CHAPTER - 5

FINDINGS, SUGGESTIONS

&

CONCLUSION
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Findings, Suggestions and Conclusion

This chapter presents the summary of findings emerged from the analysis of annual reports and questionnaire survey. Also, certain suggestions are made on the basis of observations made during the study.

5.1 Findings of the study

The major findings of the study based on the analysis are presented as below:

5.1.1 Corporate Governance Disclosure Index

1. The item wise analysis of corporate governance disclosure is done on the basis of mandatory and voluntary disclosure requirements. The results of mandatory item wise disclosure reveal that majority of mandatory items are disclosed by the companies. The disclosure scores range from 20 to 100. There are 26 items out of 60 having mean disclosure score of 100 i.e. these items are disclosed by all the companies. There are few items such as the criterion of remuneration to non-executive directors, the disclosure of accounting treatment if different from accounting standards, a list of senior managers, which have attained low scores.

2. The analysis of mandatory disclosure items reveals that 85% of the total 60 items included in the mandatory disclosure index are having disclosure scores in the range of 81-100. It means that 87% of the items are disclosed by 81 to 100% companies taken for the study. Further, 8% of the total 60 items have disclosure scores in the range of 61-80. It can be concluded that a maximum number of mandatory items are disclosed by the majority of the sample companies.

3. The results of voluntary item wise disclosure show that there are huge variations in voluntary scores across different items included in voluntary disclosure index. The disclosure scores range from 4 to 100. There are only three items out of the total 33, having mean disclosure score of 100 (approx.).
4. As per the results of voluntary disclosure index, there are only 21% items out of the total 33, which have attained the scores in the range of 81-100. 27% items have got scores in the range of 0-20, 12% items in the range of 21-40, 21% items in the range of 41-60 and 18% items in a range of 61-80. The majority of items have attained very low scores. Overall, the level of disclosure of voluntary information is low.

5. Some qualitative issues in voluntary disclosure such as duration of board meetings, post-meeting follow-up system, role, and contribution of non-executive directors, relationship with other directors, succession planning are not disclosed by the majority of the companies.

6. The company-wise analysis is also done on the basis of mandatory and voluntary disclosure information. The results of company-wise mandatory disclosure index reveal that disclosure scores range between 73.48%-100%. The mean mandatory disclosure score for the sample companies is 92.26%.

7. The results of company-wise voluntary disclosure index reveal that the level of disclosure is considerably different across the sample companies. The mean voluntary disclosure score for the sample companies is 49.05%, which is a very low score. The minimum and maximum voluntary disclosure scores are 20.38% and 87.33% for the sample companies.

8. The analysis of the comparison between the mean disclosure scores of mandatory disclosure and voluntary disclosure information reveals that mean mandatory scores are much higher than the voluntary scores.

9. There is statistically significant difference between the mean mandatory disclosure scores and voluntary scores. The mean mandatory and voluntary disclosure scores are 92.26% and 49.05% for the period of study. Thus the mandatory disclosure scores are higher than the voluntary scores. It is clear from the results that companies are complying with the mandatory requirements and focusing more on the mandatory disclosure requirements as compared to voluntary disclosure of information in annual reports.

10. Total corporate governance index is calculated by adding mandatory and voluntary disclosure scores. The results of TCGDI show the level of disclosure of Indian companies. The results reveal the average disclosure level in the range of 60.70 -95.50%. The mean
TCGDI value is 76.89%. The average minimum and maximum TCGDI is 57.58% and 95.50% for the period of study.

11. The results of analysis TCGDI shows the changes in disclosure scores over the years. TCGDI shows the upward trend in disclosure scores. In 2005-06, disclosure scores were 70.14%; there has been a continuous improvement in disclosure scores. In 2015-16 disclosure, scores are increased up to 82.16%. The results reveal that disclosure level is improving in Indian companies.

