

## **CORPORATE GOVERNANCE PRACTICES FOLLOWED IN INDIA - A CASE STUDY OF TATA STEEL LIMITED**

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### **Abstract**

As Indian corporate are finding new space in domestic and global markets for business growth, their interaction with the financial markets and investing community too witnessed significant surge. In this process, corporate governance came as an effective instrument for companies to communicate with the various types of stakeholders in general and investors in particular. What began as an industry initiative of CII, corporate governance today became an essential part of the culture that defines better run companies and those held in esteem by the investors and stakeholders? This paper examines India's initial corporate governance reform efforts as well as reforms adopted in the aftermath of the Satyam scandal. An evaluation of India's corporate governance reforms demonstrates that although extensive reforms have been instituted, there remain significant lapses in implementation and enforcement. Moreover, many of the reforms that have been adopted fail to address fundamental areas of concern such as the relationship between controlling and minority shareholders, the role of promoters, the limited activism of shareholders, including institutional investors, and issues with director independence. This Article expresses concerns that these challenges may prevail because they have been shaped by unique political and social forces.

**Keywords:** *Corporate Governance, Stakeholders, CII, BSE Sensex, NSE Nifty.*

### **Introduction**

The world has recognized the need for Good Governance particularly in the context of globalization and growing menace of corruption. In recent years, there has been a growing concern towards corporate governance and the pressure of good governance from various stakeholders of companies is growing. It gained lot of attention after cases of corporate failures; non-governance and unethical corporate culture were in news. Today, modern and progressive companies have realized that ethics and corporate social responsibility makes good business sense. An ethical and socially responsible company generally fulfills the standard of good corporate governance. Good governance is

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essential to build goodwill and credibility, manage companies efficiently and transparently and prevent many corporate mishaps. Corporate governance exists at a complex intersection of law, morality, and economic efficiency. The substitution effect implies when corporate governance is weak; competition plays an important role as a disciplinary device forcing managers to improve performance and reduce slack. Good corporate governance adds an edge to a company's competitiveness. It gives investors confidence in the value proposition of a company in the long run.

### **Iron and Steel Sector in India**

Iron and steel is one of the most important industries in the Indian manufacturing sector, and India is one of the largest steel producers in the world. India continually posts phenomenal growth records in steel production. In 1992, India produced 14.33 million tones of finished carbon steels and 1.59 million tones of pig iron. Furthermore, the steel production capacity of the country has increased rapidly since 1991, in 2008 India produced nearly 46.575 million tones of finished steels and 4.393 million tones of pig iron. Originating from the first set up of a single steel plant in 1911-12, the iron and steel sector included 7 integrated iron and steel plants in 1995-96. Steel industry reforms - particularly in 1991 and 1992 - have led to strong and sustainable growth in India's steel industry. Since its independence, India has experienced steady growth in the steel industry. Government have supported the industry and pushed for its robust development. Due to the regulatory and political development of the sector only one of these plants is in private hands accounting for about 15% of total steel production.

India has immense scope for increasing consumption of steel. Steel demand is expected to rise 5-6 % annually until 2019-20. India's growing status as a global small-car hub is drawing global steel makers, especially Japanese firms, to the country. Indian steel companies have been among the best performing stocks in 2009, widely outperforming the benchmark stock index. Shares of Tata Steel, SAIL and JSW Steel rose between 2-4 times during the year, compared with the 81 percent rise in the main BSE index.

### **Profile of Tata Steel**

Established in 1907, Tata Steel has secured a place among the top ten steel manufacturers in the world and it is the Tata Group's Flagship Company with an annual crude steel capacity of over 28MTPA. It is now the world's second-most geographically-diversified steel producer with operation in 26 countries and a commercial presence in over 50 countries. The Tata Steel Group, with a turnover of US\$ 22.8 billion in FY '10, has over 80,000 employees across five continents and is a Fortune 500 company. It is one of the world's lowest cost producers of steel. Tata Steel's vision is to be the world's steel industry benchmark through the excellence of its people, its innovative approach and overall conduct. Underpinning this vision is a performance culture committed to aspiration targets, safety and social responsibility, continuous improvement, openness and transparency.

### **Objective of Study**

This study has been made to evaluate the state of compliance of requirements of corporate governance in Tata Steel, as stated in its vision statement, in line with the mandatory and non-mandatory requirements stipulated by the Clause 49 of the SEBI

Listing Agreement. It measures the board effectiveness in terms of quality of reporting of governance practices in the company's annual reports.

