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Analysis of Corporate Governance and Disclosure Practices in India

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Introduction

Corporate Governance is defined as procedures and processes according to which an organization is directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among the different participants in the organization- such as board, managers, shareholders and other stakeholder's - and lays down the rules and procedures for decision- making. Corporate Governance involves a set of relationship between company's management, its board, its shareholders and other stakeholders. Corporate Governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performances are determined.

Thus Corporate Governance not only sets the directions of the organization but also controls it by way of procedures and processes. By the systems and by structure it creates, it links up all key functions of the company. In the same lines, Cadbury report, one of early studies on Corporate Governance in U.K. defined Corporate Governance as the system of directing and controlling an organization. The definition also highlights the importance of share holders and board of director' by including in the definition, that board of directors is responsible for the governance of their companies. The share holders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. Concept of disclosure

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concerns to make investing as just as possible for one and all, companies must disclose both good and bad information. In the ancient times, discriminating disclosure was a grave dilemma for investors since insiders would recurrently take benefit of information for their own benefit - at the cost of the common investor.

Major Issues in Corporate Governance

There are four major issues of Corporate Governance namely: accountability, responsibility, fairness, and transparency which are needed to ensure effective Corporate Governance.

- **Accountability:** It means that those individuals or groups in a company who make decision and take actions on specific issue are accountable for their decisions and actions. Mechanisms must be in place to ensure accountability. This provides investors with the means to question and evaluate the actions of the board and its committees.
- **Responsibility:** It relates to the behavior that allows corrective action to be taken and penalizing mismanagement and misconduct. Responsible management would, when required, put in place what it would take to set the organization on the right path. While the Board is answerable to the company, it must act responsively to and with responsibility towards all shareholders of the Company.
- **Fairness:** It must be in Practice to ensure balance in the organization. The rights of various groups have to be recognized and valued. For example, minority shareholders interest must receive equal consideration to those of the dominant shareholders.
- **Transparency:** It is the case with which an outsider is able to make significant assessment of a company's actions, its economic Fundamentals and the non-financial aspects relevant to that business. This is a measure of how good management is at making necessary information available in an open, precise and timely manner-not only the audit date but also general reports and press releases.

Review of literature

Gupta, Nair and Gogula (2013) analyzed the CG reporting practices of 30 selected Indian companies listed in BSE. The CG section of the annual reports for the years 2011-12 and 2012-13 had been analyzed by using the content analysis, and least square regression technique was used for data analysis. The study found "variations in the reporting practices of the companies, and in certain cases, omission of mandatory requirements as per Clause 49.

In a similar study, **Bhattacharyya and Rao (2015)** examined whether adoption of Clause 49 predicts lower volatility and returns for large Indian firms. The

logic is that Clause 49 should improve disclosure and thus reduce information asymmetry and thereby reduce share price volatility. The authors find insignificant results for volatility and mixed results for returns.

In another study undertaken by **Subramanian (2016)**, he identified the differences in disclosure pattern of financial information and governance attributes. A sample of 90 companies from BSE 100 index, NSE Nifty had been taken. The study finally concluded that “there were no differences in disclosure pattern of public/private sector companies, as far as financial transparency and information disclosure were concerned.

Similarly, **K. C. Gupta (2016)** traced out the differences in CG practices of few local companies of an automobile industry. The data with respect to governance practices had been collected from the annual report of the companies for the year 2014-15. The study “did not observe significant deviations of actual governance practices from Clause 49.”

The aforesaid review of studies reveals that there is a need to study the CG disclosure practices (mandatory and/or voluntary) followed by the companies in India.

Objectives of the Study

- To analyze the extent of Corporate Social Disclosure in Indian Corporate Sector.
- To examine Corporate Governance reporting and disclosure in general and discuss the form they might take in the Indian Context in the past.
- To suggest ways for improvement.

Hypothesis

The study is based on Hypothesis that:

H_o: That the existing Corporate Governance & Disclosure Practices are satisfactory & need no improvement.

H_1: That the existing Corporate Governance & Disclosure Practices are not satisfactory & need lot of improvement.

Research Methodology

The purpose of this paper is to investigate compliance with the mandatory and voluntary corporate governance disclosure requirements of SEBI clause 49. For the present study seven Power Sector Companies NTPC, NHPC, PGCL, NPCIL, Tata Power, Adani Power and Reliance Power Ltd. have been selected. The research is based on secondary data which is collected from the different statements prepared by the units under study. The study covers a period of 5 years, i.e., from year 2011-12 to 2015-16. The tools used for analysis are ratio and percentages.

Data Analysis & Interpretation

The different parameters have been derived after examining the Literature relevant to understand the Corporate Governance Practices, Categorization have been made in different slabs in order to pinpoint the major changes that have taken place within the companies under study. Changes in the slabs have been represented through percentage figures in the tables.

