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# CONTENTS

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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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# CORPORATE GOVERNANCE PRACTICES: A STUDY OF SELECTED LEADING HOTELS IN INDIA

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## ABSTRACT

*The study evaluates the corporate governance practices of Indian hotel industry. Good corporate governance has become a contemporary issue today because it has become part of the superior economic context in which businesses operate. The hospitality industry is viewed as a major foreign exchange earner (FEE) of country but little is known about their corporate governance practices. To limelight on the research gap this study is undertaken. The governance variable s considered in this paper include the composition and size of board, break up of chairman as executive and non executive, separation of chairman from CEO/MD, composition of various committees like audit committee, remuneration committee, investors grievances committee, frequency of board meetings and women directors on the board of selected companies. The whole study is based on secondary data. The eight leading hotel companies are selected for the study. The study discovered that, all selected hotel companies have met the minimum requirement of companies' code. The study reveals that all sampled hotel companies have healthy, sound, effective and efficient corporate governance practices which helped in stimulating the performance of companies, maximize their operational efficiency, achieve sustained productivity and also ensure to give protection for the intact of shareholders' interests.*

## KEYWORDS

Corporate Governance, Hotel Industry, Stakeholders.

## INTRODUCTION

Good Corporate Governance is essential for achieving long-term corporate goals and to enhance stakeholders' value. Good Corporate Governance practices are characterized by a firm commitment and adoption of ethical practices by an organisation in all its dealing with a wide group of stakeholders. With increasing interdependence and free trade among countries and citizens across the globe, good Corporate Governance should be followed by every company to distinguish itself. Corporate governance may be defined as the set of systems, principles and processes through which a company is governed. It provides a set of guidelines that can direct or control the company in a bid to fulfill its goals and objectives. It adds to the value of the company and is also beneficial for all stakeholders in the long term. It is the framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government and the community).

It is about commitment to values, about business conduct and about making distinction personal and corporate funds in the management of a company. It consists of "procedures and processes according to which an organization is directed and controlled".

According to the Institute of Company Secretaries of India, corporate governance is "the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders". According to Cadbury Committee (UK), 1992, corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, employees, auditors and the management. In simple word, corporate governance can be defined as set of law, rules, regulations, systems principles, process by which company is governed.

The concept of corporate governance emerged in the late 1980's when several companies collapsed in U. K. because of inadequacy of operating control. This led to the setting up of Cadbury committee on corporate governance in 1991 by the London stock Exchange. The report of this committee along with the code of best practices was published in December 1992 for compliance by all the listed companies.

The main objective of any corporate governance system is to simultaneously improve corporate performance and accountability as means of attracting financial and human resources on the best possible terms and of preventing corporate failure.

In India, the question of corporate governance has come up mainly in the wake of economic liberalization and de-regularization of industry and business. In the wake of recent financial scandal (the Satyam Scam Case) in India and in the context of global financial crisis, the term corporate governance has become a topic of hot debate. After liberalization serious efforts have been made towards overhauling the system with SEBI formulating the Clause 49 of the Listing Agreements dealing with corporate governance. Clause 49 of the Listing Agreement to the Indian stock exchange comes into effect from 31 December 2005. It has been formulated for the improvement of corporate governance in all listed companies. The latest and revised Clause 49 of listing agreement has been introduced on 8th April 2008. The statutory and non-mandatory requirements are stipulated by the revised Clause 49 of the listing agreement of stock exchange board of India and also the provisions required by the Company's Act 1956.

## INTRODUCTION TO TOURISM AND HOTEL INDUSTRY

Indian tourism industry is blooming due to an increase in foreign tourist arrivals and greater number of Indians travelling to domestic destinations than before. Over the last decade, India has transformed into one of the most popular tourism destinations in the world, largely as a result of the government's "Incredible India" campaign which showed India in a new light to overseas tourists. The total market size of Indian tourism and hospitality sector stood at US$ 117.7 billion and is expected to touch US$ 418.9 billion by 2022. The foreign direct investment (FDI) inflows in hotel and tourism sector during April 2000 to July 2013 stood at US$ 6,754.49 million, as per the data released by Department of Industrial Policy and Promotion (DIPP). Foreign tourist arrivals (FTA) during the Month of August 2013 stood at 4.74 lakh as compared to FTAs of 4.46 lakh during August 2012, registering a growth of 6.4 per cent. Foreign exchange earnings (FEE) during the month of August 2013 were US$1.294 billion as compared to FEEs of US$1.306 billion during August 2012 and US$ 1.264 billion in August 2011.

