

CORPORATE GOVERNANCE DISCLOSURE PRACTICES: A STUDY OF SELECTED STEEL COMPANIES IN INDIA

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ABSTRACT

Corporate Governance is the system by which companies are directed and controlled. The study covers three Indian Steel Companies and the three selected Indian steel companies are Tata Steel, SAIL (Steel Authority of India Limited) and JSW Steel. Top three large companies included in BSE SENSEX are selected on the basis of their market capitalization. The study is based entirely on secondary data. The research has been undertaken to assess the Corporate Governance Disclosure Practices among three Indian Steel Companies listed in BSE SENSEX for the financial year 2017-18. To evaluate how much these companies are following governance standard, 18 parameters with their sub-parameter are considered and standard have been selected on a sixty (60) points. Each point is represented by 1 for disclosure and 0 non-disclosures. After determining total scores on the parameters, companies are graded on a five-point scale and out of five scaling points, JSW steel company has excellent corporate governance disclosure practices other than two companies.

KEYWORDS: *Corporate Governance, Independent Director, SENSEX, SAIL, Five-Point Scale.*

Introduction

Corporate Governance refers to the way a corporation is governed. In other words, it shows the way by which companies are directed and controlled. It indicates carrying the business as per the stakeholders' desires. It is actually conducted by the board of Directors and the concerned committees for the company's stakeholder's benefit. It is all about balancing individual and societal goals as well as economic and social goals.

Corporate Governance is the interaction between various participants (shareholders, board of directors and company's management) in shaping corporation's performance and the way it is proceeding towards. The relationship between the owners and the managers in an organization must be sound and there should be no conflict between the two. The owners must see that individual's actual performance is according to the standard performance. These dimensions of corporate governance should not be ignored. However, corporate governance ensures transparency which ensures strong and balanced economic development. This also ensures that the interests of all shareholders (majority as well as minority shareholders) are in safe zone. The corporate governance of a firm builds confidence, faith and long term relation with its financial helpers, customers and all other stakeholders apart from formulating a vigorous and optimistic corporate image (Taruna and Shailesh, 2015).

Definitions

Corporate Governance is the system by which companies are directed and controlled (**Cadbury Committee 1992**) it involves the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled.

Corporate governance defined as "the set of conditions that shapes the ex post bargaining over the quasi-rents generated by a firm" (Zingales, 2008).

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SEBI Committee defines Corporate Governance as the “Acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is all about commitment to values, ethics, business conduct and destination between personal and corporate funds in the management of a company.

Importance of Corporate Governance in India

A corporation is a connection of various stakeholders, namely customers, employees, investors, government, society etc. Now-a-days a corporation should be fair and transparent to its stakeholders in all its transactions. This has become prominent in today's globalized business world where corporations need to access global pools of capital, need to attract and retain the best human capital from various parts of the world, need to partner with vendors on mega collaborations and need to live in harmony with the community. Unless a corporation embraces and exhibits ethical conduct, it will not be able to succeed for a long period of time. Corporations need to understand that their growth requires the co-operation of all the stakeholders; and such co-operation is enhanced by the corporations adhering to the best Corporate Governance practices.

Review of Literature

Shailesh and Taruna (2015) have been observed in their studies that the current situation of corporate governance practices in India and 100 companies from ten diverse industry sectors are analysed. The results exhibit that firms in India are currently following governance practices by following binding and non-binding guidelines issued by SEBI in clause 49 of listing agreement regarding corporate governance. But still there is a range for upgrading towards an ideal state of governance in India for excellence. Moreover, there are no major differences in corporate governance practices followed by firms across different sectors.

Maheshwari and Meena (2016) have made an attempt to understand the Corporate Governance Disclosure Practices of Automobile Companies listed in BSE Top 100 to know Corporate Governance practices in India more clearly. For this purpose, they developed Corporate Governance disclosure Index to measure Corporate Governance standard practices in Automobile Companies. Their result showed that the degree of Corporate Governance compliance is fairly good in all sampled companies. Also, revealed that Tata Motors Ltd. gained highest score in all the selected companies.

Maheshwari (2018) has found in his study that IT Sector companies have excellent Corporate Governance Practices. All companies have exhibited the changes in the structure of Board of Directors in their annual reports and the terms and conditions of appointment of the Independent Director are also exhibited in annual report of all three companies. All three companies had statutory committees like Audit Committee, Stakeholders' Relationship Committee, Remuneration Committee, Risk Management Committee and Corporate Social Responsibility Committee and also complied all mandatory requirements of Clause 49 of the Listing Agreement.

