CHAPTER 6

CONCLUSIONS, IMPLICATIONS
AND DIRECTIONS FOR FUTURE RESEARCH

6.1 Summary of Findings

The findings and statistical analyses were presented in the preceding chapter. A summary of the key findings is recapitulated as follows.

1. As regards mandatory Corporate Governance (CG) provisions, approximately on average 96 per cent, 97 per cent and 96 per cent of the companies studied complied with the requirement relating to the composition of Board of Directors in the years 2005-06, 2006-07 and 2007-08 respectively.

2. With respect to mandatory CG provisions, approximately on average 98 per cent, 100 per cent and 99 per cent companies complied with the Audit Committee requirement in the years 2005-06, 2006-07 and 2007-08 respectively.

3. With reference to mandatory CG provisions, approximately on average 99 per cent, 99 per cent and 100 per cent companies complied with disclosure requirements in the years 2005-06, 2006-07 and 2007-08 respectively.

4. As regards mandatory CG provisions, approximately 68 per cent, 79 per cent and 85 per cent of the companies complied with the requirement of certification of financial statements by Chief Executive Officer (CEO) or Chief Financial Officer (CFO) in the years 2005-06, 2006-07 and 2007-08 respectively.
5. As for mandatory CG provisions, almost 100 per cent of the companies complied with the Report on CG and Compliance with CG (as certified) requirements in the three years as mentioned previously.

6. Approximately 62 per cent of the companies complied with the non-mandatory provision of having a remuneration committee in the three years studied.

7. Approximately 68 per cent, 71 per cent and 68 per cent of the companies complied with the non-mandatory provision of adherence to whistle-blower policy for the years 2005-06, 2006-07 and 2007-08 respectively.

8. Other non-mandatory provisions were followed but not by a majority of the companies.

9. Approximately 21 per cent of the companies followed the exemplary practice of promoting Health, Safety and Environment in the years 2005-06, 2006-07 and 24 per cent in the year 2007-08.

10. About 18 per cent, 29 per cent and 26 per cent of the companies followed the exemplary practice of establishing of a Nomination Committee (for appointment of Directors) in the years 2005-06, 2006-07 and 2007-08 respectively.

11. Another exemplary practice followed is Sustainability Reporting by 15 per cent, 18 per cent and 21 per cent of the companies in the years 2005-06, 2006-07 and 2007-08 respectively.
12. The practices of Environment Policy and Secretarial Compliance certification by the Company Secretary were followed by 15 per cent of the companies in all the three years mentioned previously.

13. Mean compliance percentages for all exemplary practices are approximately 7 per cent, 8 per cent and 9 per cent for the years 2005-06, 2006-07 and 2007-08 respectively.

14. As a majority of companies has not adhered to all non-mandatory provisions of CG and if this pattern continues then non-mandatory provisions may be viewed as unmet standards or barriers to reforming CG practices. From that perspective, some barriers in a majority of companies which were possible to test are: inappropriate size of the Board, lack of formal training to directors in CG matters, lack of evaluation for Non-Executive Directors and a failure to articulate priorities about protection of interests of shareholders vis-à-vis other stakeholders.

15. There was 100 per cent non-compliance by 5 government companies (including Central Public Sector Enterprises) in the year 2005-06, 80 per cent in the year 2006-07 and 100 per cent in the year 2007-08. These enterprises have failed to fully comply with the requirement of the composition of Board of Directors, particularly Independent Directors.

   The statistical significance, or otherwise, of the results were presented in the previous chapter.
6.2 Conclusions

A majority of the companies has adhered to most of mandatory provisions of CG as per requirements of Clause 49. However, though a majority of companies complied with the mandatory requirement of certification of financial statements by CEO/CFO, the level of compliance is comparatively lower vis-à-vis other mandatory requirements. Encouragingly, since the year 2005-06, compliance with the certification requirement shows an improving trend. The results further suggest that a majority of the companies has not adhered to all non-mandatory provisions of CG prescribed by the aforesaid clause. The majority of companies has adhered to the non-mandatory provisions of CG with respect to the remuneration committee in all the years studied. However, in case of the whistle-blower policy, the results do not uphold compliance in the year 2006-07 though there is adherence to this requirement in the years 2005-06 and 2007-08. Further, companies follow exemplary CG practices but they do not constitute a majority. However, adherence to such exemplary CG practices over the three years shows an increasing trend, which is heartening.