Table 1: Information Related to Composition of Board

Parameters	Range (in no.)	2011-12 (%)	2015-16 (%)
Board size	5-11	58.46	28.42
	12-15	42.15	56.12
	16 and above	6.13	15.09
Executive Directors on Board	0	7.13	-
	1-3	36.24	43.65
	4-8	52.08	43.65
	9 and above	3.11	9.14
Non Executive Directors on Board	0	-	5.14
	1-3	8.41	10.27
	4-8	76.58	71.12
	9 and above	17.64	14.16
Independent Directors on the Board	0	5.21	3.72
	1-3	35.24	23.62
	4-8	62.46	72.27
	9 and above	-	5.42
Board meeting held	4	14.53	10.81
	5-8	60.46	57.73
	9-13	22.62	27.32
	14 and above	6.42	9.13

In term of board size, the companies under the study have been found to maintain a minimum of 5 board members in all the companies. The board size of these companies have been consecutively increased from 2011-12 to 2015-16, i.e., more numbers of directors is being appointed on the board. Increase in board size may be due to introduction of different sub-committees within the board and increases participation of Independent directors. Participation of independent director has found a substantial increase from 2011-12 to 2015-16. All companies under the study have minimum four board meetings annually and have shown a moderate shift from 4-8 meetings. Some companies reported a large number of board meetings ranging from 9-13 and 14 and above.

Table 2: Composition of Various Committees in the Board

Parameters	Range (in no.)	2011-12 (%)	2015-16 (%)
Non Executive Directors in Compensation Committee	0	52.35	25.42
	1-2	8.16	12.81
	3-5	42.45	58.67
	6 and above	-	8.11
Independent Directors in Compensation Committee	0	52.35	21.62
	1-2	34.43	26.23

	3-5	18.22	45.42
	6 and above	-	10.81
Non Executive Directors in Audit Committee of Board	0	3.72	6.42
	1-3	63.61	52.35
	4-7	34.18	43.24
Independent Directors on Audit Committee	0	9.12	9.12
	1-3	74.97	57.67
	4-7	22.92	36.14

The Non-Executive Directors and Independent Directors have showed an increased presence in the compensation or remuneration committees of the board. It is important to note that majority of companies in power sector are government companies. These are governed by the policy decisions undertaken by the Government. So the remuneration of the Corporate Directors is decided by the respective government. Therefore, many of these companies did not have compensation committee within the board around 2011-12. But around 2015-16 most of these companies adopted compensation committee within the board.

Table 3: Assessment of Fairness in Decision Making

Parameters	2011-12 (%)	2015-16 (%)
The board of directors/Audit Committee Review key elements of the company's Financial statement	100.00	100.00
The company has a written information Disclosure policy that seeks to make all material information (financial and non-financial) fully, timely and equally available to all stakeholders	100.00	100.00
The company disclose major transactions through Annual Report, website	100.00	100.00
The Board of Directors set the Company's Risk appetite and periodically review the Risk management system	62.46	78.68
Any Organizational policy for peer review of major projects	46.98	68.58

As represented above, companies in the recent years have improved its internal risk management policy which is an indicator of sustainable business practice adopted by the companies. Over the years, companies have made substantial progressing terms of review of the major projects periodically. The periodical business risk analysis and major project review and continuous disclosure of the same in public domain can be considered as positive indicators of better governance within the companies. He present date represents that companies have taken serious measures regarding disclosures of financial policy and statement and other transactions.

Table 4: Information Related to Existence of Code and Regulatory Compliance

Parameters	2011-12 (%)	2015-16 (%)
The company has a Corporate Governance code	100.00	100.00
The codes are available on companies website	100.00	100.00
A designated officer is responsible for ensuring	94.89	100.00

compliance with the company's Corporate Governance Policies and code of Ethics		
Assurance letter from CEO regarding compliance of Corporate Governance code and company law	96.58	100.00

All the companies have adopted the Corporate Governance Code within the organization. The companies also disclose the governance code in their websites. The companies have appointed designated officers for compliance of the same. The annual Reports include CEO's assurance regarding the compliance of Corporate Governance within the organization. These indicate the seriousness of companies to internalize and improve governance practices within organization.

Conclusion

The study reveals that the participation of Executive Directors has increased over the years. Independent Directors participation on the board, as well as with the core committee increased since 2013 to 2016. The disclosure related to major projects has increased up to a large extent. From the above analysis it can be concluded that the Indian Companies are highly compliant with Corporate governance disclosure requirements of Clause 49. Disclosure increases significantly after amendment to Clause 49 as the penalties for non-compliance increase in severity. The government should along with mandatory requirements, also specify the standard format for each and every component of the report. This would give a consistency among the companies.

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