about the code of conduct having weightage of 2 points and for that all the 30 companies scored 2 points as for making sufficient disclosure regarding code of conduct.

X. DISCLOSURE ABOUT BOARD COMMITTEES

The tenth parameter taken for the evaluation of CG score is disclosures regarding various board committees with the weightage of 23 points inclusive of 8 points for audit committee, 6 points for remuneration committee, and 3 points for the shareholders' grievance Redressal committee, 2 points for nomination committee where as 4 points for additional committees. Tables 3-4 illustrate the number of companies having disclosures and non-disclosure of the information regarding detailed points, scheduled in CG checklist.

A. AUDIT COMMITTEE: 7 points relating to audit committee are included in CG checklist to score companies on the upper limit of 8 on the range of 100. All the 7 points scheduled in Table 3 have an equivalent weight-age of 1 except the point 'information about the participation of head of finance, statutory auditor and chief internal auditor in the committee meeting' which have the weightage of 2.

TABLE 3: DISTRIBUTION OF FIRMS FOR DISCLOSURE/NON-DISCLOSURE ABOUT AUDIT COMMITTEE

Particulars	Disclose	Not- Disclose	Total
Composition of audit committee	30	00	30
Compliance of minimum requirement of the number of independent directors on the committee	28	02	30
Compliance of minimum requirement of the number of meetings of the committee	29	01	30
Information about literacy and expertise of committee members	12	18	30
Information about participation of chief of finance, statutory auditor and chief internal auditor in the committee meeting	17	13	30
Audit committee charter/terms of reference	28	02	30
Publication of audit committee report	01	29	30

Table 3 illustrates the number of companies who have stated or have not stated the abovementioned seven points. The results denote that all the 30 firms produce lucidity in the composition of the audit committee and scored 1. An approximately equal number of companies (28 firms) scored full points for compliance of minimum requirement of the number of independent directors in the committee and disclosure of audit committee charter/terms of reference. Moreover, 29 firms get score 1 for complying with the minimum requirement of the number of meetings of the committee and 12 firms scored 1 for the disclosure of facts about education qualification and industrial expertise of committee members. In accumulation, 17 firms scored 2 for disclosing the fact regarding the participation of head of finance, statutory auditor and chief internal auditor in the committee meeting. Further, only 01 firm scored 1 point for publishing of the audit committee report in the annual report.

B. REMUNERATION COMMITTEE: 6 points associated to remuneration committee are incorporated in CG checklist to score companies on the ideal score of 6 on the scale of 100. All the 6 points as given in Table 4 have the same weight-age of 1.

TABLE 4: DISTRIBUTION OF FIRMS FOR DISCLOSURE/NON-DISCLOSURE ABOUT REMUNERATION COMMITTEE

	Number of Companies		
Particulars	Disclose	Not Disclose	Total
Formation of the committee	28	02	30
Information about number of committee meetings	25	05	30
Compliance with minimum requirements of the number of non-executive directors on the committee	26	04	30
Compliance of the provision of independent director as Chairman of the committee	26	04	30
Information about participation of all members in the committee meetings	21	07	30
Disclosure of sitting fees in Board & committee meeting	28	02	30

The table demonstrates the number of firms who have or have not disclosed the above mentioned information regarding remuneration committee. The result discloses that 28 firms have disclosed information regarding formation of the remuneration committee and get a score of 1. Out of which 25 firms get 1 additional point for disclosing the information about number of committee meetings held during the year. Further,21 firms get a score of 1 for the disclosure of information about participation of all members in the committee meetings. Moreover, equal number of firms, i.e. 26, scored 1 point for observance of minimum requirements of the number of non-executive directors on the committee and 1 point for observance of the provision of independent director as Chairman of the committee. In addition, 28 firms get score 1 for disclosure of sitting fees in Board & committee meeting.

C. SHAREHOLDERS'/ INVESTORS' GRIEVANCE COMMITTEE: There are three parameters associated with shareholders'/ investors grievance committee incorporated in CG checklist and shown in Table 5, to score firms on the total score of 3 on the range of 100, 1 point for every parameter.

TABLE 5: DISTRIBUTION OF FIRMS FOR DISCLOSURE/NON-DISCLOSURE ABOUT INVESTORS' GRIEVANCE COMMITTEE

	Number of Companies		
Particulars	Disclose	Not Disclose	Total
Transparency in composition of the committee	30	00	30
Information about the nature of complaints and queries received and disposed	29	01	30
Information about number of committee meetings	26	04	30

Table 5 depicts that all the 30 firms maintain transparency in the composition of shareholders'/ investors grievance committee and get a score of 1 each. Out of 30, 29 firms get 1 point for disclosing information about the nature of complaints and queries received and disposed. Moreover, 26 of 30 firms scored 1 for disclosing information about number of committee meetings.

D. NOMINATION COMMITTEE: Disclosures associated with nomination committee consist of 2 points weight-age that is equally divided into 2 points, formation of committee and publishing of committee charter/term of references.

