

“A Study of Corporate Governance Disclosure Index in Top Ten Indian Companies”

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Abstract:

This paper assesses the extent of corporate governance disclosure and the impact of a comprehensive set of corporate governance (CG) parameters (Board Structure, Board Committees, transparency and related disclosure, financial information, Customer Care/Grievances, Social Responsibility and Related Disclosure) on the extent of corporate governance disclosure in India. Accordingly, this research studies the corporate governance disclosure practices of selected top ten companies include TCS, RIL, ITC, ONGC, Maruti Suzuki, Bharti Airtel, NTPC, Hind Zinc, Sun Pharma, and Asian Paints listed in BSE on high market capitalization during the study period from 2014-15 to 2018-19. Researcher finds out the basis of CG formula calculated and testing total actual score of corporate governance disclosure and given to a rank percentage wise and also end of this chapter parameter wise one way ANOVA test analysis has been made for companies. The result of the study support a null hypothesis there would be significant difference in corporate governance disclosure index of Board Structure, Board Committees, transparency and related disclosure, financial information, Customer Care/Grievances, Social Responsibility, and Practices among sample units. However, in the Indian context, such research has not been fully explored.

Key Words: *Corporate Governance, Disclosure Practices, Board structure, Board Committees, transparency and related disclosure, financial information, Customer Care/ Grievances, Social Responsibility and Related Disclosure, Corporate Performance, BSE.*

1. Introduction:

As management of company owns by someone else than the owners. It becomes quite important to run business with maximum efficiency. The aspects focused on how corporate governance practices are helpful for developing transparency and equality. Every corporate investor expects good management from the corporate leaders who run the business. This is the reality that shareholders are the real owners of the company as they invest in the company. But they cannot peep into the regular affairs of the company. Researchers classify these measures with internal corporate governance mechanisms; Board structure, Board Committees, Transparency and related disclosure, Financial Information, Customer Care/ Grievances, Social Responsibility and Related Disclosure. This research focuses on the study of various disclosures for corporate governance in companies needs to be kept under consideration while formulating the various indexes.

➤ **Board structure:** Corporate governance envisages major role to the Board of

Directors. The Board of Directors ultimately responsible for the operation and financial soundness of the company. There has been a growing concern about the effectiveness of a company's board of directors because the added time and attention boards take is not necessarily translating into better governance.

- **Board Committees:** A board committee could also be a little working group identified by the board, for the aim of supporting the board's work. Committees are generally formed to perform some expertise work. Members of the committee are expected to possess expertise within the specified field. Boards should regularly review its own structure and performance and whether it's the right committee structure and an appropriate scheme of delegation from the board.
- **Financial Information & Transparency:** In most circumstances, the financial reporting standards required for corporate reporting are contained within the widely accepted accounting principles recognized within the country where the entity is domiciled. The board of directors could provide additional comfort to users of its financial reports. Transparency is letting the reality be available for others. This view implies a passive position on a part of the corporate into account.
- **Customer Care Grievance, Social Responsibility:** Corporate Social

Responsibility and sustainability are so closely entwined, it can be said that corporate social responsibility and sustainability is a company's commitment to its stakeholders to conduct business in an economically, socially and environmentally sustainable manner that is transparent and ethical."

The index has been created in two steps. First, a sub-index for each of four corporate governance components listed above was created. Secondly, the testing total actual score these sub-indices is calculated to compute the corporate governance index of a company. The paper reveals that companies with better corporate governance structures have a better rate of return in the market. Thus, Indian markets reward the companies with sound corporate governance mechanisms.

2. Literature Review:

Sarkar et al. (2012) constructed a corporate governance index for 500 firms listed in India on the basis of information related to four important corporate governance mechanisms like board of directors, audit committee, auditor and ownership structure. The index has been created in two parts. A sub-index was made for each of corporate governance mechanism in first step. Second, sub-indices average is calculated to compute CGI of a firm. Their results show strong relationship between CGI and market performance of the firms. It means the firms with better corporate governance structure. Better rate of return in

the market. So, Indian market rewards those firms that have strong corporate governance mechanisms.

Debabrata Chatterjee (2010) studied the corporate governance (CG) practices of three prominent Indian firms, namely ITC Ltd., Reliance Industries Ltd, and Infosys Technologies Ltd., based on four parameters namely, “Approach to Corporate Governance”, “Governance Structure and Practices”, “Board Committees” and Corporate Social Responsibility Activities. It was concluded that all the three companies are doing well both on the CG and the CSR fronts although Infosys seems to be doing much better than the other two; that all three companies are also adding “long-term shareholder value” and almost equating it with “long-term stakeholder value” is an indication of the passing away of the ‘dog eats dog’ policy of yester years.

Shukla (2005) conducted a study on Indian Corporate Governance and Board Structure. Considering the importance of corporate governance in the context of sustainable development, this paper intends to judge the responsibility of the Indian corporate sector towards its various stakeholders. The prime objective of this explanatory study was to know the composition of boards of the corporate units working in India. The corporate governance of Indian companies has been analyzed for the year ending as on March 31, 2004 for the study. One hundred companies in India were taken as a random sample for the study.