The country has received 43.06 lakh foreign tourists during the period January-August 2013. India is perceived as one of the fastest growing medical tourism destination. The number of medical tourists coming to India has registered a growth of 40 per cent in the past six months.

Hotels are an important component of the tourism product. They contribute in the overall tourism experience through the standards of facilities and services offered by them. The Indian hotel industry is highly fragmented with a large number of small and unorganized players. The major players in the organized segment include Indian Hotels Company Ltd, Hotel Leela Venture Ltd, EIH Ltd, ITC Hotels, Assian Hotels, and ITDC.

## LITERATURE REVIEW

Many researchers have examined the corporate governance practices in India in other industry but unfortunately not much has been examined with respect to corporate governance in Indian hotel industry. Empirical literature on the corporate governance practices of the hospitality industry remains very meager.

Gupta et al. (2003) studied the corporate governance reporting practices of 30 listed companies in BSE, Sensex by extracting corporate governance section from the annual report. According to them although the companies provided information related to all dimensions there was considerable variance in the extent and quality of disclosure made by companies in the annual report.

Ramsay and Hoad (1997) analysed the extent to which Australian companies disclose their corporate governance practices by examining the annual reports of 268 listed companies. They made detailed analysis of both the degree of compliance with the provisions of corporate governance code of best practices as well as explanations given in case of non compliance. The study revealed an increase in the trend for compliance as well as use of uninformative explanations in case of non-compliance.

Javed and Iqbal (2007) studied as to wether difference in the quality of firm-level corporate governance has an effect on the firm-level performance of the companies listed in the Karachi Stock Exchange.

HVS Executive Search reviewed corporate governance practice in 21 publicly listed European hotel companies. They used four categories:

- Size, makeup and independence of the board
- Committee structure and effectiveness
- Presence of interlocks, insider participation and related transactions
- Commitment to pay-for-performance for executives and director pay

The study reveals that only five out of the21 companies had recommended number of board members and few companies had corporate governance committee.

Godfred et al (2009) studied the corporate governance practices of two sets of hotels (3 star and 4 star hotels) in Ghana. The study adopted the comparative study methodology by comparing governance structure of 3 star and 4 star hotels. The study revealed that governance practices did not meet best practices around the world. It was ascertained that there were similarities and differences in the governance practices of the two classes of hotels. They suggested that serious concerns which must be addressed in the hospitality industry is to offer the needed boost to the economy of Ghana.

Basak Denizci Guillet and Anna S. Mattila (2010) studied to explore the nature and extent of corporate governance practices in the U.S. hospitality industry. The results show that hospitality firms with weaker shareholder rights tend be relatively larger in size, have relatively higher earnings per share, closing stock prices, return on equity, lower capital expenditure per assets and higher leverage ratios. Moreover, there were significant differences in several firm performance measures between high and low corporate governance firms across the three industry segments, namely hotels, restaurants and casinos.

Literature review reveals that relatively less attention has been paid to the concept of corporate governance in Indian hotel industry as compared to other industry and this created the need for the study.

## RESEARCH METHODOLOGY

The scope of the study is limited to 8 leading hotels which are listed in BSE stock exchange. Those hotels are Indian Hotels Company Ltd. (IHCL), Hotel Leela Venture Ltd, MHRL, Asian Hotels (North), EIH Ltd., Taj Gvk, ITC and Jaypee hotels. The whole study is based on secondary data. Analysis has been made by covering the collected data into relative measures such as averages and percentages. Analysis is limited to only one year because disclosure practices usually do not change dramatically over time (Botosan, 1997). All annual reports were available on the respective company websites and have been accessed thus. Annual reports studied for all companies are for 31st March 2013.