TABLE 6: DISTRIBUTION OF FIRMS FOR DISCLOSURE/NON-DISCLOSURE ABOUT NOMINATION COMMITTEE

	Number of Companies		
Particulars	Disclose	Not Disclose	Total
Formation of committee	16	14	30
Publishing of committee charter/references	13	17	30

Table 6 states that the 1st point, i.e. formation of the committee, 16 firms scored of 1 as they disclosed the information very well regarding formation of the nomination committee and for the 2nd point, i.e. publishing of committee charter/term of references, 13 firms scored 1.

E. ADDITIONAL COMMITTEES: Additional committees of the Board have a weightage of 4 in corporate governance checklist for calculating CG score of companies. Each of 4 points, listed in Table 7 has weightage of 1 point each.

TABLE 7: DISTRIBUTION OF FIRMS FOR DISCLOSURE/NON-DISCLOSURE ABOUT OTHER ADDITIONAL COMMITTEES

	Number of Companies		
Particulars	**Disclose**	**Not- Disclose**	**Total**
Health, Safety and Environment Committee	03	27	30
CSR and Sustainable Development Committee	15	15	30
Investment Committee	06	24	30
Other Committee	17	13	30

The table exhibits that in all the sampled firms 03 firms include health, safety and environment committee (get score 1), 15 firms have CSR and sustainable development committee (get score 1), 08 firms have an investment committee (get score 1) and 17 firms have other committees of the Board (get score 1).

XI. DISCLOSURE AND TRANSPARENCY: Eleventh parameter for calculating company CG score is about disclosure practices and transparency having a weightage of 25 on a scale of 100. This factor consists of disclosure of 11 points in company's annual report as shown in Table 8. All these points have the same weight-age of 2 points excluding shareholders' information as it consists of a weight-age of 5 points.

TABLE 8: DISTRIBUTION OF FIRMS FOR DISCLOSURE AND NON-DISCLOSURE OF ITEMS UNDER ELEVENTH PARAMETER

	Number of Companies		
Particulars	**Disclose**	**Not Disclose**	**Total**
Significant related party transactions having potential conflicts with the interest of the company	30	00	30
Non-compliance related to capital market matters during last three years	30	00	30
Accounting treatment	30	00	30
Director's remuneration amount & policy	30	00	30
Risk Management	29	01	30
Management discussion and analysis	30	00	30
Shareholders' information	30	00	30
Shareholder rights	05	25	30
Audit qualification	22	08	30
Training of Board members	12	18	30
Evaluation of non-executive directors	11	19	30

The table depicts that almost all sampled firms by making proper disclosures regarding significant related party transactions, non-compliance related to capital market matters, accounting treatment, director's remuneration, risk management, management discussion & analysis and shareholders' information scored full for these points. The scores also reveal that just 05 firms of 30, in reference to shareholder rights scored 2 by specifying that they send the financial results to each shareholder electronically, however, remaining 25 firms get 1 point for giving a partial reference of shareholder rights. In addition, 22 firms are assigned a score of 2 by moving towards a regime of unqualified financial statements. Furthermore, 08 firms get 2 points for allocating training to their Board members and 11 firms scored 2 points for having a mechanism of evaluation of non-executive directors.

XII. GENERAL BODY MEETINGS: The twelfth parameter under consideration of this study is information about general body meetings carrying a weightage of 3 points on a scale of 100. All the points for this parameter as listed in Table 9 carry equal weightage of 1 point

TABLE 9: DISTRIBUTION OF FIRMS FOR DISCLOSURE OF INFORMATION REGARDING GENERAL BODY MEETINGS

	Number of Companies	
Particulars	**Disclose**	**Not- Disclose**
Location and time of general meetings held in last three years	30	30
Details of special resolution passed in the last three AGMs/EGMs	30	30
Details of resolution passed last year through postal ballot, including the name of conducting official and voting procedure	29	01

The table presents that all the 30 companies get the ideal score for disclosure regarding location & time of general meetings held in last three years and details of special resolution passed in the last three AGMs/EGMs. But out of all, 01 firms did not give any detail regarding resolution passed last year through postal ballot, so assigned 0 score for this point and remaining 29 firms get full score for the same.

Means of Communication and General Shareholder Information: For this parameter each and every company made a satisfactory disclosure of this information assigned with the ideal score of 2.

Whistle-blower policy: The results depict that 26 firms out of 30 sampled firms get a score of 2 by adopting a policy of the whistle blower, whereas, remaining 4 firms did not get any point for this parameter.

CEO/CFO Certification: For the fifteenth parameter all the 30 companies have the CEO/CFO certification for corporate governance and get the ideal score of 2 points on a scale of 100.

Compliance of Corporate Governance and Auditors' Certificate: This parameter consists of a weight-age of 5 points on the range of 100 and the results denoted that all the 30 companies have a clean certification from the auditor and scored full of 5.

Code for prevention of insider trading practices: Disclosure of code for prevention of insider trading practices with critical importance carries the weight age of 5 on the scale of 100 as seventeenth parameter. The results denote that 21 firms out of all sampled companies made a proper disclosure for having a code for prevention of insider trading practices. Subsequently, these 21 firms were given a score of 5 and remaining firms scored 0.

