

CORPORATE GOVERNANCE AND ITS COMPLIANCE BY INDIAN COMPANIES

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Abstract

Corporate governance and business ethics is obligatory for every corporate world by every stakeholder groups. Many giant Business groups failed due to neglecting corporate governance and business ethics in practice. In failure, one of the factor responsible is noncompliance of the guidelines given under corporate governance clause 49 of Kumar Mangalam Birla Committee on Corporate Governance. This committee was appointed by the Securities and Exchange Board of India (SEBI). The recommendations were accepted by SEBI in December 1999, and are now incorporated in Clause 49 of the Listing Agreement. SEBI also instituted a committee under the chairmanship of N. R. Narayana Murthy which recommended enhancements in corporate governance. SEBI has incorporated the recommendations made by the Narayana Murthy Committee on Corporate Governance in clause 49 of the Listing Agreement. The revised clause 49 was made effective from January 1, 2006.

The researchers in this study have made an attempt to find the compliance of the clause 49 by the selecting ten leading Indian Companies from various sectors and selecting sub clauses from the clause 49 of the Listing Agreement. After having collected the data from the Annual Reports and Corporate Governance reports researchers analyzed the data by applying points to the compliances of the various sub clauses in 49 of the Listing Agreement to arrive at the conclusions.

Introduction

Corporate governance is about maintaining an appropriate balance of accountability between three key players: the corporation's owners, the directors elected by owners elect, and the managers selected by directors. Accountability requires not only transparency, but also an effective means to take action for poor performance or bad decisions to take the whole responsibility of every action to improve performance.

Corporate governance is about commitment to values and ethical business conduct. It is about how an organization is managed. This includes its corporate and other structures, its culture, policies and the manner in which it deals with various stakeholders. Accordingly, timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the company is an important part of corporate governance. This improves public understanding of the structure, activities and policies of the organization. Consequently, the organization is able to attract investors, and enhance the trust and confidence of the stakeholders.

Corporate governance guidelines and best practices have evolved over a period of time. The Cadbury Report on the financial aspects of corporate governance, published in the United Kingdom in 1992 was a landmark. The Sarbanes-Oxley Act, which was signed by the U.S. President, George W. Bush as a law in July 2002, has brought about sweeping changes in financial reporting. This is perceived to be the most significant change to federal securities law since the 1930s. Besides laying down the standards for directors and auditors, the Act has also laid down new accountability standards for security analysts and legal counsels.

In India, the Confederation of Indian Industry (CII) took the lead in framing a desirable code of corporate governance in April 1998. This was followed by the recommendations of the Kumar Mangalam Birla Committee on Corporate Governance.

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clause 49 of the Listing Agreement. The revised clause 49 was made effective from January 1, 2006.

Revised Clause 49 of the Listing Agreement:-

SEBI, with a view to improve corporate governance standards in India and to enhance the transparency and integrity of the market, constituted a Committee on Corporate Governance under the chairmanship of N. R. Narayana Murthy. The committee issued two sets of recommendations: the mandatory recommendations and the non-mandatory recommendations. SEBI has incorporated the recommendations made by the Narayana Murthy Committee on Corporate Governance in Clause 49. A revised Clause 49 was made effective from January 1, 2006.

Objectives

1. To find, whether the selected companies comply the SEBI guidelines of clause 49 of the Listing Agreement.
2. To know the percentage of compliance of clause 49 of the Listing Agreement..

Hypothesis

H₁: There is a significant percentage of compliance of SEBI guidelines of clause 49 of the Listing Agreement.

Methodology

For the purpose of this study simple point's allocation method is used. Points allotted on the basis of the seven criteria selected for the study while taking the clause 49 of the listing agreement into account. The structure of the points and calculation of percentage is as given in Table - 3 and Table - 4.

Once the percentage of the independent directors, independent directors of Audit committee, ownership concentration and Managerial Ownership are calculated then next we can allot the points as per the percentage and finally total points gain by the each company will be taken for the analysis purpose. After calculating the total point's weight given as per the importance to maintain the compliance of the corporate governance recommendation given under the clause 49 of the listing agreement and to find the difference by simple points and weighted points. This will give the clear idea about the degree of compliance of the clause 49 of the listing agreement.

Sampling Design

In this study, ten companies were selected based upon their performance we think that they are leading companies to their respective sectors.

Data for the sample collected from the company's website and for the year 2008-09.

Table 1: Industry wise selection

SR.NO.	INDUSTRY	NO OF COMPANY SELECTED
1	Automobile – Two & Four Wheelers	02
2	Media	01
3	Chemicals	02
4	Shipping	01
5	Watches	01
6	Information and Technology	02
7	Textile	01
	TOTAL	10

Table 2: List of the Company Selected for analysis.

