International Journal of Advanced Research in Commerce, Management & Social Science (IJARCMSS)
ISSN : 2581-7930, CIF : 2.965 , Volume 03, No. 01, January - March, 2020, pp 167-170

THE DISCLOSURE PRACTICES OF CORPORATE GOVERNANCE: A BOON TO STAKEHOLDERS

Miss Anita*

ABSTRACT

Corporate Governance concept arrived after massive and abrupt scams were unfolded in the world. A transparent working environment became a must for safeguarding the interest of the stakeholders as well as of the Organizations. Numerous measures were undertaken to cope such issues which resulted in framing of set of guidelines, principles, rules and regulations. The advent of Corporate Governance itself holds a story to foretell but this all lead to transparent mechanism need. Thus, corporate governance disclosure norms came in the existence with the help of Securities Exchange board of India. An extensive set of accounting measures and the collection of corporate governance reforms worked to align corporate insiders' and auditors' behaviour and decisions with the interests of investors. Suggested reforms enlightens the way to present a combination of historical values, exit values, and also the discounted values of future money flows expected from the specified use of combinations of assets within the organization. Such market-based reforms would require auditors to insure misrepresentations, and for managers to take equity to persuade truthful reporting. This paper primarily focuses on the needs of such disclosure practices in accordance with the SEBI (Listing Obligations and Disclosure Requirement) and does such disclosure practices works as a boon or bane for the organization and its stakeholders or not.

Keywords: *Corporate Governance, SEBI, Disclosure, Stakeholders, Disclosure Requirement.*

Introduction

Indian listed Companies are necessitated to comply with the Corporate Governance requirements as specified in the Companies Act, 2013 and SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015. While most of the companies are rigorously compliant of the Law and the Regulations to a significant extent as required, certain companies have taken efforts to go beyond what is required in the statute and have been more than compliant on the Corporate Governance requirements which mean they value the interests of the investors. However, no comprehensive tool for measuring the Corporate Governance status of the organization exists. Due to lack of suchtool, the organizations are not in a position to assess their Corporate Governance status and benchmark themselves against other organizations nor do the investors have easy-to-understand measures that provides the Corporate Governance status.

In order to address and sort above stated issues and as an initiative for the greater good, Bombay Stock Exchange (BSE) has collaborated with the International Finance Corporation (IFC) Washington, a member of the World Bank Group for developing a "CG Scorecard" for Indian corporates. The CG Scorecard i.e. corporate governance scorecard will tantamount companies to benchmark themselves on their Corporate Governance status and provide investors a standardized measure of the Corporate Governance status of any company they seek. In this regards, availed the expertise of Institutional Investors Advisory Services (IiAS), a leading proxy advisory firm in India to devise a questionnaire under the guidance of IFC and BSE.

* Research Scholar, Department of Accounting, Faculty of Commerce & Management Studies, Jai Narain Vyas University, Jodhpur, Rajasthan, India.

The CG Scorecard is based on the four OECD principles for Corporate Governance namely:

- Enforcing rights and Equitable treatment of shareholders
- Role of Stakeholders
- Disclosures and Transparency
- Responsibilities of the Board

The CG Scorecard has been developed on the above principles as a set of questions which will test the Corporate Governance status of the company on various parameters. Companies can do the self-assessment and identify the parameters where they are lacking in order to help them take corrective actions to rectify the same with the use of CG Scorecard. After duly verified by the empanelled Verifying Agencies the companies can also reach to the Investors by making their scores public. Both institutional and retail investors can use these CG Scorecard Ratings as an important factor to make their investment decisions.

BSE and IFC had organized an event in past announcing their collaboration for development of the CG Scorecard for India. Since then IFC, BSE and IiAS have been working on creating a questionnaire for the CG Scorecard that would help companies determine their Scores of Corporate Governance. In a Public Consultation Workshop held, companies, investors and market participants were given an overview of the structure of the CG Scorecard and feedback was sought from the participants. Based on the feedback received from the participants and CG experts, a final document detailing the CG Scorecard got prepared.

