EMPIRICAL STUDY OF CORPORATE GOVERNANCE W.R.T. BOARD OF DIRECTORS PRACTICES AMONG TOP FIVE INDIAN CORPORATE SECTOR

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Abstract

Indian corporate sector needs to work on international corporate governance pattern and for that they need to comply with the norms of international standards with respect to corporate governance. . BoDs are the most important people of corporate who are responsible for proper governance of their corporate. BoD must try to act proactively towards managing their corporate with best corporate governance principles. After 1992 CG has emerged as the most essential system in each corporate. This research aims at studying Indian corporate practices in terms of corporate governance with Board of Directors parameters and evaluating the same with the international Board. Further it talks about the some important mandatory compliance and disclosure that corporate must disclose and comply with to upgrade it as per the international corporate governance standards. This research tries to aims at checking effectiveness of governance among sample Indian companies which has major stake in the capital market and there by researcher would like to find the governance pattern among Indian corporate sector.

Keywords: Corporate governance, Board of Directors, performance, disclosure, compliance

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1. Introduction

The news of Mr. Rajat Gupta on insider information of Board room resulting into insider trading (US) is not new to the world. There are many companies in the world as well as in India, those who failed in terms of accountability part whenever the question of governance has come. It has been observed that competition is swelling every day and that has given birth to number of good and bad aspects. Many corporate houses want to survive in cut-throat competition by applying unethical practices, while some wants to enjoy healthy competition through ethical and transparent activities. The reaction of both the aspects is obviously, represent (manifested) in their action i.e. positive for the positive action and negative for negative actions.

Good governance is the expectations of every stakeholders, specially, shareholders. Governance is related with the controlling of the activity. While controlling of the corporate sector can be termed as corporate governance. But the implementation of 'Corporate Governance' is not that much simple as it may appear. It is very wide subject and it includes lot of discussion. No doubt corporate governance is recently emerged concept and has taken the attention of each and every country, investors and corporate executives, but its needs are in urgent state.

Corporate governance is the practice, which requires transparency, accountability and good performance from the corporate executives. It has its strong base from the internal management of company to the shareholders' value as well as corporate social responsibility.

Reasons for selecting corporate level units which are functioning in India is to find out whether corporate governance is actually being practiced by the corporate level executives or not.

Corporate Governance

Corporate Governance may be defined as "A set of systems, processes and principles which ensure that a company is governed in the best interest of all stakeholders." It ensures commitment to values and ethical conduct of business; Transparency in business transactions; Statutory and legal compliance; adequate disclosures and effective decision-making to achieve corporate objectives. In other words, Corporate Governance is about promoting corporate fairness, transparency and accountability. Good Corporate Governance is nothing but managing good business. (Source ; www.bseindia.com)

2. Literature Review

Corporate houses are failing in terms of accountability part whenever question of governance has come. Mousa F. Al Manaseer (2012) expressed that the board of directors is the primary internal governance mechanism charged with overseeing executive decisions. Cullinan and Sutton (2002) found that the CEO and other insiders were involved in 90% of the companies fraud in their sample from 1987-1999. Furthermore, Baysinger and Butler (1985) found that companies perform better if boards include more outsiders.

Researcher will analyse effectiveness of corporate governance compliance and disclosure among sample companies on the basis of Board performance with respect to CG through using chi-square.

3.Board of Directors and their role in corporate governance

"Board of Directors are group of people who are appointed by the shareholders to run and manage the company in which they have invested their money"

Prime and major role of the board of directors – as representatives of the shareholders, is to supervise the function of the corporate and make certain that it continues to operate in the best interests of all stakeholders including shareholders.

By looking to the today's corporate complexities and environment one can say that there it is no simple or straightforward task for any Board member. Each corporate aims at achieving its bottom line- profit maximisation and while doing that, sometimes governance becomes challenging. Today, Board success is a key performance driver of the Indian companies. Each stakeholder expects fair management from their selected Board of Directors. With growing expectations of stake holders, Boards can take several actions to govern their corporate more effectively.

Indian boards must shift away from being a rubber stamp to being a strategic talent for the company. Board of Directors need to set the character from top in promoting a transparent culture that promotes effective dialogues among the directors, senior management, and various function and risk managers. Boards should look beyond the old philosophy where board members were supposed to act as representative of shareholders and they have to think as now strategic partners in terms of appointing and selecting qualified directors with individual areas of expertise. Board must work on how effectively discharge the role of board with full integrity.

Corporate Governance also stresses on appointment of Independent Director, who apart from receiving his/her remuneration does not have any materialistic relation with company. Independent directors should significantly give to the functioning of the board through vital understanding of the company and the business. Boards must acquire a hard look at its own performance evaluation and enable continuous feedback and communication with stakeholders.