The governance variable s considered in this paper include the composition and size of board, break up of chairman as executive and non executive, separation of chairman from CEO/MD, composition of various committees like audit committee, remuneration committee, investors grievances committee, frequency of board meetings and women directors on the board of selected companies.

## RESULT ANALYSIS AND DISCUSSION

### 1. COMPOSITION AND SIZE OF THE BOARD

Responsibility for setting objectives and monitoring and controlling the firm's activities rests with the board of directors, which is central to decision-making within the firm and was highlighted by Fama and Jansen (1983). The board size and composition influence its ability to function effectively. Linck et al.(2008) show that board structure tends to reflect the firm's performance, the need for monitoring of activities given the available growth opportunities and the transparency of the firm's earnings. Board meeting frequency may indicate the level of board activity; following poor performance, more frequent meetings are often associated with better future operating performance (Vafeas. 1999)

According to the study, the span of the board size is wide ranging from as small as 7 to as high as 18. The size of the board should ideally be a collective decision of the board and it is an internal matter. Majority of the selected companies, have board size of 14 to 18 directors. Only two companies have smaller board having 7 to 8 directors.

### 2. COMPOSITION OF BOARD AS EXECUTIVE, NON EXECUTIVE AND INDEPENDENT DIRECTORS

The board of directors comprises executive (inside) and non-executive (outside) directors. Executive directors provide overall strategic guidance and are experts in their field. Non-executive directors commonly are professional directors with experience in an unrelated business and substantial reputations to protect. There should be an appropriate balance between executive and non-executive directors on the board.

Clause 49 Boards of directors of listed companies must have a minimum number of independent directors. Where the Chairman is an executive or a promoter or related to a promoter or a senior official, then at least one-half the board should comprise independent directors. In other cases, independent directors should constitute at least one third of the board size.

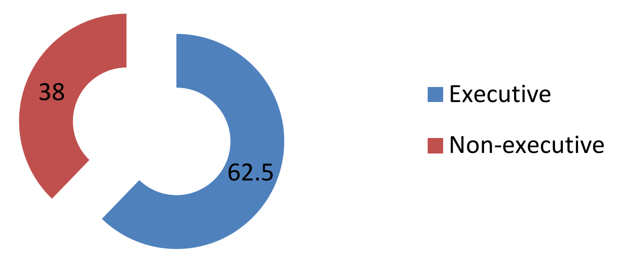
**Figure 1: Composition of Board(%) as Executive, non executive and independent directors**

Hotel companies recognize the value of independent directors as our research shows that 49% of directors are independent on the Indian Hotels boards. Additional 28% represented by non executive directors. Only 23% are executive directors on the hotels board. All the boards sampled are thus independent and this is quite encouraging as the trend now is to have more non-executive directors. This shows that selected hotel company boards are very independent.

**3. BREAK UP OF CHAIRMAN AS EXECUTIVE AND NON-EXECUTIVE DIRECTORS**

Chairman is the most important person in the Governance structure if a company. The element of independence of the board therefore is dependent on whether the chairman is Executive or non-executive. This is reflected by the fact that SEBI's Clause-49 requires 50% independent directors on the board of companies, which have executive chairman, and 1/3 rd in case of the companies with non-executive chairman.

Figure 2: Break up of Chairman as executive and non-executive

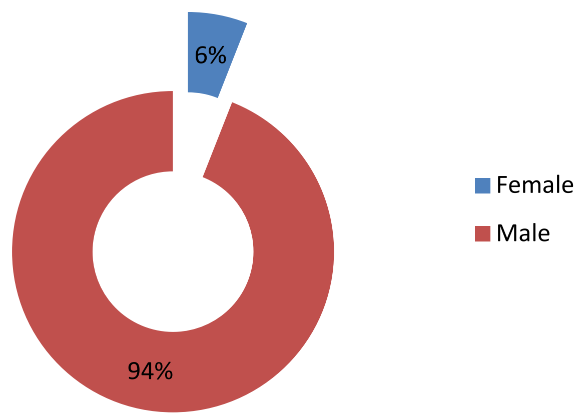



Research shows that 62% companies are executive chairman (Family member) and remaining 38% companies have non-executive chairman.