#### **Rationale for Selection of Companies**

Tata Steel is listed in BSE Sensex and NSE Nifty both. The following are few reasons for selection of this unit for study:

- Tata Steel is renowned companies in the steel industry.
- The company has a global exposure.
- It also mainly represents steel industry.
- The company's unit scripts dominate and influence stock market.
- It has a substantial market share in this sector.

#### **Sources of Data Collection**

The study is based on secondary data. The data has been collected from annual published accounts of the company for the year 2009-10.

#### **Data Analysis**

The study is based on the mandatory and non-mandatory requirements stipulated by clause 49 of the SEBI Listing agreement. The study pertains to year 2009-10. The grading method has been adopted for analysis. Number of requirements has been considered to measure the corporate governance effectiveness in selected units. The percentage has been found of actual compliance to the total compliance to be made as per the requirement. The company having higher percentage means higher level of corporate governance compliance and vice versa. Grade has been given as per the percentage achieved.

<b>Percentage</b>	<b>Grade</b>
Above 80	A - Excellent
60-80	B - Good
40-60	C - Average
Below 40	D - Poor

#### **Limitation of Study**

- The study is based on secondary data so it may be affected by the inherent limitation of secondary data.
- The study is restricted to a single unit only.
- The grading method is purely subjective.

#### **Analysis**

##### **• A Brief Statement on Company's Philosophy on Code of Governance**

Tata Steel. has given brief description on their corporate governance philosophy. The company wants to adopt best practice of corporate governance to protect stakeholders' interest.

##### **• Board of Directors**

###### **▪ Composition of Board**

The composition of Board of Tata Steel. has been shown as follows:

**Composition of Board and Category of Directors of Tata Steel for the year 2009-10**

Company	Total No. of Directors	Number of Executive Directors	Number of Non-Executive Directors		
			Independent	Non-Independent	Nominee
TATA STEEL Ltd.	12	1(MD)	6	5 (includes Chairman)	Nil

As per the agreement the Board of Directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors	The Company has a non-executive chairman and independent directors 50% of total number of directors. As on 31st March, 2010, company has 12 directors on board, of which 6 directors are independent. The number of non-executive directors is more than 50% of the total number of directors. The company is in compliance with the requirements.
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- **Disclosure of Tenure of Directors:**

According to the provisions, it is non-mandatory to disclose the tenure of directors. The code requires that the independent directors may have tenure not exceeding, in aggregate, a period of nine years, on the board of the company.	The company has not disclosed their policy on tenure of director
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- **Separation of Offices of Chairman and Chief Executive Officer**

As per the guidelines, there should be a clear demarcation of the roles and responsibilities of the Chairman of the Board and that of Managing Director / Chief Executive Officer.	The requirement has been followed by Tata Steel. as the Chairman and Managing Director are two different individual. Chairman is non-executive director and MD is an executive director.
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- **Disclosure for attributes of Independent Director**

The board should put in place a policy for specifying positive attributes of Independent Directors such as integrity, experience and expertise, foresight, managerial qualities and ability to read and understand financial statements.	Tata Steel. has disclosed such information
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- **Other provisions as to Board and Committees**

- Ñ **Regarding Board Meetings**

The board shall meet at least four times a year, with a maximum time gap of four months between two meetings.	There has been nine board meetings in the company during the year. Dates disclosed. Time gap between two meetings did not exceed four months.
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### Ñ Number of Memberships

A director shall not be member of more than 10 committees or act as chairman of more than five committees across all companies in which he is a director.	This requirement is fulfilled.
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### Ñ In Case of Non- compliance, if Any

It has been found that there are disclosures by the company board periodically reviews compliance reports of all laws applicable to the company. Further, also the steps have been taken by the company to rectify instances of non-compliance, if any.
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#### ▪ Code of Conduct

The Agreement requires that the board shall lay down a code of conduct for all board members and senior management of the company. The Annual report of the company shall contain a declaration to this effect signed by the CEO.	The annual report of Tata Steel reveal that the company is furnishing information about adoption of code of conduct and also affirmed compliance with the code of conduct through its CEO's declaration in the annual report.
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#### • Audit Committee