Evaluation

The quality of Corporate Governance practices referred to in each question shall be recognised on three levels:

- If the company follows global best practices for that element of Corporate Governance: 2 points.
- If the company follows reasonable practices or meets the Indian standard for that element of Corporate Governance: 1 point.
- If the company needs to improve in that element of Corporate Governance:0 point.

Objectives of the CG Scorecard

- To assess the quality of company's Corporate Governance and their progress over time in corporate governance practices in order to help them identify with the best followed corporate governance practices across the globe.
- To analyse in standardised and systematic way the Corporate Governance across companies, sectors and industries.
- To identify strengths and weaknesses in Corporate Governance practices to assist regulatory groups, leading to further reforms.
- To provide information to investors of the quality of the Corporate Governance of entities if made public.
- Set a base line for companies to understand their Corporate Governance levels.

Weighting of areas / categories the marks achieved under each principle or category are given certain weightages as mentioned below:

Principle (Category)	Category weight (%)
Rights & Equitable Treatment of shareholders	30
Role of stakeholders	10
Disclosure & Transparency	30
Responsibilities of Board	30
Total	100

Calculating the CG Score (an example for understanding purposes only)

Principle	Questions	Maximum Possible Marks
Rights & Equitable treatment of Shareholders	19	38
Role of Stakeholders	9	18
Disclosures & Transparency	23	46
Responsibilities of Board	19	38

Formula for calculating the Score for a Principle

(R/M)*W - where

R = Marks received based on Response to the questions under the Principle

M = Maximum Possible score for the questions under the Principle

W = Weightage assigned to the Principle

Principle	R	M	W	Principle Score
Rights & Equitable treatment of Shareholders	26	38	30	21.53
Role of Stakeholders	11	18	10	6.11
Disclosures & Transparency	34	46	30	22.17
Responsibilities of Board	27	38	30	21.32
CG SCORE				70.30

Final CG Score (rounded off to the nearest integer) = 70

In the study on "Efficacy of regulatory laws relating to venture capital funds and private equity investments a critique" by Khera, Aman (2014) it was concluded that Although SEBI has given a detailed legal framework for registration of the various Alternative Investment Funds under its new AIF Regulations, 2012, it has not been able to give the ample definitions of the Investment Advisors and the Fund Managers with respect to such funds viz. private equity funds, hedge funds, PIPE, real estate funds, venture capital funds etc. SEBI has failed to give the various legal and marketing functions to be done by such Investment Advisors and Fund Managers for such Alternative Investment Funds. In the global economic environment various regulations has been incorporated for the Investment Funds as in case of USA's Private Fund Investment Advisers Registration Act, 2010 (the "Registration Act") which defines Investment Advisors for each and every separate fund. Similarly, The European Parliament and Council has the Directives on Alternative Investment Fund Manager (AIFM) which has the legal requirement of defining the Investment Advisors and Fund Managers along with various exemptions, compulsory registration of such managers etc for Alternative Investment Funds. Under its AIF Regulations 2012, SEBI should have differentiated between who can be the Fund Manager and who shall be the Investment Advisor for different Investment Funds. The various exemptions should have been given to the open ended and close ended funds in relation to the Fund Managers and Investment Advisors. Although steps have been taken by the SEBI in its board meeting on Introduction to SEBI (Investment Advisors), Regulations, 2012 still a legal framework has to be defined for such Fund Managers and Investment Advisors with respect to various Alternative Investment Funds. Further, at this stage it is required that SEBI should set up a commission which should monitor the activities of the Fund Managers and Investment Advisors so that better regulations and control canbe made in the market thus creating a better environment for the investors.

As discussed by Malya, Sapna U (2013) in their "Study of SEBI with special reference to effectiveness of provisions against frauds and malpractices in the share market" The investors should also come within the purview of SEBI. The investors / clients giving false information regarding their financial status should also be punished. Many a times they mention the wrong particulars in the registration form with the brokers.

