PREFACE

The scope and significance of corporate governance in India increased sizeably in the recent period, particularly following the financial sector reforms. As Indian corporates are finding new space in domestic and global markets for business growth, their interaction with the financial markets and investing community too witnessed significant surge. In this process, corporate governance came as an effective instrument for companies to communicate with the various types of stakeholders in general and investors in particular.

What began as an industry initiative of CII, corporate governance today became an essential part of the culture that defines better run companies and those held in esteem by the investors and stakeholders. As the rigour of the regulation intensified, governance standards began to be codified and formed an important part of the evaluation and assessment process. Clause 49 of the Listing Agreement of the Stock Exchanges is the key instrument that drives compliance of the corporate governance standards and practices by companies.

Stock Exchanges and regulatory authorities which receive the compliance reports of the companies regularly assess the record of performance in this regard and take relevant actions. Securities and Exchange Board of India sending notices to companies is an instance of review processes following the receipt of information and filing of reports on compliance of corporate governance norms. Such measures will make companies more alert in adhering to the stipulated norms and guidelines. Notwithstanding the ongoing review process of the regulatory authorities, a scope exists for reviews and studies by independent agencies, and this study is an instance of such nature.

The review makes an attempt to capture the essence of the quality of corporate governance practice in Indian companies. Given the huge mass of companies that India has, it would be rather difficult to take a large sample, which is a time consuming exercise and that require considerable resources. Moreover, it would be useful to know how the leading companies have devised effective ways of improving governance standards that could serve as benchmarks for the others.

The review thus examined the practice of corporate governance in 170 companies across 8 sectors that represent the vital sections of the Indian industry. The
information is obtained through corporate governance reports, published in the annual reports of the companies, feedback obtained through a questionnaire, consultations with officials of corporates, stock exchanges and regulatory authorities as also independent professionals and analysts.

The outcome of the study is quite encouraging. India has advanced significantly in adopting better governance standards and its standing in the world is quite high in regard to designing effective policies and procedures. Several companies go beyond the mandatory requirements in fulfilling the corporate governance objectives. Companies have developed philosophies governing the governance practices that were introduced in their respective companies and the outcome that is being expected from these initiatives. Some of the modern governance practices such as separation of the Chair and the CEO, constitution of boards, representation of independent directors, meetings of the board and audit committees, discussion on the corporate governance practices in the annual reports, disclosure through a wide range of media and company sources etc., have greatly enhanced the image of the quality of corporate governance in India. India currently is ranked third in Asia for the overall quality of corporate governance.

While great progress has been made in improving the governance standards, concerns about quality of enforcement, companies routinely fulfilling the requirements as a form of box ticking, deviating from the spirit of some of the important aspects of the compliance code etc., are a few of the issues that engage the attention of the policy makers and the regulatory agencies. Similarly, self evaluation processes for the board and audit committees are not yet formalized in many companies. Family ownership continues to dominate the corporate landscape thus providing a scope for inadequate disclosures in regard to subsidiary companies operations and related party transactions. As mentioned earlier, a beginning is made to review these practices which would be further supplemented by independent studies and analysis such as this report.

The next round of reforms in the corporate governance would be in the realm of strengthening evaluation processes of the functioning of the board and its subcommittees, in particular the audit committee, as also greater discussion on the executive compensation policies, ombudsman for reviewing whistle blower policies
etc., As Indian companies assume greater responsibilities in expanding business in domestic and global markets, compensation issues will become pertinent.

Similarly, gender related issues of representation in the board too might assume importance. Only 8 percent women represent company board at present at the global level, with the scope for this ratio to grow being high in the Asia region. Some initial work in this regard may be evident in the medium term perspective of the governance reforms.

The study is arranged in the following manner. Chapter I discusses the present scenario of Corporate governance in India Chapter II presents a broad review of literature on the corporate governance and the methodology for the study; Chapter III examines the Disclosure Practices of Selected Corporates; Chapter IV discusses evaluates the Corporate Performance and Governance in the Selected industries in India Chapter V Findings, Conclusions and Suggestions.

In preparation of this study, some of the sources that were used extensively to present the analysis and perspectives include; Clause 49 Listing Agreement of the Stock Exchanges; Year Book 2010 of the International Corporate Governance Network, Blue Ribbon Committee on the Audit Committee (NYSE/NASDAQ) etc. Acknowledgements of the references used in this study are made wherever appropriate.

For increasing the reference value of the study, annexures on a number of aspects of the governance are attached. These include; objectives of the corporate governance as evolved by different companies in their annual reports, a questionnaire for self evaluation of the audit committee performance; indexes being developed to promote good governance.

This study could serve as a beginning to promote independent assessment of the governance practices in Indian companies. Scope exists for further studies by expanding the size of the sample as also coverage of issues. Greater involvement of the companies in these exercises will lead better outcome in the form of experiences that could be useful for sharing and learning. It is hoped that similar studies are undertaken on a continuous basis to keep up the assessment and evaluation of quality of governance and its standards of compliance.