3. Objective of the study:

- To understand the concept of Corporate Governance.
- To find out the relevance of Corporate Governance with Indian Companies.
- To document the Corporate Governance practices in top-ten BSE companies.
- To examine the practice of corporate governance disclosure index on the basis of Board structure, Board Committees, transparency and related disclosure, financial information, corporate social responsibility, and shareholders satisfaction and practices for their various claims.

4. Research Methodology:

- **Scope of the Study:** Corporate governance bind to all type of companies but for precise focus, researcher has selected the companies listed in the Bombay Stock Exchange. On the basis of their high market capitalization. All the listed companies in BSE are selected top ten companies include TCS, RIL, ITC, ONGC, Maruti Suzuki, Bharti Airtel, NTPC, Hind Zinc, Sun Pharma, and Asian Paints to study and analyze their corporate governance practices.
- **Period of the Study:** This study is made for a period of five years from 2014-15 to 2018-19.
- **Tools & Techniques:** On the basis researcher has developed corporate governance index with following formula:

$$\text{Corporate Governance Index} = \frac{\text{Actual score}}{\text{Expected Score}} \times 100$$

The summary of disclosure about various groups has been summarized as under.

- Category A Indicates Excellent Disclosure parameters (75% to 100%)
- Category B Indicates Moderately Disclosure parameters (50% to 75%)
- Category C Indicates Poor / Least Disclosure parameters (Less than 50%)

The researcher has also calculated and testing total actual score of corporate governance disclosure for selected ten companies of BSE and given to a rank percentage wise. At the end of this chapter parameter wise one way ANOVA test analysis has been made for companies.

➤ **Hypothesis of the Study:**

Ho: There would be no significant difference in corporate governance disclosure index of Board of Directors Practices among sample units.

Ho: There would be no significant difference in corporate governance disclosure index of various committees among sample units.

Ho: There would be no significant difference in corporate governance disclosure index of Financial Transparency among sample units.

Ho: There would be no significant difference in corporate governance disclose index of customer care and social Responsibility among sample units.

5. Data Analysis and Interpretation:

[Table – 1]

The Score Points and Respective Index of the Parameters wise of the CG Disclosure in Relation to the Board structure, Board Committees, transparency and related disclosure, financial information, corporate social responsibility, and shareholders satisfaction.

Parameters	Companies	
	CG Index	Category
➤ Analysis of Board Structure:		
Composition of Board of Directors	82.50%	A
Profile of Board of Directors	88.75%	A
Board meeting Attendance	75.00%	B
Remuneration Paid to Directors	76.66%	A
Sitting fees paid to Directors	100.0%	A
Code of conduct and writer code / Policy to Insider Leading	100.0%	A
➤ Analysis of various Board Committees:		
Composition of Committees	50.63%	B
Attendance of Directors in Audit Committee meetings	65.00%	B
share holders/Investor Governance committee	40.50%	C
Nomination & Remuneration Committee	47.50%	C
Risk Management Committee	38.00%	C
CSR Committee	38.50%	C
Attendance of Directors in AGM/GEM	100.0%	A
➤ Analysis of Financial Information & Transparency Related Disclosure		
Financial Calendar	79.17%	A
Listing of Shares in stock exchange	76.66%	A
Details of Shares/ Shareholders	89.00%	A
International listing	70.00%	B
Stock market Data	100%	A
Share Transfer Process	96.67%	A
Dividend Payment	90.00%	A
Divided Resolution by postal Ballot	30.00%	C
➤ Analysis of Customer Care Grievance, Social Responsibility and Related Disclosure:		
Means of Communication	85.71%	A
Social Responsibilities fulfilled by complains	80.00%	A
Customer Care/ Grievance	87.50%	A
Financial Risk Management	65.00%	B
Business Environmental Responsibility	92.00%	A

As mention in the table – 1 in the total four groups like Board Structure, Board Committees, Financial Information & Transparency, and Customer Care Grievance and Social Responsibility disclosure have been included in the corporate governance disclosure norms. Researcher has presented overall analyzed given below:

- **Board Structure:** Out off total 6 parameters 5 parameters have been efficiently disclosed with A Rank and 1 parameter has been considered as moderately disclosed with B Rank.
- **Board Committees:** Out off total 7 parameters 4 parameters have been poor/least disclosed with C Rank and 2 parameters have been considered as

moderately disclosed with B Rank and 1 parameter have been considered as excellent disclosure.

- **Financial Information & Transparency:** Out of total 8 parameters 6 parameters have been excellent disclosed with A Rank and 1 parameters have been considered as moderately disclosed with B Rank and 1 parameter have been considered as poor/least disclosure.
- **Customer Care Grievance and Social Responsibility:** Out off total 5 parameters 4 parameters have been excellent disclosed with A Rank and 1 Parameters have been considered as moderately disclosed with B Rank.