Board of Directors who appoints Management representatives **have more** responsibility than anyone else in organisation structure. They have to ensure that they recruit team of those management people who has high level of integrity along with knowledge.

Effective board of directors will build that strong capacity in organization that will allow them to protect shareholders rights and prevent risk from future adverse to the corporate and their shareholders in terms of managing governance aspect. Strong policy will lead towards strong governance and that is in the hand of Board of Directors.

Starting from Cadbury committee to Sarbanes Oxley to Rahul Bajaj Committee –all of them have stressed on the BoD and its direct impact on governance matter. Board of Director's involvement, representative ability and capacity to take firm decision, reflects effectiveness of their functioning.

Board of Directors parameters

Corporate governance norms related to the board of directors **are very** important for all companies to follow.

Researchers have first identified the global parameters for measuring the effectiveness of board of directors. Thereafter the global parameters are compared with parameters of the selected Indian corporate BOD's governance parameters. This has been done on the basis of the disclosure and compliance part. The researcher has concluded as to what improvements are necessary in terms of governance related to board of directors of selected Indian corporate. Few parameters are also proposal to the present Indian company bills.

Disclosure and implementation of corporate governance norms with respect to BOD

In corporate hierarchy two types of managements are envisaged: i) companies managed by Board of Directors; and ii) those by a Managing Director, whole-time director or manager subject to the control and guidance of the Board of Directors.

- As per Clause 49, for a company with an Executive Chairman, at least 50 per cent of the board should comprise independent directors. In the case of a company with a non-executive Chairman, at least one-third of the board should be independent directors. This is implemented in order to have tradeoff in decision making
- It would be necessary for chief executives and chief financial officers to establish and maintain internal controls and implement remediation and risk mitigation towards deficiencies in internal controls, among others.
- Clause VI (ii) of Clause 49 requires all companies to submit a quarterly compliance report to stock exchange in the prescribed form. The clause also requires that there be a separate section on corporate governance in the annual report with a detailed compliance report.
- A company is also required to obtain a certificate either from auditors or practicing company secretaries regarding compliance of conditions as stipulated, and annex the same to the director's report.
- The clause mandates composition of an audit committee; one of the directors is required to be "financially literate".
- It is mandatory for all listed companies to comply with the clause by 31 December 2005.
- Board of Directors are required to posses the required qualification which would help them in carryout business operations smoothly.
- Clause 49 pays special attention to the composition and functioning of the audit committee, requiring at least three members on it, with an independent chair and with two-thirds made up of independent directors--and having at least one "financially literate" person serving. The Clause spells out the role and powers of the audit committee and stipulates minimum number and frequency of and the quorum at the committee meetings.

Other areas of clause 49 of listing agreement should be considered while study and findings

- The areas where Clause 49 stipulates specific corporate disclosures are: (i) related party transactions; (ii) treatment; (iii) risk management procedures; (iv) proceeds from various kinds of share issues; (v) remuneration of directors; (vi) a Management Discussion and Analysis section in the annual report discussing general business conditions and outlook; and (vii) setting and committee memberships of new directors as well as presentations to analysts. In addition, a board committee with a non-executive chair is required to address shareholder/investor grievances. Finally, it is mandated that the process of share transfer (that had been a long-standing problem in India) be expedited by delegating authority to an officer or committee or to the registrar and share transfer agents.

- The CEO and CFO or their equivalents need to sign off on the company's financial statements and disclosures and accept responsibility for establishing and maintaining effective internal control systems. The company is also required to provide a separate section of corporate governance in its annual report, with a detailed compliance report on corporate governance. It is also required to submit quarterly compliance report to governing authority where it is listed. Finally, it needs to get its compliance with the mandatory specifications of Clause 49 certified by auditors or by practicing company secretaries.

- In addition to these mandatory requirements, Clause 49 also mentions non-mandatory requirements concerning the facilities for a non-executive chairman, the remuneration committee, half-yearly reporting of financial performance to shareholders, training and performance evaluation of board members, and perhaps most notably a clear whistle blower policy .

- It has been recommended by many committees at international level that there has to be separate meeting for Independent Directors in absence of executive directors.

- Company should appoint lead Independent Director (ID) to manage the leadership function with respect to ID .

4. Research Methodology

In order to study and analyze the extent to which corporate governance norms are adhered by BOD in Top Indian five companies, annual reports of the sample companies are used as the data source. Further, data have been analyzed with the help of a questionnaire/ parameters selected and corporate governance score has been allotted.

Researcher thought this study it is required to analyse the extent to which corporate governance norms are adhered to by BoD in Indian top five companies. . For this purpose the Annual reports of the sample organizations need to be analyzed with the help of a questionnaire selected and corporate governance score needs to be allotted.