SR.NO.	Name of the Company	Industry
1	Atul Co.	Chemicals
2	Bajaj Auto Ltd.	Automobile – Two & Four Wheelers
3	Dish TV	Media
4	Gokuldas Text.	Textile
5	Info Edge	Information and Technology
6	Infosys	Information and Technology
7	Tata Chemical	Chemical
8	Tata Motors	Automobile – Two & Four Wheelers
9	Titan Industry	Watches
10	Varun Shipping	Shipping

Sources of Data

Data required for the purpose of study are collected from various sources. Ten companies are selected for the analyses. The main source of data collection is from the Annual Reports of the companies. Annual Reports were extracted from the company website.

Data Analysis

This study encompasses 10 companies covering 4 quarters from April 2008 to 31st March 2009. All the companies from the various sectors refer Table 1 Seven clauses was selected for the study

Table 3: Clauses selected for the study

Sr. No	Clause 49 of the Listing Agreement
01	Composition of the Board Of Directors
02	% of Meeting Attended Board of Directors
03	Audit Committee
04	Remuneration Committee
05	Grievance Committee
06	Complaints Status
07	Shareholding Pattern of the company

i.e. Composition of the whole time & Independent Director, number of board meeting attended by the Board of Directors, number of members and number of meetings attended by Audit committee number of members and number of meetings attended by Remuneration committee, number of members and number of meetings attended by Grievance committee, total number of complaints received and solved and percentage of shares held by the directors of the company.

Points ranging from 1 to 5 are allotted on the basis of the performance of each criterion including all sub clauses except percentage of shareholding by directors Range is given in the Table – 5

Table 4: Range Score and Points allotted

Range Score	Points
0%-----20%	1
21%----- 40%	2
41%-----60%	3
61%-----80%	4
81% and above	5

Table 5: Percentage of shareholding by directors

Range Score	Points
0%-----20%	5
21%----- 40%	4
41%-----60%	3
61%-----80%	2
81% and above	1

Table 6: Composition of the Board of Directors

Sr No	Name of the company	Total no. of Directors	Whole time	Independent	% of Independent Director	Points Score
1	Atul Co.	10	3	7	70	4
2	Bajaj Auto Ltd.	16	7	9	56	3
3	Dish TV	7	1	6	86	5
4	Gokuldas Text.	8	5	3	38	2
5	Info Edge	10	4	6	60	3
6	Infosys	15	7	8	53	3
7	Tata Chemical	12	6	6	50	3
8	Tata Motors	13	6	7	54	3
9	Titan Industry	12	6	6	50	3
10	Varun Shipping	7	2	5	71	4

After analyzing the variation in composition of board of directors of all companies and classifying them according to the degree of variations, it is observed that there is only one company which gain 05 points i.e. Dish TV , two companies in the range of 61% to 80% gain 04 points and all reaming companies lies below 60% range. This analysis shows that the most important clause in 49 of the listing agreement was neglected by 70% of the selected companies.

Table 7: Percentage of Meetings Attended by the Board of Directors

Sr No	Name of the company	No of meeting held	No of meeting attended	% of meetings attended	Points Score
1	Atul Co.	7	5	74	4
2	Bajaj Auto Ltd.	6	5	86	5
3	Dish TV	7	5	65	4
4	Gokuldas Text.	4	4	88	5
5	Info Edge	4	4	90	5
6	Infosys	6	5	87	5
7	Tata Chemical	12	9	76	4
8	Tata Motors	9	8	89	5
9	Titan Industry	8	6	77	4
10	Varun Shipping	6	5	79	4

Above data of the meeting attended by the Board of Directors are satisfactory. Almost all ten companies score 4 or more than 4 points which fully satisfy the one of the clause of 49 of the listing agreement. 100% selected companies satisfy the recommendation given under this clause. Still there is 50% companies lies between the range of 61% to 80% which show that there is a scope for the improvement for these companies.

Table 8: Audit Committee

Sr No	Name of the company	Total no of members in Audit committee	No of meetings held	No of meetings attended	% of meetings attended	Points Score
1	Atul Co.	3	7	7	95	5
2	Bajaj Auto Ltd.	5	4	3	85	5
3	Dish TV	4	6	4	58	3
4	Gokuldas Text.	3	4	3	75	4
5	Info Edge	5	5	4	75	4
6	Infosys	6	4	4	100	5
7	Tata Chemical	4	8	8	100	5
8	Tata Motors	4	9	7	75	4
9	Titan Industry	7	6	4	60	3
10	Varun Shipping	3	4	4	100	5

Another important committee from the Corporate Governance point of view is a Audit Committee. Audit committee look after all the financial matter and safeguard the interest of Investors and Creditors of the company. Composition of audit committee and percentage of the members who attended Audit Committee meeting is relevance for the study. Observing the above data we found that 50% of the selected companies compiling the requirement of clause 49 of the Listing Agreement. Out of 10 companies 02 companies i.e. Dish TV and Titan Industry totally neglected such an important clause. Rests of 3 companies are also come in the range of 75% which is also not very satisfactory but it seems that they are trying to improve their performance. After analysis on the basis of weight assign (See Appendix) two companies not complying the Clause 49 of the Listing Agreement.