12. Total corporate governance disclosure index shows that 57% of the total 88 companies have disclosure scores in the range of 71-80. 27% of the total companies have scores in the range of 81-90 and 13% of the total companies have attained scores in the range of 61-70. 3% of the total companies have scored more than 90%. The majority of companies have disclosure scores in the range of 71-80.

13. Top five positions occupied by companies on the basis of TCGDI are Dr. Reddy Laboratories, Infosys, Wipro, Reliance Infrastructure and Dabur India Ltd. These five companies belong to different industries. Out of these 5, two companies belong to IT industry i.e. Infosys and Wipro who scored more than 90% as the disclosure level.

14. Bottom five companies on the basis of TCGDI are Bank of India, Cipla India, UPL Ltd, Ashok Leyland and Cummins India Ltd. These companies belong to different industries. Bank of India has attained the lowest disclosure score as 60.70%.

5.1.2 Corporate Disclosure and Corporate Attributes

To examine the relationship between corporate disclosure and corporate attributes, 12 variables are taken such as percentage of women directors on the board, percentage of family members on the board, free cash flow to firm, return on assets, return on equity, price earnings ratio, earnings per share, market to book value ratio, age of company, size of company, board size and debt equity ratio.

1. The analysis of the percentage of women directors on the board reveals that mean percentage of women on the boards are very low. In 2005-06, women percentage on the board in the sample companies were 4.2 of the total board size, in 2015-16 the percentage is increased up to 12.71 only. The mean percentage (from the year 2005-06 to 2015-16) of
women on the board is 6.84 of the board size in the sample companies. It is clear from the results that sample companies have the majority of men boards.

2. The results of the association between percentage of women on the board and disclosure level show that 27% of the total 88 companies have no women directors on their boards and their mean disclosure scores are 78. 31% of the total companies have women in the range of 1-5% and mean disclosure scores are 76. Only 6% of the total sample companies have women on the board in the range of 16-20%, and disclosure scores are 73.21.

3. There is no significant association found between the percentage of women directors on the board and disclosure level. But correlation analysis has revealed the positive relationship between women on the board and performance of the companies measured through free cash flow to the firm. But the percentage of women on the board has no significant impact on the disclosure level which is proved through statistical techniques.

4. The results of the association between the percentage of family members on the board and disclosure level reveal that 61% of the total 88 companies have no family members on the board and their mean disclosure scores are 75.26. 9% of the total companies have family members in the range of 31-40%; their mean disclosure scores are 77.15. 5% companies have family members in the range of 1-10%, and their scores are 80.23. Only 2% companies have a maximum percentage of family members on the board, and their scores are 76.46.

5. There is no statistically significant association found between the percentage of family members on the board and disclosure level. So it can be said that percentage of family members on the board has no significant impact on the disclosure level of the companies.

6. The association between return on assets and disclosure reveal that 41% of the total 88 companies have got a return on assets in the range of 0-5% and their mean disclosure scores are 75.78. As a return on assets is increased from 0-5% to 6-10%, mean disclosure scores are also increasing. Higher the return on assets, higher is the disclosure seen in the sample companies. The maximum mean disclosure scores have been found in the companies having a return on assets in the range of 30-35%.
7. There is a statistically positive association found between return on assets and disclosure level. So, it can be said that return on assets has a positive impact on the disclosure level.

8. Board size and the disclosure have been found positively associated. Board size has been able to explain 3.9% variations in the disclosure scores across the sample companies. Thus it is clear from the results that board size has a positive impact on the disclosure level.

9. The analysis revealed that there is no statistically significant association of free cash flow to firm and return on equity with the disclosure level.

10. Out of the various measures of profitability and performance return on assets and market to book value have found a significant positive association with the disclosure level of the companies.

11. The results of multiple regression analysis between the disclosure level and various corporate attributes revealed that coefficients of return on assets, market to book value, price earnings ratio, board size, debt-equity ratio, the percentage of family members on the board are positive.