4.1. Questionnaire / Parameters (For estimating Corporate Governance Code)

The present study aims to examine the governance practices established in the corporate sector within the Indian regulatory framework. This study aims at carrying out to assess governance practices and processes followed by Indian corporate houses. The study also aims to assess the substance and quality of reporting of Corporate Governance practices in annual reports along with the disclosures and practices of the Indian companies in terms of governances and not only performance.

The study aims to evaluate the state of compliance of various governance parameters w.r.t. BoD in these sample companies. The parameters include the Statutory and Non mandatory requirements stipulated by revised Clause 49 of the listing agreement as prescribed by Securities and Exchange Board of India (SEBI) and relative proposal to existing clause 49 as per international guidelines w.r.t. BoD .

Hypothesis: Ho- There is no difference in BOD corporate governance practices in sample Indian corporate and ideal/expected standards (Global)

H1 - There is significant difference in BOD corporate governance practices in Indian corporate and ideal / expected standards

4.2 Selection of Sample

The sample selected for this study comprises of 5 companies. The sample companies in this study have been selected out of the top private companies listed on Bombay Stock Exchange(BSE) based on Market Capitalization.

The sample selection of these companies is made on the ground that they are renowned players in various sectors and their scripts dominate and influence the stock market movement of the country. These companies are having a large basket of products.

As the research is based on the secondary data of publically listed company's annual report, The research conducted by relying upon the published annual reports, for the year 2011-12 of these companies.

The companies which are considered are as under on the basis of their market capitalization.

Table 1 : Sample Profile

BSE – Market capitalization as on date 15th February 2013

Name of Company	**Market Capitalization (Unit.. Rs. / USD)**
Reliance Industries	272758.13
State Bank of India	149860.01
ITC	237014.75
TCS	282052.09
ONGC	275315.35

4.3 Corporate Governance Score

Total score of each company has been calculated done and corresponding number has been given like 1, for effectively disclosed/complied with and followed and 0, for poor disclosure/non compliance.

4.4 Evaluation of Governance Standard.

After analyzing the Board governance structure, researcher decided mind is what is the standard and quality of governance that has been achieved by various companies. So researcher has followed Chi square technique to judge the difference between expected score and actual score and came with the conclusion with the chi-square table.

Considering the fact that there have been certain genuine difficulties because of non availability of inside information, no scope for discussion with key officials of these companies, their auditors - internal auditors, directors and major shareholders etc. as an alternative, it is developed as a working method. This point based method gives weightage to various components and ultimately, each of these companies has been awarded different points on key parameters, which have been explained in the further part of the discussion.

4.5 Limitations of Study

Despite of some efforts, there are several limitations of this study; they can be mentioned as under:

1. The study is conducted using the secondary sources of information i.e. annual reports of the company as well as information asvailable on public domain i.e. websites of the company.
2. The study cover the period of one financial year i.e. 2011-12
3. The study is limited to 5 of the top companies listed on BSE based on market capitalization.
4. The Corporate Governance study is calculated by Score which can have a scope for further research.
5. The study uses chi-square method to evaluate the score and test the hypothesis, which can be considered as the limitation.

