Chapter V

CONCLUSION AND RECOMMENDATIONS

This chapter synthesises the research efforts reported in previous chapters, summarizing the major findings. It presents and interprets results of the empirical analysis of level of corporate governance disclosure of 114 listed, large and medium scale Indian companies from the year 2002 to the year 2009, and establishes factors which influence the same. In view of the above, the conceptual model as described in chapter 3 has been used and quantitative research methods as discussed in Chapter 4 have been applied. Corporate governance disclosure score is the dependent variable in the regression model while size of the firm, leverage, profitability, listing status, revenues in foreign exchange, public or private sector, financial or non financial sector are the independent variables.

This chapter presents the conclusion and major findings of the study followed by recommendations. The main contributions of the study are then highlighted. Areas of further research are enlisted in following section.

5.1 Conclusion and Findings

The findings of the study are as follows:

- Listed Indian companies have a moderate level of disclosure with companies scoring an average score of 42.82 out of 88.

- The study has been able to identify top five Indian companies as regards corporate governance disclosures. These companies are Infosys with the highest score of 57 followed by WIPRO Ltd and ITC Ltd, both with a score of 56. These companies are followed by Tata Motors Ltd at 55 and Chennai Petroleum Corporation with a score of 54.

- The extent of disclosure of the Indian companies was found to vary among the sample, disclosure scores ranging between 31 and 57. This finding is
consistent with previous studies on disclosure in other developing countries (La Porta et al., 1999, Shleifer & Vishny, 1997).

- Infotech & telecom sector is found to have the highest disclosure score of 46.09 followed by automobiles sector at 45.28 and banking at 44.71. Fertilisers and chemicals sector ranked the lowest with an average disclosure score of 38.88. This can be explained by the fact that infotech & telecom sector in India has seen great expansion in the last few years. As a result, there is increased need for capital. To meet this requirement of capital, the sector has increasingly approached global capital markets. As a consequence, the companies in this sector have had to meet disclosure requirements of two countries - the host country and new country of listing.

- Financial sector is found to have a higher disclosure score of 43.47 than that of non financial sector which has a disclosure score of 42.47. This could be explained by the fact that financial sector is more regulated than the non financial sector.

- Public sector companies are found to have a slightly higher disclosure of 42.83 than that of private sector companies which have disclosure score of 42.55. The difference is marginal although public sector companies should be leading by example, given their size and nature of industries. The public sector in India is dominated by banking and companies in the fuel, power and steel sectors. There is an immediate need for public sector Indian companies to adopt global best practices and to undertake financial reporting with better quality information. They should view corporate governance as a tool for enhancing competitiveness rather than viewing it as cumbersome burden of regulation to be merely complied with.

- There is greater variation between scores in financial & operating information disclosure where companies, theoretically have a greater choice with respect to levels disclosure. There are 40 questions available for financial information disclosure as opposed to 26 for ownership related disclosure and 22 for board
and management related disclosure.

- Within the three main components of the corporate governance disclosure scores, disclosures for financial and operating information are highest among the sample companies. This result was along the expected lines since the regulations related to financial information were also most stringent and wide in coverage.

- Based on data analysed in the previous chapter, corporate governance disclosure in India is significantly influenced by the size of the company. Most studies such as Ahmed & Nicholls (1994); Wallace & Naser (1995); Gray et al. (1995) indicate the presence of a significant positive relationship between firm size and disclosure. This may be so because large firms may have the resources and logistics to provide more informative disclosures on corporate governance practices. A plausible explanation of the same could be differences in attitudes, efforts, and resources of medium versus large companies towards corporate governance disclosure.

- Corporate governance disclosure in India is also significantly influenced by its listing status. The results of the present research match those of previous studies such as Meek et al. (1995); Archambault & Archambault (2003) as regards impact of listing on international exchanges and disclosure. All studies have reported a positive relationship.

- Studies on relationship between leverage and disclosure have yielded mixed results. While Ahmed & Courtis (1999) have found a positive relationship, Zarzeski (1996) has found a negative relationship between leverage and corporate governance disclosure. Studies which have not found a significant relationship between leverage and disclosure include Wallace & Naser (1995) and Archambault & Archambault (2003). The present study also does not find a significant relationship between leverage and disclosure.

- Results of studies on relationship between profits and disclosure are divided. While some studies such as Verrecchia (1983, 1990) find a positive
relationship between firm performance and disclosure, some other studies such as Wallace & Naser (1995) find a negative relationship. The present study also finds a negative impact of profits on disclosure.

- All independent variables possess similar degree of significance when they are regressed individually and jointly with the dependent variable.

- Another finding is that companies do not have a consistent disclosure policy. The corporate governance disclosure scores as of March 2002 for the sample are significantly different from the score as of March 2009.

- The corporate governance disclosure score for the period of the study (2002 to 2009) indicates that financial disclosures of the sample companies have shown a continuous growth. There has been a steady improvement of overall disclosure scores through the sample during the period of the study. This is indicative of a clear movement towards better governance practices, albeit slowly. The corporate governance disclosure score increased from an average of 27 in the year 2002 to 42.82 in the year 2009. The overall pace of improvement, year on year has been the highest for the year 2005 over the year 2006. Despite the overall corporate governance improvement, the level of disclosure is still moderate. The main challenge, thus, lies in mainstreaming the process of corporate governance disclosures across firm sizes and industries.