[Table – 2]								
Analysis of Overall Performance List of Selected Indian Companies								
Company Name	Groups				Index			
	A	B	C	D	Total	Expected Score	Score%	Rank
TCS	460	580	340	220	1600	2520	63.49	B
RIL	510	580	360	300	1750	2520	69.44	B
ITC	440	660	300	310	1710	2520	67.86	B
ONGC	410	640	310	290	1650	2520	65.47	B
Maruti Suzuki	490	510	320	270	1590	2520	63.09	B
Bharti Airtel	500	800	340	260	1900	2520	75.40	A
NTPC	530	490	290	280	1590	2520	63.09	B
Hind Zinc	540	540	280	300	1660	2520	65.87	B
Sun Pharma	490	570	290	260	1610	2520	63.89	B
Asian Paints	450	530	330	250	1560	2520	61.90	B
Total Points	4820	5900	3160	2740	16620	25200	-	-

As the above table – 2 indicates the total ten companies, out of all nine companies are get the B rank but a single company get the A rank is Bharti Airtel company because their score is between 75% to 100%. Nine companies are getting B rank they because their score is between 50% to 75%.

After analyze the performance of the samples companies in terms of Corporate Governance Disclosure Index (CGDI), the researcher had formulated different hypothesis. These hypotheses were tested using F - Test One Way ANOVA. On the basis of this test, the following findings can be extracted.

[Table – 3]
A Table Showing Presentation of Hypothesis on the basis of Statistical Values and results of CGDI

NO.	Null Hypothesis (Ho)	F cal.	F tab.	Accepted/ Rejected
1	There would be no significant difference in corporate governance disclosure index of Board of Directors Practices among sample units.	14.64	2.073	Rejected
2	There would be no significant difference in corporate governance disclosure index of various committees among sample units.	1.28	2.040	Accepted
3	There would be no significant difference in corporate governance disclosure index of Financial Transparency among sample units.	13.38	2.02	Rejected
4	There would be no significant difference in corporate governance disclose index of customer care and social Responsibility among sample units.	2.84	2.12	Rejected

➤ The first hypothesis was that there would be no significant difference in corporate governance disclosure index of Board of Directors Practices among sample units. This hypothesis was rejected. It means there is significant difference in corporate governance disclosure index of

Board of Directors Practices among sample units. The study shows that well performance of Hindustan Zinc Ltd. is good at Composition of Board of Directors, Profile of Board of Directors, Board meeting Attendance, Remuneration Paid to Directors, Sitting

fees paid to Directors and Code of conduct and writer code / Policy to Insider Leading.

- The researcher formulated the hypothesis that there would be no significant difference in corporate governance disclosure index of various committees among sample units. The statistical results show that this hypothesis is accepted. It means that there is no significant difference in corporate governance disclosure index of various committees among sample units. The study shows that well performance of Bharti Airtel is good at Composition of Committees, Attendance of Directors in Audit Committee meetings, share holders/Investor Governance committee, Nomination & Remuneration Committee, Risk Management Committee, CSR Committee, and Attendance of Directors in AGM/GEM.
- The statistical analysis, for the hypothesis that there would be no significant difference in corporate governance disclosure index of Financial Transparency among sample units. The statistical results show that this hypothesis is rejected. It means that there is significant difference in corporate governance disclosure index of Financial Transparency among sample units. The study shows that well performance of Reliance Industries Ltd. is good at Financial Calendar, Listing of Shares in stock exchange, Details of Shares /

Shareholders, International listing, Stock market Data, Share Transfer Process, Dividend Payment, and Divided Resolution by postal Ballot.

- The last hypothesis was that there would be no significant difference in corporate governance disclose index of customer care and social Responsibility among sample units. The statistical analysis rejected the hypothesis and proved that there is significant difference in corporate governance disclose index of customer care and Social Responsibility among sample units. The study shows that well performance of Imperial Tobacco Company of India Ltd. is good at Means of Communication, Social Responsibilities fulfilled by complains, Customer Care/ Grievance, Financial Risk Management, and Business Environmental Responsibility.

6. Conclusion:

This Study is based on secondary data related to publish data of Top-10 Companies of BSE-100. This study is based only on disclosed information of the company and related with only selected Top-10 companies of BSE. Here researcher has made an attempt to analyze and evaluate disclosure of corporate governance for board structure of companies, performance of various committees in companies, financial information and transparency related disclosure, customer care/ Grievance, social responsibility etc. Especially Asian Paints

Ltd. disclosure of corporate governance in sampled company's is very poor. They need to become more transparent in disclosure of corporate governance practices while Bharti Airtel Ltd. disclosure of corporate governance is best in sampled companies. Corporate governance is a very wide term, which covers a wide range of activities that relate to the way business of firm is directed and governed. The corporate business is an increasingly important engine for wealth creation worldwide, and how companies are run will influence welfare in society as a whole. The broader objectives of corporate governance are; to ensure shareholders value, to protect interest of shareholders and various other stakeholders including customers, suppliers, employees and society at large, to ensure full transparency and integrity in communication and to make available complete, accurate and clear disclosure to all concerned (Shukla, 2008).

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