In the study by N. Natarajan (2011) on "A Study on the Stakeholders Perception of Corporate Governance Practices with reference to the Software Companies in India "they stated that Good corporate governance ensures that corporations take into account the interests of a wide range of constituents as well as the communities within which they operate. Proper governance of a company depends upon certain factors like professionalism, transparency, participation and relative importance given to the interest of shareholders. This study focus on corporate governance practices available in India and its adherence by companies in general and software companies in particular. The perceptions of expectations of stakeholders are in unison regarding corporate governance practices of software companies under study. However there are palpable differences in terms of perception of satisfaction of stakeholders of selected software companies taken for study. The suggestions are given based on this study to the corporates for taking appropriate steps, so as to improve upon the satisfaction level of corporate governance.

As per the study on "Corporate governance practices with reference to corporate disclosures in India" by **Solanki, Sonal S. (2018)** it was stated that Disclosure ensures transparency, timely dissemination of information by a company of its operations to its shareholders. The Researcher in the present study has tried to understand the following points:

- The Corporate Governance Disclosure practices adopted by the companies
- The relationship between corporate Governance Disclosure Score and indicators of financial performance
- Impact of Corporate Governance Disclosure practices on the performance of the company

Amongst considered 50 companies, Force Motors Ltd. of Automobile Sector has the lowest CG Score and Tech Mahindra Ltd. of IT Sector has the highest CG Score. IT Sector has the highest average CG Score and Cement Sector has the lowest the average CG Score. The variability of average CG Score is lowest in IT Sector. There is more reliability in average CG Score of IT Sector. Highest growth rate of disclosure practices is observed in Cement Sector whereas lowest growth rate of disclosure practices is observed in IT Sector. Significant difference is found in the disclosure practices within the companies of Automobile, FMCG and Pharma Sectors whereas insignificant difference is found in the disclosure practices within the companies of Cement and IT Sectors. It is observed that CG score has significant positive correlation with any of the firm performance parameters in all considered sectors except IT Sector. Through panel data regression model it is revealed that CG Score has positive impact on MV/BV Ratio, Market Capitalisation or Tobin's Q. It can be concluded that Corporate Disclosure contributes in increasing firm performance, market capital as well as value of business to a certain extent.

Conclusion

In an initiative for making informed and timely decisions on investment by the investors so as to reap the benefits of such decision in the future, it has been required mandatorily by various laws and regulations and an attempt is made in this regards from each sphere of the country for the betterment of country and her people on large scale. Corporate Governance practices being adopted does not help to evaluate an organization thus it is required to comply SEBI regulations and formulation of methods to evaluate the same. Thus Corporate Governance scorecard initiative is a step for boon and further steps are required in this direction.

References

- "Corporate Governance Reporting by Indian Companies: A Content Analysis Study," The ICFAI Journal of Corporate Governance, Volume 2, No. 4, pp. 7-18. 12. Gupta, K. C. (2006),
- "Report of the SEBI Committee on Corporate Governance," Retrieved from www.sebi.gov.in.
- Poorten, K., (2011), A Portal to Better Governance, Trustee, Vol. 64, Iss. 6, pp 6-7, Health Forum Inc., Chicago.
- Rishi, M., Singh, A., (2011), Corporate governance and international best practices: the case of Satyam, Journal of Services Research, Vol. 11, Iss. 1, pp 121-141, Institute for International Management and Technology, Gurgaon.
- Shanikat, M., Abbadi. S. S., (2011), Assessment of Corporate Governance in Jordan: An Empirical Study, Australasian Accounting Business & Finance Journal, Vol. 5, Iss. 3, pp 93-116, University of Wollongong, Wollongong.
- Anders. S. B., (2011), Website of the Month: Global Corporate Governance Forum, The CPA Journal, Vol. 81, Iss. 8, pp 72-73, New York State Society of Certified Public Accountants, New York.
- http://hdl.handle.net/10603/87388
- http://hdl.handle.net/10603/218005
- http://hdl.handle.net/10603/120172
- http://hdl.handle.net/10603/286043
- https://shodhganga.inflibnet.ac.in.
- www.sebi.gov.in