12. Multiple regression results also revealed that return on assets, market to book value, board size are three are the three important determinants of variations in corporate disclosure across sample companies. Out of various measures of profitability and performance, return on assets and market to book value are found to have statistically significant relationship with the disclosure level. However, other variables such as percentage of family members on the board, percentage of women on the board, free cash flow to firm, return on equity, age of company, size of company, debt equity ratio, earnings per ratio, price earnings ratio are found to have statistically insignificant association with the disclosure level.

5.1.3 Perception of Company Secretaries about Corporate Governance Reporting Practices in India

1. Regarding the criterion for the nomination of independent directors to the board, 46% companies consider age, qualification, and experience as the main criterion. 20% companies have qualification and experience as the major criterion for the nomination of independent directors to the board. In 9% companies, age and qualification are the only criteria. 7%
companies consider age, experience, and number of memberships and directorships. While 11% companies consider the entire mentioned criterion for the nomination, whereas the rest 7% companies mentioned some other criterion for nomination of independent directors to the board such as positive attributes, competency in the profession, etc.

2. 66% companies consider the minimum and maximum age limit for directors to be nominated to the board. In the majority of the companies minimum age considered is 21 years and the maximum is between 65-70 years.

3. Regarding declaration from independent directors, confirming compliance with all six conditions of independence, 96% companies get such declaration from independent directors, whereas another 4% companies do not get such declaration from independent directors.

4. Formal induction programmes for directors are conducted by 60% companies, whereas another 40% companies do not conduct such programmes.

5. 73% companies conduct regular training sessions for directors.

6. Prior approval of shareholders for payment of fee/compensation to non-executive directors is taken by 80% companies, whereas another 20% companies do not follow this practice.

7. All companies get an affirmative statement from every director about the company position he/she occupy in other companies.

8. Regarding the criterion for paying remuneration to non-executive directors, 73% companies follow the limit i.e. less than 1% cf net profits, whereas another 27% companies mentioned the other criterion such as sitting fee, fixed salary, etc.

9. Affirmative statement from board members and senior management regarding compliance with the code of conduct is taken by 97% companies. 3% companies do not follow this practice.

10. Regarding Insider trading, 93% companies get an affirmative statement from the board members and senior management that he/she has not indulged in insider trading, whereas another 7% companies are not following this practice.
11. If an independent director resigns or removed from the company, 51% companies appoint a new independent director in less than 180 days. 4% companies appoint in more than 180 days, 9% companies in 180 days. 24% companies mentioned that this condition is not applicable in their companies. The majority of companies appoint a new independent director in less than 180 days.

12. Regarding board meetings, 15% companies give 7 days’ advance notice to directors. 35% companies give 15 days' advance notice, 45% companies give more than 15 days’ notice regarding meetings. The majority of companies give more than 15 days’ advance notice to directors regarding board meetings.

13. There is a policy for rotation of audit partners/auditors in 66% companies. 67% of the companies following this policy rotate the auditors within five years. 14% companies in more than ten years. The majority of companies rotate the audit partners/auditors within five years.

14. Meetings of independent directors in the absence of senior management and executive directors are sometimes conducted in 55% companies. 19% companies have this as often practice, 17% companies rarely follow this practice and the rest 19% companies have never conducted such meetings in the absence of senior management and executive directors.

15. Directors express their views freely and without hesitation- this practice is often to 82% companies. 15% companies mentioned this as sometimes practice whereas, 4% companies mentioned this as never happened in their companies.

16. Agenda items disapproved at board meetings- 24% companies mentioned this as an often practice. 13% companies mentioned as sometimes it happens, 37% companies as rare practice, whereas another 28% companies mentioned as it never happened in their companies.

17. Independent directors adding or changing the board meetings agenda set by the CEO- 4% companies mentioned this as an often practice. 13% companies mentioned as sometimes it happens, 28% companies as rare practice, whereas another 57% companies mentioned as it never happened in their companies.