The audit committee shall have minimum two directors as members and also two-third of the members shall be independent directors	The company has total 4 members and 3 members are independent directors. Thus the company has fulfilled this requirement.
All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.	In case of the company, all members are financially literate and one member is Chartered Accountant having accounting expertise.
The chairman of the Audit Committee shall be an independent director	The report of the company reveals that their audit committee chairman is an independent director.
The Chairman of the Audit Committee shall be present at Annual General Meeting to answer the shareholder queries	The company's Audit Committee Chairman was present at the AGM.
The company may invite finance director, head of internal audit and a representative of the statutory auditor to be present at the meetings of the committee	The company's Audit Committee meetings are attended by the group chief finance officer, Chief (Corporate Audit) and Chief Financial Controller (Corporate) and Representatives of Statutory Auditors
The Company Secretary should act as the secretary to the committee	In case of the company, the company secretary acts as the secretary to the committee.
The audit committee to meet at least four times in a year and the duration shall not be more than four months between two meetings. The quorum shall be either 2 members or 1/3 of the members, whichever is greater, but there should be a minimum of two independent members present.	Eight meetings were held during 2009-10. The duration between two meetings is not exceeding four months and also it has been mention that the necessary quorum was present at the meetings.

The Clause 49 of audit committee requires disclosure of the power and role of audit committee.	No such information is provided.
The audit committee shall mandatory review certain specific information and should publish the report.	No such information is provided

● **Remuneration Committee**

Brief description of terms of reference	Tata Steel has formed the remuneration committee and broad terms of references are given in corporate governance report.
Composition of at least three directors all of whom should be non-executive directors, the chairman, being independent director	There are three members in remuneration committee, Two members are independent non-executive director which include Chairman of the committee as well. One member is non-independent non-executive director.
All the members could be present at the meeting	There had been three meetings during the year. The Chairman of the committee was present in only 2 meetings and all other members were present in all three meetings.
Chairman could be present at the AGM	The Chairman of the committee was present at the AGM
Remuneration Policy	The remuneration policy has been disclosed by the Tata Steel
Details of Remuneration as per format in main report.	The company has fulfilled the requirement of disclosing the remuneration paid to all the directors.

● **Shareholders'/Investors' Grievance Committee**

Name of non-executive director heading the committee	Mr. Ishaat Hussain is a chairman of Shareholders' committee of Tata Steel. He is a non-independent non-executive director. Thus the company fulfil the requirement.
Name and designation of compliance officer	Name and designation of compliance officer is disclosed by the company annual accounts.
Shareholders' complaints	The company has given details about the number of complaints received, resolved and pending. It has also disclosed the break-up of the nature of complaints received.

● **Nomination Committee**

Terms of Reference	Disclosed that the committee has been formed to identify independent directors to be included in board from time to time.
Nomination Committee should comprise majority of Independent Directors, including its Chairman	It can be observed from the corporate governance report that the nomination committee comprise of four members, three being independent, non-executive directors (includes chairman of the committee as well) The company hasn't held any meeting during the year.

- **Other Committees**

Committee of Directors; Executive Committee; Ethics and Compliance Committee Safety, Health and Environment Committee.	The company has formed the above committees and comply the voluntary requirements
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- **General Body Meeting**

Disclosure of Location and time, where last three AGMs held	Disclosed
Disclosure of special resolutions passed in the previous 3 AGMs	Company has passed three special resolutions in last three AGM's. Also provided the details.
Disclosure related to postal ballot	There has been no resolution passed through postal ballot in the company.

- **Disclosures**

Disclosure on materially significant transactions which have potential conflict with the interest of the company at large.	Disclosed no significant related party transactions
Details of non-compliance by the company, penalties, strictures imposed on the company by SEBI etc.	There were no non-compliance and no penalties, strictures imposed to company
Whistle Blower Policy and affirmation that no personnel has been denied access to the audit committee	Company adopted the Whistle Blower Policy
Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause.	Compliance with all mandatory requirements and also few non-mandatory requirements..
Disclosure of Accounting Treatment	No disclosure in corporate governance report. Auditor's report disclosed accounts are prepared in compliance with the accounting standards.
Board Disclosures - Risk Management	No disclosure made in corporate governance report.
Proceeds from public issues, rights issues, preferential issues etc.	No Disclosure
Remuneration of Directors	Disclosed
Management Discussion and Analysis report	It forms part of annual report.
Information to Shareholders	Few Requirements Fulfilled
Shareholder Rights - Half yearly declaration of financial performance	No information provided in corporate governance report
Audit Qualification	Compliance disclosed in corporate governance report
Training of Board Members	No information provided in corporate governance report
Mechanism for evaluating non-executive board members	No information provided in corporate governance report