**4. WOMEN DIRECTORS IN THE BOARD**

Diversity on the board, per say is an important factor in governance; same is true for gender diversity. The reveals that, the number of female as director in selected hotel companies falls far short when compared to the male directors. It is miserably low, only 6% directors on board of selected companies are female and remaining 94% are male.

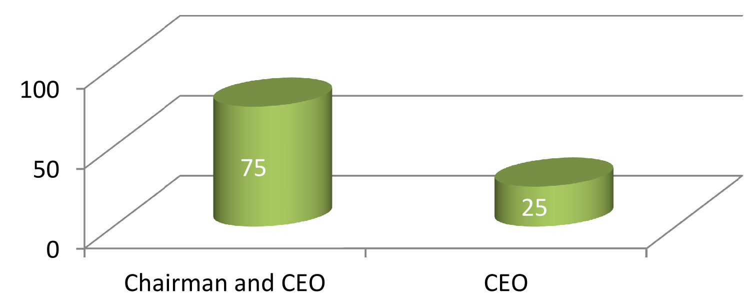
Figure 3: Women Direcor of selected companies




**5. SEPARATION OF BOARD CHAIRMAN FROM CHIEF EXECUTIVE OFFICER (CEO)/ MANAGING DIRECTOR (MD)**

Janson (1993) recommends that the function of CEO could be separated from the function of the board chairman. The CEO duality (CEO is also the board chairman) diminishes board control and promotes CEO entrenchment (Hambrick and Finkelstein, 1987). The chairperson's role includes ensuring the board's activities are carried out with due diligence and informantion is provided to directors on a timely basis. The CEO is responsible to the board for overall strategy and investment, and for managing day-to-day affairs. These roles clearly differ in their nature and emphasis and governance codes typically recommend that they be assumed by different individuals (Cadbury Report, 1992).

Figure 4: Seperation of Chairman from CEO/MD



Study reveals that, 75% of selected hotels operate the one-tier board topology where the board chairman is the same as CEO /MD with only 25% operating the two-tier system.

**6. FREQUENCY OF BOARD MEETINGS**

A board that fails to hold regular meetings runs the risk of being unable to fulfill its responsibilities to the shareholders, the company and other stakeholders.
Study reveals that, on an average board of selected companies meet 5 times in financial year. According to Clause 49 gap between two meetings has to be 3 months. All companies' board meets frequently.

**7. BOARD EVALUATION**

Good corporate governance practices recommend the need for the company to evaluate the board's performance. Majority of selected hotels do not evaluate the board's performance while only 25% do evaluate the boards performance. Only 25% of selected companies are disclosed the Mechanism for evaluating Non-Executive Board Members.

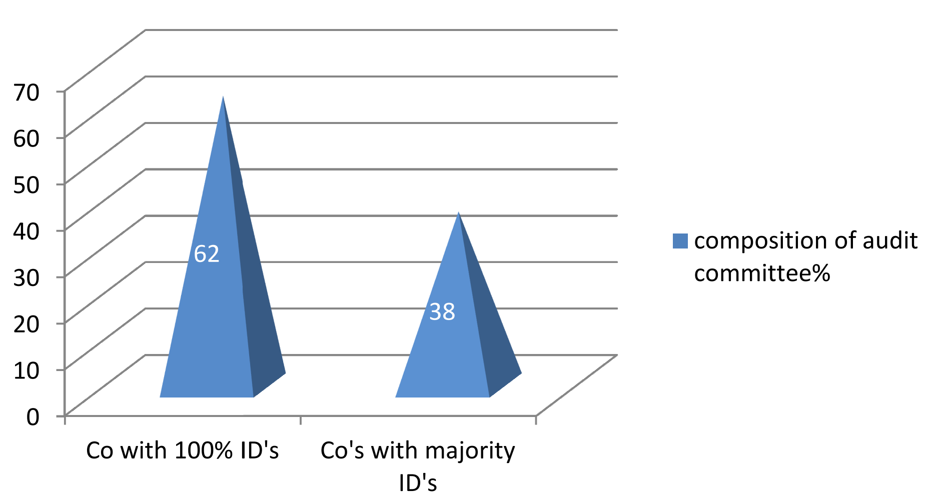
**8. COMPOSITION VARIOUS COMMITTEES**

According to Clause 49 of listing agreement of the stock exchange, all sampled hotel companies have recommended committees such as audit committee, investors grievance and remuneration committee