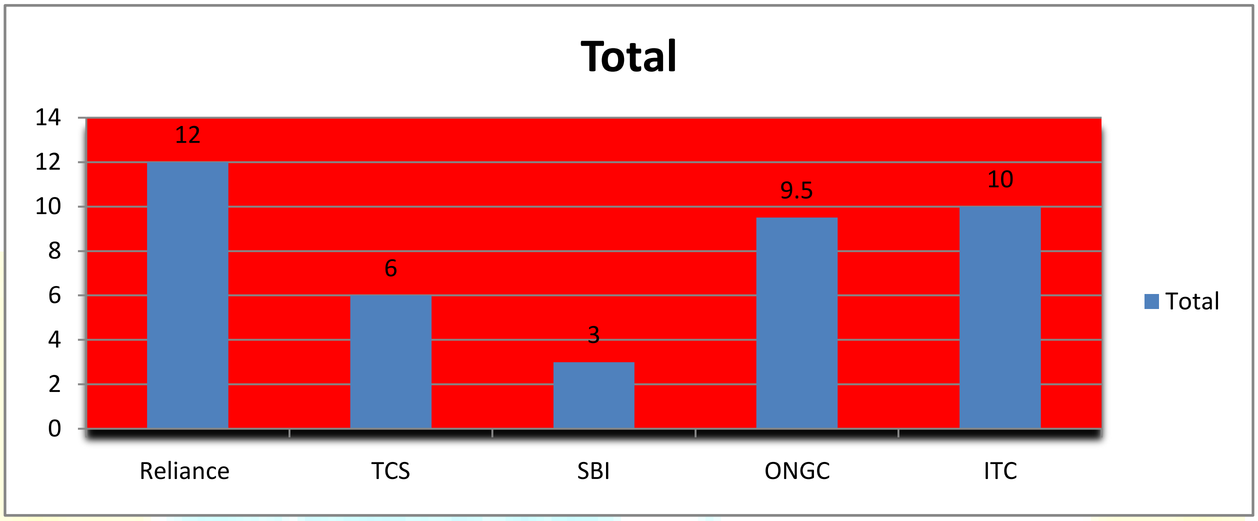
5. Data Analysis and Interpretation

1. Researcher has assigned score to expected answer of the question.
2. Researcher has then assign score to the sample data, for example if answer is positive and as per expected score – it has been given “1” and “0” if not as per the guide line. 0.5 has been assigned to partially complied
3. Total score of the individual company has been done to get total score of the corporate score.
4. Total score was then tested using chi square technique using chi square formula manually.
5. Further hypothesis testing has been done to arrive at conclusion.

Table 2. Data Analysis

BOD Parameter	Reliance	ITC	SBI	ONGC	TCS
Separate Section for CG	1	1	1	1	1
Chairperson Details	1	1	1	0.5	1
Independent director to total Director	1	1	1	1	1
Office of Chairman and CEO	1	1	0	1	1
Lead senior Independent Director	1	0	0	0	0
Women Directorship	1	1	0	1	1
Disclosure of nomination of ID with criteria	1	1	0	1	0
Definition of Independent Director	1	0	0	0	0
Tenure of independent director	0	1	0	0	0
. Separate meeting for ID	0	0	0	0	0
. Orientation for BOD including ID	1	1	0	1	0
. Regular communication to non executive directors	1	1	0	1	1
. Training and workshops for BOD	1	1	0	1	0
. Affirmative statement from ID	1	0	0	1	0
TOTAL	12	10	3	9.5	6

Chart 1. Data Analysis of CG score of sample companies



6. Data Testing

Researcher has tested data with the help of chi-square and tested it at 5% confidence level and 52 degree of freedom as 4*13 { d.f. is Degrees of Freedom = (c - 1)(r - 1) = 4(13) = 52} and drawn the conclusion.

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$$\chi^2=\sum \frac{(f(a)-f(e))^2}{f(e)}$$

χ^2 = Chi-square

$f(a)$ = actual frequency or number of observations in a cell

$f(e)$ = expected frequency or number of observations in a cell in the theoretical distribution

$\sum$ = symbol for "summation" the differences are cumulative

-Source PQsysytem. Com

Table 3 Chi square calculation results

	Reliance	TCS	SBI	ONGC	ITC
Total score	12	6	3	9.5	10

Expected	14	14	14	14	14
Actual/ expected	0.85	0.42	0.21	0.67	0.71
Observed - expected	-2	-8	-11	-4.5	-4
Square of result	4	64	121	20.25	16
(O — E)2/ E	0.285	4.57	8.64	1.446	1.14

Table 4 Chi square results

Table value of chi-square results at 5 % confidence level is 69.83 and calculated value total is 16.08.

Table value is greater than calculated value hence we will accept the null hypothesis i.e. there is no difference in the corporate governance score with respect to BOD among the Indian top corporate unit and ideal corporate governance standards.

7. Discussion.

Author (researcher) has evaluated the companies and checked with the international standards and commented on the governance pattern of the Indian companies. From the researcher data analysis and findings done in this research reveals that there is wide difference in terms of the governance pattern that these companies follow. It also reveals that when it comes to the mandatory disclosures and implementation of the norms are concerned, all corporate followed the norms, but when it comes to non mandatory governance norms, only one or two corporate out of five have followed and implemented the CG norms with respect of Board and its governance. These shows how corporate are being governed in Indian corporate level. No doubt CG level has been improved a lot in past few years and intervene of SEBI and other competent authority in forcing CG practices has improved the picture , but there is still long way to go. Some gray areas like BoD training, orientation and lead independent director others which are considered as ideal corporate governance standards. Author has concluded that Indian legal system as well as the government must take some initiatives to improve governance pattern and system in India to attract more investors in Indian capital market and retain trust of trust of various stakeholders. Board of Directors are the main players in CG performance of any corporate as they are the ones who are appointed to handle company's performance in strategic manner and in the best interest on society and all other direct and indirect stakeholders.

8. Findings and Conclusion

From above data analysis it can be concluded that corporate governance in terms of Board of Directors (BoD) does not vary among the sample. The data analysis reveals that there is definite variation in observations that might be because of some situations. The study reveals that Indian corporate needs more clarity in terms of corporate governance parameters. Many corporate houses are not following consistent pattern in CG disclosures as well as actions that shows somewhere the system lacks consistency. It has been observed that Indian corporate governance standards in terms of BoD are almost similar and null hypothesis gets accepted that there is no difference in corporate governance score – BoD among five sample companies.

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