18. 60% companies mentioned that it is easy for shareholders to participate in voting and they can vote by mail too. The companies where voting by mail is allowed 90% of the
companies mentioned that anybody could serve as a proxy, while another 40% companies have not given such provision of voting by mail to shareholders.

19. Regarding the maintenance of proper records of AGM minutes, 93% companies maintain the proper record of answers and questions asked in annual general meetings and had proper records of resolutions being resolved in their companies.

20. 78% companies follow the practice of giving reminders to shareholders who have not encashed their dividend, whereas 15% companies are not following this practice. 7% companies mentioned this practice as non-applicable in their companies.

21. Percentage of shareholding owned by foreign equity investors- in 40% companies have less than 10% shareholding owned by foreign equity investors, 31% companies have between 11-25%, 19 companies have more than 25% shareholding owned by foreign equity investors. The majority of companies have shareholding by foreign equity investors in the range of less than 10%.

22. Open participation is allowed to foreign investors in 75% companies, whereas another 25% companies have restricted participation.

23. 80% companies disclose information about future firm's operating performance in their annual reports.

24. The practice of getting information relating to shareholder’s complaints from SEBI/Stock Exchanges is followed in 95% companies.

25. The programmes for improving investor's education and awareness are conducted by 55% companies, while another 45% companies are not conducting such programmes.

26. Shareholders satisfaction survey has been conducted by 41% companies, whereas another 59% companies have never conducted such survey.
5.2 Suggestions

The value and worth of corporate governance reporting lie in its usefulness to different users. For improving the utility of corporate governance reporting, certain suggestions are made, based on the findings of the study which may be critically significant to improve the quality of corporate governance reporting by Indian companies.

1. The mandatory disclosure compliance is better than voluntary disclosure of items. However, policy makers or regulators can extend the scope of mandatory requirements of Clause 49 further by covering items from voluntary index to with make Indian corporate governance standards to be at par with International level.

2. There are certain items in the mandatory disclosure requirements which are not disclosed by some companies. The regulators should make strict rules for compliance with at least mandatory requirements of Clause 49 to ensure 100% compliance with mandatory requirements.

3. There are substantial variations noticed in the disclosure level in corporate annual reports across the sample companies. It is recommended that companies should benchmark their corporate reporting practices as against the 'best' in the industry based on this study. So that each company can identify their deficiencies and take remedial steps to provide high-quality disclosure level in their corporate annual reports.

4. In the present corporate reporting system, most of the social performance disclosures and social accounts are voluntary and unaudited. Social performance disclosures and social accounts should be inspected by an auditor to enhance the reliability of information for the benefit of users.

5. There are considerable differences noticed in the quantity and quality of information provided by the companies in their annual reports. The annual reports lack uniformity in presentation of corporate information. The companies should follow the proper format as suggested by SEBI in the presentation of items in the annual reports to bring uniformity and comparability in the annual reports of different companies.

6. Women representation in the corporate boards of Nifty 100 companies is very low. Nifty 100 companies have the majority of men boards. Although SEBI has mandated
minimum one woman director on the board in the revised Clause 49, vide circular dated April 17, 2014, which applies to all listed companies w.e.f October 1, 2014. So companies should gear towards women empowerment on the board to bring gender diversity on the corporate boards of nifty 100 companies.

7. The international trends in corporate reporting are sustainability reporting, governance reporting, business ethics, and compliance of accounting standard with International Financial Reporting Standards (IFRS). Indian corporate houses have to present themselves to be more competitive in the environmentally and socially responsibility matters. The companies should respond positively to the current trends in the reporting system for meeting international standards and to improve the quality of corporate reporting.

8. The major challenge in Indian companies lies in streamlining the procedure of corporate governance disclosure. India has one of the world’s best governance regulations, but poor implementation takes away the desired impact of such regulations. The market regulators should impose stringent rules and heavy penalties for the companies involved in fraud and improper disclosure.