- The standard deviation of the corporate governance disclosure score decreases steadily from 7.49 in the year 2002 to 5.39 in the year 2009. This suggests greater convergence of corporate governance disclosures in 2009 than in 2002. The convergence can be a result of the governance wave which swept Indian firms in the latter period of the study.

- There is a differential reaction of large and medium companies to Clause 49. Disclosure in annual reports has increased with increase in size of companies. Larger firms have reacted more positively to Clause 49 than medium sized firms. Given that most of Clause 49 reforms were present in the CII voluntary
code also, it can be surmised that it is the threat of enforcement of the law via Clause 49 that has led companies to enhance disclosure.

5.2 Recommendations

Based on the data collected and conclusions made in the study, following recommendations may be put forward so that the level of corporate governance disclosure may improve in the Indian context.

- Steps should be taken for reducing the gap between large and medium firms’ disclosure practices. Similarly, steps should be taken for reducing the gap between disclosure practices of firms listed on international exchanges and those not listed on international exchanges. In order to enhance the level of corporate governance disclosure in Indian listed companies, there needs to be different regulation focusing on large and medium firms, internationally listed and those not internationally listed. Any generic strategy will not be able to bridge the gap. Two focused strategies with different sets of regulation for large and medium companies may be suggested to reduce the gap. Same set of corporate governance requirements cannot be applicable to all companies. Hence, regulatory framework regarding corporate governance disclosure should be based on the size of the company. Incentive for good corporate governance such as tax benefits given to medium sized companies may encourage them to disclose more. Increasing disclosure volume may remedy the waning investor interest in such companies.

- The study identifies firms with high level of corporate governance disclosures. It also identifies sectors within which these firms operate. This information has implications, not only for practicing managers, but also for lenders and regulators. The study recommends that meaningful information as disclosed by sectors, and more specifically firms with high corporate governance disclosure scores should serve as a framework for all other firms to follow. This would lead to augmented corporate governance standards in the country.
While the study recognises that government regulation is inadequate unless accompanied by self regulation, till such time there is an instinctively driven relationship based voluntary system of corporate governance, the rules based mandatory system might be a partial solution. Carefully designed and strictly enforced policies are the need of the hour. A blanket policy for all firms across sizes and industries may not be the solution. What is required is an optimal combination of threshold mandatory rules, to differ by firm size, listing status and industry. Such a system accompanied by flexibility above the minimum may be a workable model of corporate governance in India.

A clear picture emerges from this study that Indian company’s disclosure practices do not go beyond the mandatory requirement. More regulation may have led to increased disclosures by Indian companies but there is still a long way to go. An effective corporate reporting can enhance business values through increased investor confidence. There is an urgent need for Indian companies to undertake financial reporting with more extensive coverage. In an environment where companies have little impetus to disclose information voluntarily, setting up rules and regulations is an important first step towards enhancing financial disclosures. Like many other countries, India also has good corporate-governance laws and regulations on books. But enforcement in India remains inadequate. While corporate governance norms and guidelines have been proactively promulgated, the bigger challenge lies in the effective implementation and enforcement of these rules.

5.3 Main Contributions from the Research

The main contributions of the study are that the sample comprises companies from eight sectors in a country like India which provides an interesting setting for research, given its unique institutional environment and rapid developments in corporate governance reforms. These varied companies have been studied over a relatively long time period in which they have been examined for their changed governance standards. The study is timely given the current work under progress by Ministry of Corporate Affairs. The research is especially useful at this juncture for policy makers
because of the enactment of corporate governance landmarks in India and abroad during the period. Institution of Clause 49 of the listing agreement and the voluntary code of corporate governance recently provides an opportunity to evaluate if these events had a positive overall impact on the level of corporate governance compliance. This study is unique in that it treats disclosure specifically rather than generically. Also, it links high corporate governance levels to firm characteristics by means of a robust statistical procedure of discriminant analysis.

5.4 Areas for Further Research

- This research studies only one element of corporate governance namely financial disclosure. The study sheds light on the level of disclosure among listed Indian companies. Financial disclosures are related to a single aspect of corporate governance namely regulatory discipline. However, for further research, corporate governance practices of listed Indian companies can be studied over a number of years with a focus on self discipline and market discipline. Increased understanding of the inter linkages between regulatory discipline, self discipline and market discipline in the Indian context can serve as an input for policy makers.

- This study attaches equal weight to all disclosure items. Doing so helps reduce subjectivity, but in reality, some aspects of disclosure are more important for corporate governance than some others. The same study can be further extended by developing a score which attaches different weights to individual items contributing to the score. Alternatively, analysts’ ratings of firm level corporate governance may be used. Comparisons may be made between the scores developed by this study and those developed by the other study.

- Eight industrial sectors have been covered in this study. There are many more industrial sectors which have not been included for purpose of this research. Further research may be carried out by examining more industrial sectors based on the same method of analysis. This could result in comprehensive and conclusive ideas being developed in the Indian context.
The study uses the traditional regression analysis to establish the impact of firm characteristics on firm disclosures. The study also uses discriminant analysis to identify those firm characteristics which are associated with higher disclosures. For further research, the robust statistical procedure of panel data analysis may be used to develop deeper insights into the issue.