- **Means of Communication**

Quarterly Results	Company published quarterly and half yearly results along with segmental report
Newspapers wherein results normally published	Name of newspapers where results normally published has been disclosed
Any website, where displayed	Name of websites has been disclosed
Whether it also displays official news releases	The company displays official news releases on its websites.
Presentations made to analyst	Posted on company's websites

- **General Shareholder Information**

The company requires to disclosed general shareholder information like AGM – date, time and venue, Financial Year, Date of book closure, Dividend payment date, Listing on stock exchange, Stock code, Market price data, Plant location, Address for correspondence etc. in their annual reports as per non-mandatory requirement of Listing Agreement.	It has been observed that the company has been able to disclose all information as prescribed by the Listing Agreement.
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- **CEO/CFO Certification**

It is mandatory for the company to published CEO/CFO certification to the board of directors on certain specific matters and disclosures in the corporate governance report	The company haven't produce the CEO/CFO certification to the board of directors and it is not published in the corporate governance report. The company has failed to comply with this requirement.
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- **Report on Corporate Governance and Compliance**

The company shall obtain a certificate from the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors' report in the annual report.	The company obtained clean certificate from the auditors, confirming that the company has complied with the conditions
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After analysing corporate governance report of Tata Steel, it has been found that the company show good corporate governance. As per the grading method and as per comparison shown in the appendix, number of criteria fulfilled by the company is 66 (84%). It is because that governance practice adopted by Tata Steel is more effective. Thus, Tata Steel has been given grade A which means excellent corporate governance practice.

### **Recommendations**

The following recommendations may be given to improve the quality and effectiveness of corporate governance report:

- The company need to disclose the policy on tenure of director.



- Tata Steel has formed the Nomination committee. All requirements has been fulfilled but there has been no meeting held during the year. So just forming a committee will not serve the purpose.
- The company need to disclose the information to the board on risk management, training to board members etc.
- The company need to have board training programmes and also their performance evaluation system in place. So the efficient management can be possible.
- The company need to get and publish CEO/CFO certification since it is mandatory requirement.

### Conclusion

As Indian companies compete globally for access to capital markets, many are finding that the ability to benchmark against world-class organizations is essential. For a long time, India was a managed, protected economy with the corporate sector operating in an insular fashion. But as restrictions have eased, Indian corporations are emerging on the world stage and discovering that the old ways of doing business are no longer sufficient in such a fast-paced global environment.

It is to measure how efficient companies are in disclosing statutory and non-mandatory requirements of Clause 49 of SEBI Listing Agreement in their corporate governance report. The grading method is adopted to measure the board efficiency in corporate governance. It has been observed that Tata Steel Limited has complied 84% corporate governance mandatory and non-mandatory requirements while Steel Authority of India has complied only 46% requirements. So, Tata Steel. has been given grade 'A' which stands for excellent corporate governance practice. Thus study would be useful to management and researcher in identifying board efficiency in corporate governance in general and steel companies in particulars.

### Appendix

**Table Showing Statutory and Non-mandatory Compliance as per Clause 49 of Listing Agreement of SEBI**

Sr. No.	Particulars	Tata
1	A brief statement on company's philosophy on code of governance.	✓
	<b>BOARD OF DIRECTORS</b>	
2	Composition of Board	✓
3	Disclosure of Tenure of Directors	
4	Disclosure for attributes of Independent directors	✓
5	Separation of offices of Chairman and Chief Executive Officer	✓
	<b>Other Provisions as to Board and Committees</b>	
6	Number of board meetings held, date on which held	✓
7	Number of other boards or committees in which director is a member or chairperson	✓
8	Review of Compliance report and rectifying non-compliance by board	✓