9. There are various qualitative issues of corporate governance reporting such as criterion for nomination of independent directors to the board, details of training programmes conducted for directors, criterion for paying remuneration to independent directors, frequency of rotation of auditors, any programmes conducted for improving investor’s education and awareness, shareholders satisfaction survey which are generally not reported in the annual reports of the companies. Companies should make these issues as part of the annual reports to enhance the quality of corporate governance reporting.

10. Only a few companies are providing a separate report on corporate governance; rather they are providing this information under the directors’ report. As per Clause 49, SEBI has made it mandatory for the listed companies to prepare compliance report on corporate governance. Companies should provide a separate section on compliance report of corporate governance.

11. The cost of compliance with governance regulations should not be considered as expenditure but as an asset with long-term benefits. It is important to communicate the fact that compliance with regulations always adds value.
12. For any agenda to be successful, it must have the support of the top management. As such, the top management of the companies can play an important role in creating an atmosphere of transparency and ensuring that the same is demonstrated in the corporate annual reports of the companies.

5.3 Scope for Further Research

1. The current study has investigated the impact of internal mechanism of corporate governance on the disclosure level of Nifty 100 companies. Further research can be carried out by taking into consideration the impact of external mechanism on the disclosure level.

2. The ultimate aim of corporate governance is to provide investor’s protection. Future studies can consider the impact of shareholding pattern especially the percentage of minority investors on the disclosure level of Indian companies.

3. The future studies can consider the impact of various corporate governance mechanisms on the disclosure level focusing different sectors or industries of Indian companies.

4. Board compensation has a significant impact on the financial performance of the companies. It can be investigated in further studies to know whether board compensation impact on the disclosure practices of companies.

5. Compliance with International corporate governance standards may help Indian companies to follow the better corporate governance practices. Future studies can take into consideration the impact of international standards on disclosure level or performance of the companies.

5.4 Conclusion

The primary objective of corporate governance is the enhancement of shareholders’ value keeping in view the interests of other stakeholders. Corporate governance has an impact on the development and functioning of capital markets and brings a strong influence on resource allocation. In an era of globalization, it has also become an important condition affecting the industrial competitiveness and economies of countries.
This study set out to know the corporate governance reporting practices in India. This study attempted to know the disclosure level in the annual reports based on mandatory disclosure requirements as specified by Clause 49 and voluntary disclosure requirements based on voluntary guidelines 2009 and international standards. There are various qualitative issues which are not generally reported in the annual reports. So, this study conducted a questionnaire survey to know the general perception of company secretaries about current corporate governance reporting practices followed by Indian companies.

The current study is the most comprehensive one, as it covered the reporting practices of Nifty 100 companies for eleven years from the year 2005-06 to 2015-16. This study attempted to know the impact of various corporate governance attributes such as women directors on the board, family members on the board and profitability on the disclosure level.

The researcher finally concludes that companies under study have taken all steps to ensure better corporate governance. The corporate governance disclosure level in the annual reports is improving. The mandatory compliance of governance regulations is high among nifty 100 companies. In this context, the regular initiatives of SEBI are quite noteworthy. The compliance of voluntary regulations is the need for an hour. So it is suggested to policymakers and regulators to extend the scope of mandatory items covering from voluntary index to improve the quality of corporate governance.

Out of various corporate governance attributes, return on assets and board size have found a significant positive impact on the disclosure level. Although this study did not find any significant association between the percentages of women directors on the board and the disclosure level, it is suggested to bring gender diversity to the corporate boards to change boardroom dynamics.

The results of this study indicated that although corporate governance disclosure level is improving, yet the overall disclosure level is moderate. Thus, the fact appears that more corporate governance regulations may have led to improved disclosures by Indian companies, but there is still a long way to go. Corporate governance should be principles based not rule based. Good corporate governance can be achieved not by oratory or legislation but by honest execution of what is just and fair.