**9. AUDIT COMMITTEE**

It is generally considered imperative that the audit committee be confined to non-executive directors if it is to carry out its duties effectively. Audit committee, by far, is the most important board committee and critical to governance process. Therefore majority of independent directors only can ensure transparent and accountable functioning of audit committee. The idea is to strengthen the financial oversight of finance and accounting practices, through board. Here, sampled hotel companies fair very well.

**Figure 5: Composition of audit committee%**




Study reveals that all sampled companies are having audit committee and. The audit committees have average size of 3 but qualification and area of specialization were not investigated. Above diagram shows that most of the sampled companies (62%) are having 100% of their members as Independent Directors. The remaining 38% of the companies have majority of independent directors as member of their audit committee.

**10. INVESTOR GRIEVANCE COMMITTEE**

The Share Transfer & Shareholders' / Investor Grievance Committee have the required powers to carry out the handling of shareholders / investor grievances. The brief terms of reference of the Committee include redressing shareholder and investor complaints like transfer of shares, non-receipt of Annual Reports, non-receipt of dividends, etc.
The study shows that all selected hotel companies are having investor grievance committee composed with on an average three directors. Majority directors are executive directors.

**11. REMUNERATION COMMITTEE**

All selected hotel companies are having Remuneration Committee which is a non – mandatory requirement as per the Listing Agreement. The Committees recommends managerial remuneration payable to the Whole-time Directors. Majority of selected companies Committees consists of on an average 3 Non-Executive Directors.

**12. DISCLOSURE**

According to clause 49 of listing agreement of stock exchange all companies should disclose the Basis of related party transaction, accounting treatment, Risk management, Proceeds from public issues, rights issues, preferential issues, Remuneration of directors and According the study. Majority of selected hotel companies discloses above mentioned information.

## CONCLUSIONS AND RECOMMENDATIONS

The study discovered that, all selected hotel companies have met the minimum requirement of companies' code. The span of the board size is wide ranging from as small as 7 to as high as 18. The size of the board should ideally be a collective decision of the board and it is an internal matter. Majority of the selected companies, have board size of 14 to 18 directors. Only two companies have smaller board having 7 to 8 directors.
Research shows that 62% companies are executive chairman (Family member) and remaining 38% companies have non-executive chairman. Study also reveals that, 75% of selected hotels operate the one-tier board topology where the board chairman is the same as CEO /MD with only 25% operating the two-tier system. This is in infringement of best practices. Best practices of corporate governance all over the world recommend the separation the functions of CEO/MD from the board chairman.
Study states that, on an average board of selected hotel companies meet 5 times in financial year. According to Clause 49 gap between two meetings has to be 3 months. According to the study All companies follow the requirement of Clause 49 and board meets frequently which is good sign of Best corporate governance practice.
Majority of selected hotels do not evaluate the board's performance while only 25% do evaluate the boards performance. Only 25% of selected companies are disclosed the Mechanism for evaluating Non-Executive Board Members. It is recommended that company should evaluate the board's performance.
Most of the sampled companies (62%) are having 100% of their members as Independent Directors in their audit committee. The remaining 38% of the companies have majority of independent directors as member of their audit committee.

According to the study, Indian hospitality world have short of women director in the board. Therefore hospitality sector should make efforts to appoint more women directors on their board so as to jack up obvious advantages of assortment on the board.

The study can be concluded as all sampled hotel companies' practices healthy, sound, effective and efficient corporate governance which helped in stimulating the performance of companies, maximize their operational efficiency, achieve sustained productivity and also ensure to give protection for the intact of shareholders' interests. The competitive hospitality industry motivated the selected hotel companies to adopt good corporate governance practices to achieve highest level of transparency, accountability and integrity and enhances shareholders' value.

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