Objectives of the Study

The objective of the study is to analyse the Corporate Governance Disclosure Practices in selected Indian Steel Companies.

Methodology and Data Sources

The study covers three Indian Steel Companies and the three selected Indian steel companies are Tata Steel, SAIL (Steel Authority of India Limited) and JSW Steel. Top three large companies included in BSE SENSEX are selected on the basis of their market capitalization. The study is based entirely on secondary data. The present study is related to the financial year 2017-18. All data have been collected from the annual report to the company's website that has been updated. Some other information has been collected from various articles, journals, reports etc.

Interpretation and Analysis

The research has been undertaken to assess the Corporate Governance Disclosure Practices among three Indian Steel Companies listed in BSE SENSEX for the financial year 2017-18. To evaluate how much these companies are following governance standard, 18 parameters with their sub-parameter are considered and standard have been selected on a sixty (60) points. Each point is represented by 1 for disclosure and 0 non-disclosures. After determining total scores on the parameters given in table 2, companies will be graded on a five-point scale as given below in Table 1:

Table1: Score Results

Percentage	Remarks
80–100	Excellent
60 – 79	Very Good
40– 59	Good
01 – 39	Satisfactory

Table 2: Criterion for Evaluation of Corporate Governance Disclosure Practices of Select Steel Companies for the Financial Year 2017-2018

Sl. No.	Governance Parameters	Tata Steel	SAIL	JSW Steel
1	Disclosure of Statement of Company's Philosophy on Code of Governance	1	1	1
2	Disclosure of Composition of the Board and BOD Meetings Held. <ul style="list-style-type: none"> • Not less than 50% of the Board of Directors comprising of non-executive directors. • At least one woman director. • Where Chairman is Non-Executive Director-At least 1/3 of the board comprise Independent Director where Chairman is Executive- At least ½ of the board comprise Independent Director. • At least four BOD meetings in a year. • Attendance record of BOD meetings. 	1 1 1 1 0	1 0 1 1 1	1 1 1 1 1
3	Disclosure of tenure & age limit of directors	1	1	0
4	Disclosures regarding to Independent Director (ID) <ul style="list-style-type: none"> • Definition of ID. • Familiarization program to ID & Details of such training imparted to be disclosed in the annual report. • Separate meeting of the ID. • Selection criteria the terms and condition of appointment shall be disclosed on the website of the company. • Formal letter of appointment of ID. • Limit of No. of Directorship for ID (If whole time director then three or If not whole time director then seven) 	1 1 0 0 1 1	1 0 1 0 1 1	1 1 0 0 0 1
5	Disclosure of: <ul style="list-style-type: none"> • Remuneration policy • Remuneration of directors 	0 0	0 1	0 1
6	Code of Conduct <ul style="list-style-type: none"> • Information on Code of Conduct • Affirmation of compliance 	1 0	1 0	1 0
7	Post board meeting follow up system and compliances of the Board procedure	0	0	1
8	Disclosure of Audit Committee <ul style="list-style-type: none"> • Transparency in composition of the committee. (Qualified and Independent) • Compliance of minimum requirement of No. of Independent Directors in the committee. (Minimum three director and 2/3 of the member should be ID) • Compliance of minimum requirement of the number of committee meetings. (At least four times). • Information about literacy & financial expertise of the committee. • Disclosure of audit committee charter & terms of reference. • Disclosure of Committee report 	1 1 0 0 0 1	1 1 1 1 0 1	1 1 1 1 1 1
9	Disclosure of Nomination and Remuneration Committee <ul style="list-style-type: none"> • Formation of the committee • Information about number of committee meetings. • Compliance of minimum requirement of Non-Executive Directors in the committee. (At least 3 members) • Compliance of the provisions of independent director as chairman of the committee • Information about participation of meetings. • Disclosure of Committee report. 	1 1 0 1 0 1	1 1 1 1 0 1	1 1 1 1 1 1