9	Replacement/Reappointment of Director within 180 days from the date of removal or resignation	✓
	<b>Code of Conduct</b>	
10	Information on code of conduct for all board members and senior management	✓
11	Affirmation of compliance	✓
	<b>AUDIT COMMITTEE</b>	
12	Terms of References	✓
13	Composition of committee members	✓
14	Financial literacy and accounting knowledge of members	✓
15	Committee Chairman shall be an Independent Director	✓
16	Chairman of committee shall be present at AGM	✓
17	Participation of finance director, head of internal audit and representative of statutory auditor in the meeting	✓
18	Company Secretary shall act as the secretary to the committee	✓
19	Meeting of Audit Committee	✓
20	Power and Role of Audit committee	✓
21	Disclosure of review of information by audit committee	✓
	<b>REMUNERATION/COMPENSATION COMMITTEE</b>	
22	Brief description of term of reference	✓
23	Composition, name of members and Chairperson	✓
24	Attendance of members during the year	✓
25	Chairman of committee shall be present at AGM	✓
26	Disclosure of Remuneration policy	✓
27	Disclosure of Remuneration of Directors	✓
	<b>SHAREHOLDERS'/INVESTORS' GRIVENCE COMMITTEE</b>	
28	Name of non-executive director heading the committee	✓
29	Name and Designation of compliance officer	✓
30	Information about number of complaints received	✓
31	Information about number of complaints disposed off	✓
32	Information about Number of complaints not solved to the satisfaction of shareholders	✓
33	Information about number of pending complaints	✓
	<b>NOMINATION COMMITTEE</b>	
34	Terms of Reference	✓
35	Composition, name of members and Chairperson	✓
36	Disclosure of guidelines followed by the committee and role and work done by it during the year	

	<b>COMMITTEE OF DIRECTORS</b>	
37	Terms of Reference	✓
38	Composition, name of members and Chairperson	✓
39	Disclosure of guidelines followed by the committee and role and work done by it during the year	
	<b>EXECUTIVE COMMITTEE</b>	
40	Terms of Reference	✓
41	Composition, name of members and Chairperson	✓
42	Disclosure of guidelines followed by the committee and role and work done by it during the year	
	<b>ETHICS AND COMPLIANCE COMMITTEE</b>	
43	Terms of Reference	✓
44	Composition, name of members and Chairperson	✓
45	Disclosure of guidelines followed by the committee and role and work done by it during the year	✓
	<b>SAFETY, HEALTH AND ENVIRONMENT COMMITTEE</b>	
46	Terms of Reference	✓
47	Composition, name of members and Chairperson	✓
48	Disclosure of guidelines followed by the committee and role and work done by it during the year	
	<b>GENERAL BODY MEETING</b>	
49	Location and time of general meetings held in last three years	✓
50	Disclosure of special resolution passed in the last three AGMs	✓
51	Details of resolution passed last year through postal ballot including the name of conducting official and voting procedure	✓
	<b>DISCLOSURES</b>	
52	Significant related party transactions having potential conflicts with the interest of the company	✓
53	Details of non-compliance by the company, penalties by SEBI	✓
54	Whistle Blower Policy	✓
55	Details of compliance with mandatory and non-mandatory requirements	✓
56	Disclosure of Accounting Treatment	✓
57	Board disclosures on Risk Management	
58	Proceeds from public issues, right issues, preferential issues	
59	Remuneration of Directors	✓
60	Management Discussion and Analysis Report	✓
	<b>Information to Shareholders</b>	
61	Appointment / Reappointment of director	✓
62	Relationship between Directors and filings made to SEBI	

63	Quarterly Results and Presentation to Analysts	✓
64	Shareholders/Investors Grievance Committee	✓
65	Shareholder Rights	
66	Audit Qualification	✓
67	Training of Board Members	
68	Mechanism for evaluating non-executive board members	
	<b>MEANS OF COMMUNICATION</b>	
69	Quarterly Results	✓
70	Newspapers wherein results normally published	✓
71	Any website, where displayed	✓
72	Whether it also displays official news releases	✓
73	The presentations made to institutional investors or to the analysts	✓
74	<b>GENERAL SHAREHOLDER INFORMATION</b>	✓
75	<b>CEO AND CFO CERTIFICATION</b>	
76	<b>REPORT ON CORPORATE GOVERNANCE</b>	✓
77	<b>AUDITORS' REPORT ON COMPLIANCE</b>	✓
78	<b>DISCLOSURE OF CSR POLICY</b>	✓
	<b>Total requirements complied by the company</b>	<b>66</b>
	<b>Total requirements complied by the company (%)</b>	<b>84.16%</b>

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