

## A STUDY OF CORPORATE GOVERNANCE PARAMETERS IN PSUs AND PRIVATE SECTOR COMPANIES IN INDIA

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Anjali Sharma\*  
Dr. Ashok Sharma\*\*

### Abstract

*In the 20th century Indian Economy was shifted from local boundaries to global level due to liberalization, globalization, and privatization. In this hour need of corporate governance becomes more important in Indian economy. Accountability and transparency are much advocated after the disclosures of the scams in various banks and manufacturing sectors. The research paper is focusing on various aspects of corporate governance in PSUs and private sector manufacturing as well as banking companies. Through the scanning of annual reports and companies and governments websites, information for corporate governance parameters extracted and analysed through single ANOVA factor.*

**Keywords:** CG, SEBI, NPA, PSUs, NED, ID.

### Introduction

Corporate Governance is a versatile subject and difficult to grasp in a brief definition. The main argument of corporate governance is to integrate sound management policies in the corporate structure in such a manner to bring economic efficiency in the organization in order to achieve twin goals of profit maximization and shareholder welfare. Corporate Governance can be defined as the application of best Management Practices, Compliance of Laws in true spirit and adherence to ethical standards for effective management and distribution of wealth in fair manner and exonerate of social responsibility for sustainable development of all stakeholders.

Corporate governance is always big deal in corporate houses. Many committees are constituted by the Government of India as well as regulatory bodies (SEBI) to give guide lines for better corporate governance practices implementation in PSUs manufacturing, PSUs banking, Private sector manufacturing, and Private sector banking companies.

### Scope of the Study

The study covering 4 PSUs and 4 private sector companies from two different sector i.e. steel manufacturing and Banking.

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\* Research Scholar, Department of Business Administration, University of Rajasthan, Jaipur, Rajasthan, India.

\*\* Associate Professor and Head, Department of Business Administration, University of Rajasthan, Jaipur, Rajasthan, India.

### Objectives of the Study

The main objects of the study is to find out corporate governance practices in manufacturing and banking companies and draw inferences on similarities or dissimilarities of corporate governance practices in PSUs and Private sector companies.

### Parameters of Corporate Governance

Every company have to publish all the required parameters in their annual report under the head of corporate governance reporting. The presentation and informative part in these parameters may be differing from company to company. The major factors of corporate governance in four PSUs companies and four non PSUs companies are selected for the study and each factor assigned 5 scale grade points for analysis purpose as under:

- **Corporate governance Philosophy:** Five grade points are assigned if the company incorporate the vision of the company towards corporate governance in their annual report.
- **Structure and Strength of Board:** The following five points are assigned: Board composition:- number of members, qualification of members, required number of NED and ID, number of board meetings, and presence of government nominee in meetings as prescribed in companies Act, SEBI and other related Act.
- **Financial Disclosures / Non financial Disclosure:** Financial disclosures 3 grade points and non financial disclosures 2 grade points are assigned. In non financial disclosures includes health, safety and securities etc.
- **Audit committee:** Composition, regular meeting, required number of Independent directors, technical support etc. is assigned 5 grade points.
- **Remuneration / compensation committee:** The composition structure of committee, disclosing managerial person's remuneration and sitting fee, ceiling disclosures, employees remuneration issues etc. are major part of 5 grade points. In PSUs all the issues are taken as per Government directions, remuneration committee did not play major role.
- **Shareholders / Investors/ Customers Grievance Redressal system:** In manufacturing companies if any types of investor grievance is not resolved in particular financial year but more than 95% grievances resolved award full 3 grade points and 2 grade points are assigned for solution of complaints for gender inequality, child labour etc. In Banking companies 2 grade points for investor grievances and 3 for customers complaints solution, if and any fine and penalty imposed by banking ombudsman then 1 grade point penalty will be assigned.
- **The Whistle Blower Policy:** Encourages employees to report any breach of any law, statute or regulation by the Bank, issues related to accounting policies and procedures, acts resulting in financial or reputation loss and actual or suspected fraud and criminal offences. The Policy provides a secure mechanism for employees to raise concerns (with an option to remain anonymous), which are appropriately and independently investigated, addressed and reported to the Audit Committee of the Board. The policy

also ensures appropriate protection to the individuals raising the concerns. Five grade points are assigned on basis of working of mechanism in companies.