Table 9: Remuneration Committee

Sr No	Name of the company	Total no of members in Remuneration committee	No of meetings held	No of meetings attended	% of Meetings attended	Points Score
1	Atul Co.	3	0	0	0	1
2	Bajaj Auto Ltd.	3	3	3	100	5
3	Dish TV	3	3	2	67	4
4	Gokuldas Text.	0	0	0	0	1
5	Info Edge	3	3	2	67	4
6	Infosys	6	4	4	100	5
7	Tata Chemical	3	3	3	100	5
8	Tata Motors	5	1	1	100	5
9	Titan Industry	3	1	1	100	5
10	Varun Shipping	0	0	0	0	1

Remuneration Committee fixes the various remunerations to the directors of the committee. Ultimately the performance of this committee influence of the professionalism and peaceful atmosphere within the company as well as outside of the company. To keep harmony within the company the performance of this committee is very important. Observing the above data we found that 30% from the selected 10 companies totally neglected this clause. Atul Co., Gokuldas Text. and Varun Shipping companies are not constituted Remuneration Committee at all. Two Companies i.e. Dish TV and Info Edge performance are not satisfactory as they lie in 67% range. The directors of these companies are neglecting the compliance of clause 49 of the Listing

Agreement. 50% from the selected companies are satisfying the clause 49 of the Listing Agreement by 100%.

Table 10: Grievance Committee

Sr No	Name of the company	Total no of members in Grievance committee	No of meetings held	No of meetings attended	% of meetings attended	Points Score
1	Atul Co.	4	5	5	100	5
2	Bajaj Auto Ltd.	3	0	0	0	1
3	Dish TV	3	1	1	100	5
4	Gokuldas Text.	4	2	2	100	5
5	Info Edge	3	3	2	67	4
6	Infosys	4	4	4	100	5
7	Tata Chemical	3	2	1	50	3
8	Tata Motors	4	2	2	100	5
9	Titan Industry	0	0	0	0	1
10	Varun Shipping	4	0	0	0	1

Another highly weighted clause is Grievance Committee which solves any grievances by shareholders, creditors and outsiders of the company. Constitution and regular meetings of grievances committee is expected in clause 49 of the Listing Agreement which keep company under the compliances of the Corporate Governance. Observing the above data gives surprising result. Which hammer the basic concept of the Corporate Governance. 03 out of 10 selected companies there were no meetings held during the financial year 2008-09. These companies totally neglected the compliance of clause 49 of the Listing Agreement. Out of the remaining, 05 companies comply 100% of the clause 49 of the Listing Agreement. Rest of the two companies performance is within the range of 50% to 67% which is also not satisfactory.

Table 11: Complaints Status

Sr No	Name of the company	Total No of Complaints Received During the year	Total No of Complaints Solved During the year	% of Complaints Solved During the Year	Points Score
1	Atul Co.	16	16	100	5
2	Bajaj Auto Ltd.	1	1	100	5
3	Dish TV	16	16	100	5
4	Gokuldas Text.	13	13	100	5
5	Info Edge	5	5	100	5
6	Infosys	743	743	100	5
7	Tata Chemical	15	15	100	5
8	Tata Motors	1189	1189	100	5
9	Titan Industry	25	24	96	5
10	Varun Shipping	209	209	100	5

Regarding the complaints status of the companies we observed that 100% compliance of the clause 49 of the Listing Agreement. All selected companies compiling the clause 49. The ratio of complaint received from various parties especially from the shareholder regarding the share transaction, online trading etc. all the companies are very alert and solve almost 100% quires received. In case of Titan Industry out of the total 24 complaint only 1 complaint was pending and unsolved which is negligible in percentage. From this observation we can say that all the selected companies take care of their goodwill.