XVIII. DISCLOSURE OF STAKEHOLDERS' INTERESTS: The last parameter is about disclosure of the stake holder's interest with a weight age of 10 points on the scale of 10. Carrying 2 points apiece, environment/health/safety measures (EHS), human resource development (HRD) initiatives, corporate social responsibility (CSR), industrial relations (IR) and disclosure of policies on EHS, HRD, CSR and IR. It is observed that 28 firms disclose EHS (get 2 points), 29 firms make disclosure regarding HRD initiatives (get 2 points), and 26 firms make disclosures regarding CSR and IR (get 2 points for each). Moreover, none of the firms make disclosure of policies on all these issues, however, 07 firms make disclosure of policies on either of these issues. Therefore, these 8 firms are assigned 1 point for giving partial reference of this point. On the basis of above mentioned eighteen parameters CG score for each company is calculated separately.

EVALUATION OF CORPORATE GOVERNANCE STATUS

The quality and state of governance that the sampled companies have achieved is identified by observing their CG score on the corporate governance score card. Table 10 shows the allotment of sampled firms based on the scores obtained by them under different categories of the score range with their respective grade assigned.

TABLE 10: DISTRIBUTION OF FIRMS ON THE BASIS OF THEIR ACHIEVED GRADE ON CG SCORE CARD

Score Range	Grade	No. of Companies
100-85	A-Excellent	08
84-75	B- Very Good	13
74-65	C-Good	09
64-50	D-Average	03
Below 50	E-Poor	00

Table clearly shows that maximum number of firms (13), lies in the group of 84- 75 score range with B grade, which means 13 firms have a very good governance structure. 09 firms with C grade have good enough governance in their organisation. Besides, only 08 firms follow excellent governance mechanism with grade A. Furthermore, remaining 3 firms lies in the score range of 64-50 and thus attaining an average grade of governance with D. However, sample firms are having a grade range from A to D i.e. from excellent to average, with maximum 91 points and minimum 56 points obtaining an average score of 76 points. It concludes from the above preponderance of firms pursue very good/good governance and disclosure practices in India, but still there is a span for perfection towards excellence

INDUSTRY/SECTOR- WISE ANALYSIS OF CORPORATE GOVERNANCE PRACTICES IN INDIA

This section displays sector-wise differences of corporate governance practices in India with the help of Table 11.

TABLE 11: SECTOR-WISE STATISTICAL ANALYSIS

Industry/Sectors	No. of Companies	Min. CG Score	Max. CG Score	Mean CG Score	No. of Companies		
					Std. Dev.	CG Score > Mean	CG Score < Mean
Automobiles	03	62	90	75.70	9.19	05	05
Banks	03	56	83	76.30	8.04	06	04
FMCG	03	68	90	80.70	7.90	05	05
IT	03	70	91	81.00	6.60	04	04
Oil & Gas	03	65	88	78.00	7.15	05	03
Pharmaceuticals	03	56	91	72.90	9.64	05	05
Power	03	72	85	79.40	5.27	06	04
Steel	03	64	90	73.30	9.09	04	06
Telecommunications	03	65	88	75.60	8.00	05	05
Transport & Logistics	03	57	86	71.40	8.45	06	04

Table 11 shows IT sector with the highest mean (81) CG score shows better governance over other sectors, followed by FMCG sector with almost same mean score of 80.70. While, power sector has a mean score of 79.40 followed by oil & gas (78), banks (76.30), telecommunication sector (75.60), steel sector (73.30), pharmaceuticals (72.90) and transport & logistics (71.40) On the other hand, it is experienced that the mean score of all the sectors comes from the categories good or very good on evaluation score card. In order to test the significant differences in corporate governance practices across various sectors, one way ANOVA is used. It tests whether groups formed by the categories of independent variables are similar. Results of one-way ANOVA are shown in Table 12.

TABLE 12: ONE WAY ANOVA TO TEST SECTOR- WISE DIFFERENCES

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	989.400	9	109.933	1.715	.097
Within Groups	5770.600	90	64.118		
Total	6760.000	99			

The table reveals that there is no significant difference between governance practices of firms across various sectors at 5 % level of significance.

CONCLUSION

The present study is an endeavor to explore the existing corporate governance practices of Indian firms relying on the study of annual reports of 30 sampled firms from ten different sectors. It is inferred from the analysis that 13 firms out of 30 sampled firms, by following very good governance practices got B grade and 09 firms with C grade have enough good governance in their entities. Also, only 08 firms follow excellent governance mechanism with grade A, whereas, remaining 03 firms fall in score range of 64-50 and thus attain an average status of governance with D grade. From the results, it can be over and done with that firms in India are at present are following good quality governance practices as per mandatory and non-mandatory guidelines of clause 49 of the listing agreement, but at a halt there is a vast span for expansion towards an ideal state of governance in India for brilliance. Additionally, there are no momentous differences in corporate governance practices are followed by firms across different sectors.

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