- **Risk and credit monitoring Committee:** The role of risk management committee in manufacturing companies is to deal with day today operational risk, update risk related issues local and overseas. In banking companies in the current scenario, follow the RBI guide lines to control credit risk. Five grade points are given if the company perfectly deals with risk. If the any fraud is tracked, increasing of Non Performing Assets (NPA) means risk management committee is not working properly.
- **CSR Philosophy:** Reporting of CSR activities in sector wise prescribed in VII schedule, displaying the reasons why the CSR spending less than prescribed limit, unspent amount carried to next financial year or not, are the components of 5 point scale.

**Table 1: Parameters for Analysis of Corporate Governance**

Parameters	Tata Steel	JSW	SAIL	NMDC	SBI	PNB	ICICI	HDFC
Statement on Corporate governance Philosophy	5	5	5	5	5	5	5	5
Structure and Strength of Board	5	5	4	4	5		4	5
Disclosure: Financial and non financial	4	4	4	5	4	4	4	4
Audit Committee	5	5	4	4	4	4	4	5
Remuneration / Compensation committee	4	5	3	3	3	3	4	5
Shareholders / Investors/ Customers Grievance redressal system	5	5	5	5	5	5	5	5
Whistle blower policy	5	5	5	5	5	5	5	5
Risk and credit monitoring Committee	5	5	5	5	4	3	4	5
CSR Philosophy	5	4	4	5	4	4	5	5
Means of communication (Company website, annual reports, newspapers, notification etc.)	5	5	5	5	5	5	5	5
Total Grade points	48	48	44	46	44	42	45	49

Sources: Compiled from various information given in the annual reports of companies under study.

Table 1 reveals that transparency and disclosures are main pillars of governance frame work for all the companies under study. SAIL, NMDC, PNB and SBI are PSUs companies, the appointment of directors and nomination of other members are done by Central Governments. All the fixation and perks are decided as per Government norms. However all the PSUs Companies had constituted a committee on nomination and remuneration to, inter-alia look into various HR issues, matter prescribed under companies Act 2013 and SEBI regulation? All above the companies disclosed the composition of board but women director policy is not clear in the reports. In the reports, qualifications of NED were not disclosed properly in non PSUs companies. Disclosure of financial information is as per norms but non financial parameters are not disclosed by the companies. Whistle blower committee, risk monitoring

committee are needed to be more strengthening to control to fraud. In the 50 grade point scale three manufacturing companies- Tata steel, JSW steel and NMDC are dominated while HDFC banks secured highest point indicate that bank has strong vision towards the implementation of corporate governance norms. On the basis of 50 scale points as given to 10 different aspects of corporate governance a hypothesis is designed.

**H<sub>0</sub>:** There is no significant difference in Corporate Governance practices in Indian PSUs companies and Non PSUs companies.

This hypothesis is tested through single factor ANOVA

**Table 2: Testing Hypothesis**

ANOVA					
Source of Variation	F	P-value	F critical	Accepted/ Rejected	Interpretation
Between Companies	1.544	0.1667	2.1415	Accepted	There is no significant difference between PSUs and private sectors companies in corporate governance parameters

Finally, it is concluded that value of F is less than F critical value and value of P is greater than 0.05 (95% confidence level, so we accept the hypothesis and can say that there is no significant difference between PSUs and private sectors companies in corporate governance practices parameters in India. The CG practices are better in private sector companies in comparison to Public Sector companies.

#### References

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