Table 12: Shareholding Pattern of the company

Sr No	Name of the company	% of shares held by directors of the company	Points Score
1	Atul Co.	39.27	4
2	Bajaj Auto Ltd.	49.61	3
3	Dish TV	DNA	1
4	Gokuldas Text.	88.27	1
5	Info Edge	4.89	5
6	Infosys	16.49	5
7	Tata Chemical	29.23	4
8	Tata Motors	41.73	3
9	Titan Industry	25.17	4
10	Varun Shipping	0.05	5

Composition of Shareholding pattern is also high weighted in clause 49 of the Listing Agreement. Concentration of economic power can be judged by the no of equity shares held by the directors of the company and the number of shares held by the other than directors. In this analysis, we observed that only 30% i.e. 3 companies believe in diversification of economic power which holds only 0.05% to 16.49% of shares by the directors which show good corporate governance policy by complying the clause 49 of the Listing Agreement. One company ie Dish TV data was not available but all other companies fails to comply the most important sub clause of 49 of the Listing Agreement. Compliance ratio is 30:70 which is most considerable.

Results and Interpretation

In this study, the researcher have applied simple point and weighted average points classification to study selected 10 companies to find out whether the companies follow the clause 49 of the Listing Agreement in practice or not.

The study reveals that the on an average 50% of the selected companies are seriously complying the recommendations given in clause 49 of the listing Agreement (See Appendix) Out of the remaining 05 companies 03 companies i.e. Gokuldas Textile, Tata Chemicals and Titan Industry totally neglected the clause 49 of the Listing Agreement and remaining 02 companies does not comply the clause with full efforts. Infosys is leading in compliances of this clause.

Conclusion

From these observations, it is possible to state that it is feasible to find the compliances of clause 49 of the Listing Agreement by applying simple point and weighted average point allocation method. It is also possible to ascertain the efforts of the company for compliance of the clause 49. These companies are following seriously the code of conduct under clause 49 of the Listing Agreement, which means they are responsive to the changes made by the government in policies. This also indicates that these are more reliable companies and will survive in the critical situations and in an era of globalization. This is also helpful for investment analysis that these companies with higher compliance of 49 Listing Agreement can be more reliable in investing their

hard earn money.

From this, one can conclude by stating that not 100% but at least more than 90% points gain will satisfy the motto of the corporate governance. All the companies have to keep touch with clause 49 of the Listing Agreement and try to fulfill the maximum recommendations given in this clause.

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APPENDIX

Table 13: Total compliances of clause 49 of Listing Agreement

Sr No	Name of the company	Composition of the Board Of Directors	% of Meeting Attended Board of Directors	Audit Committee	Remuneration Committee	Grievance Committee	Complaints Status	Shareholding Pattern of the company	TOTAL POINTS EARN	% OF COMPLIANCES OF CLAUSE 49 OF LISTING AGREEMENT	RANK FOR COMPLIANCE OF CLAUSE 49
1	Atul Co.	4	4	5	1	5	5	4	28	80.0	4
2	Bajaj Auto Ltd.	3	5	5	5	1	5	3	27	77.1	5
3	Dish TV	5	4	3	4	5	5	1	27	77.1	5
4	Gokuldas Text.	2	5	4	1	5	5	1	23	65.7	7
5	Info Edge	3	5	4	4	4	5	5	30	85.7	2
6	Infosys	3	5	5	5	5	5	5	33	94.3	1
7	Tata Chemical	3	4	5	5	3	5	4	29	82.9	3
8	Tata Motors	3	5	4	5	5	5	3	30	85.7	2
9	Titan Industry	3	4	3	5	1	5	4	25	71.4	6
10	Varun Shipping	4	4	5	1	1	5	5	25	71.4	6

Table 14: Total compliances of clause 49 of Listing Agreement applying Weight

Sr No	Name of the company	Composition of the Board Of Directors	% of Meeting Attended Board of Directors	Audit Committee	Remuneration Committee	Grievance Committee	Complaints Status	Shareholding Pattern of the company	TOTAL POINTS EARN	Weighted average Of Compliance Clause 49	Rank For Compliance of Clause 49 Of Listed Agreement
1	Atul Co.	160	80	100	20	200	150	120	830	59.29	3
2	Bajaj Auto Ltd.	120	100	100	100	40	150	90	700	50.00	5
3	Dish TV	200	80	60	80	200	150	30	800	57.14	4
4	Gokuldas Text.	80	100	80	20	200	150	30	660	47.14	8
5	Info Edge	120	100	80	80	160	150	150	840	60.00	2
6	Infosys	120	100	100	100	200	150	150	920	65.71	1
7	Tata Chemical	120	80	100	100	120	150	120	790	56.43	6
8	Tata Motors	120	100	80	100	200	150	90	840	60.00	2
9	Titan Industry	120	80	60	100	40	150	120	670	47.86	7
10	Varun Shipping	160	80	100	20	40	150	150	700	50.00	5
	WEIGHT	40	20	20	20	40	30	30		1400	