10	Disclosure of Shareholders'/Stakeholders' Relationship Committee:			
	• Transparency in composition of the committee	1	1	1
	• Information about nature of complaint & queries received and disposed-item wise.	0	0	0
	• Information about number of committee meetings	1	1	1
	• Information about action taken and investors/shareholder survey	1	1	1
	• Disclosure of Committee report	1	1	1
11	Disclosure of Risk Management Committee			
	• Formation of committee	1	1	1
	• Disclosure of committee charter report	0	0	1
12	Disclosure of Additional committee			
	• Health and Safety & Environment Committee	1	1	1
	• CSR and Sustainable Development Committee	1	1	1
	• Investment Committee	0	0	1
13	Disclosure and Transparency :			
	• Significant related party transaction having potential conflict with the interest of the company	0	0	0
	• Non-compliance related to capital market matters during the last 3 years.	0	1	1
	• Board disclosure-Risk Management	1	1	1
	• Information to the board on Risk Management	0	1	1
	• Publishing of Risk Management Report	1	0	1
	• Management Discuss And Analysis	1	1	1
	• Auditor Qualification	0	1	1
	• Evaluation of non-executive directors	0	1	1
	• Resignation of Director with reason	0	0	1
14	Disclosure of General Body Meetings :			
	• Location and time of General Meetings held in last 3 years	0	1	1
	• Details of Special Resolution passed in the last 3 AGM	0	0	1
	• Details of resolution passed last year through PostalBallot including the name of conducting official and voting procedure	0	1	1
15	Whistle-Blower Policy & Vigil Mechanism	1	1	1
16	CEO/CFO certification	1	1	1
17	Compliance of Corporate Governance and Auditors' Certificate :			
	• Clean certificate from auditors	1	1	1
18	Disclosure of stakeholders' interest :			
	• Environment, Health & Safety measures (EHS)	1	1	1
	• Human Resource Development initiative (HRD)	1	1	1
	• Corporate Social Responsibility (CSR)	1	1	1
	• Industrial Relation (IR)	0	0	0
	• Disclosures of policies on EHS, HRD, CSR & IR	1	1	0

Sources: Annual Reports of Sampled Companies

Table 3: Disclosure and Non-disclosure Reports of Sample Companies

Companies	Disclosure	Non-disclosure	Total
TATA Steel	35 (58)	25 (42)	60 (100)
SAIL	46 (77)	14 (23)	60 (100)
JSW Steel	50 (83)	10 (17)	60 (100)

Sources: Annual Reports of Sampled Companies

Findings

The following findings have been found from the study:

- All the selected companies have their own philosophy on code of governance.
- The Board of Director of all three companies is duly constituted with proper balance of Executive Director, Non-Executive Director and Independent Director.
- According to SEBI's Regulations Company's BOD should be meet minimum four times with maximum gap 120 days. All three companies also comply it.

- Two companies (SAIL and JSW Steel) have disclosed their remuneration policy towards the Director's remuneration except TATA Steel.
- Companies inform their shareholders regarding the appointment of new director, quarterly result of the company and directors, responsibility statement.
- Companies give detail about AGM and detail of special resolution passed in the 3 AGM. They also inform their stakeholders with venue.
- All the sample companies exhibited information about audit committee such as transparency in composition of audit committee, committee reports etc.
- All companies have an auditor's certificate to comply with corporate governance.
- Only JSW steel companies have post board meeting follow up system and compliances of the board procedure.
- All selected companies comply with mandatory requirements of statutory committee like Audit Committee, Stakeholders' Relationship Committee, Remuneration Committee, Risk Management Committee and Corporate Social Responsibility and Sustainable Development Committee.
- All sampled companies did not give information regarding selection criteria of the independent director and training program for independent director in their respective annual reports.
- Out of five scaling points, JSW steel company has excellent corporate governance disclosure practices other than two companies.

Conclusion

From the above discussion it can be summarised that all the sample companies have good corporate governance disclosure practices. All companies have disclosed the composition of Board of Directors and statutory committees like Audit Committee, Stakeholders' Relationship Committee, Remuneration Committee, Risk Management Committee and Corporate Social Responsibility and Sustainable Development Committee in their annual reports. It has been found from the study that JSW steel company has excellent corporate governance disclosure practices as compared to two companies when five scaling points are considered. However, all the companies are doing good corporate governance practices but in order to maintain interest of stakeholders and for more transparency in business operation, it would be better if SEBI take steps to avoid any kind of fraud and to fair trading in the stock market and it would also be better a provision of penalty in case of non-compliance of corporate governance practices.

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