The picture that emerges is a mixed one as results strongly support a view that there exists compliance with mandatory CG provisions but not so with all non-mandatory provisions and exemplary CG practices.

A fallout of the findings is that regulatory attention and if need be, action, are warranted to ensure full compliance with mandatory provisions of Clause 49. Further, regulatory persuasion and self-regulatory impetus are desirable with regard to adherence to non-mandatory provisions of CG, in the larger public interest.
Apart from lack of compliance with non-mandatory provisions of CG, inappropriate size of the Board, lack of formal training to directors in CG matters, lack of evaluation for Non-Executive Directors, a failure to articulate priorities about the protection of interests of shareholders vis-à-vis other stakeholders and lack of representation of Independent Directors especially on the Board of Government companies may work as barriers to CG reforms.

6.3 Implications

Despite compliance with Clause 49 of the Listing Agreement by a majority of the companies, there are many implications of current CG practices.

1. The lower percentage compliance with certification of financial statements by CEO/CFO as compared with other mandatory CG requirements shows a lack of accountability on the part of CEO or CFO which in turn could have grave implications, e.g., fraudulent financial statements. However, a possible explanation could be inadequate reporting of such certification in CG reports by the companies. But, all companies have reported that they have achieved 100 per cent compliance with CG provisions, so it implies that either there are inconsistencies in CG reporting or some deficiency in compliance with CG provisions, which is a serious concern.

2. Non-compliance with most of the non-mandatory provisions of Clause 49 may work as barriers to reforming CG practices.
3. The puzzling drop in the number of companies following the exemplary CG practice of forming the Nomination Committee or any other CG practice(s) may be on account of inconsistency in reporting CG matters. Still, it warrants a closer examination.

4. A few Central Public Sector Enterprises have failed to fully comply with the requirement of the composition Board of Directors, particularly Independent Directors which indicates a lack of independency in Board composition; this may work as one of the barriers to reforming CG practices.

5. Barriers to reforming CG practices amount to hindrances in transparency and performance with regard to CG advancements especially for equity shareholders. Therefore, whittling down barriers will serve the cause of equity owners more effectively.

6.3.1 RECOMMENDATIONS

1. Regulators need to be vigilant about the level of compliance especially as regards the certification of financial statements by the CEO or CFO by companies.

2. Only some companies have mentioned about their risk management initiatives in their CG reports. The Audit Committee should focus on risk management as managing risk has become an integral part of business concerns.

3. As regards one of the provisions of the composition of Audit Committee, viz., that one of the members of the committee should have accounting or financial management expertise, the pertinent information needs to be clearly mentioned. Sometimes the profile of directors including their qualification is mentioned but nothing was provided about their area(s) of specialization in the CG reports of sample companies. For instance, a
mention such as “Post Graduate Diploma in Management from Indian Institute of Management, Ahmedabad” does not fulfill the requirement.

4. A few companies have not disclosed information regarding CG practices comprehensively and hence it can impair transparency. For instance, non-disclosure of whether the Company Secretary is Secretary to the Audit Committee, whether the Chairman of the Audit Committee was present in the last Annual General Meeting and whether the head of internal audit is an invitee to the Audit Committee violates convention and the spirit of full disclosure thereby simultaneously diluting effectiveness in compliance with provisions of CG.

5. The regulator(s) should preferably convert, if possible all, else some of the non-mandatory provisions to mandatory such as training of Board members, evaluation of Non-Executive Directors, establishment of remuneration committee and practice of whistle-blower policy. If that is not possible, compliance with these non-mandatory provisions should be commended. Likewise, if illuminating information about exemplary CG practices is made available by the regulator(s), many companies will become aware and will get impetus to emulate the same.

6.4 Directions for Future Research

The areas for further research in CG are: to replicate the research work on wider scale i.e., considering a larger sample size. Further, studies of this kind for listed companies in other groups (Group-A, Group-B) of Stock Exchange can provide a comparative view of levels of CG compliance. Inconsistencies in CG reporting provide
scope for further studies on contents of CG reporting. A study on the role of CEO/CFO, especially for certification of financial statements will be useful as there exist inadequate compliance in this regard. Research on Board Composition of Government companies, especially the role of Independent Directors will provide a boost to CG reforms in the government sector as there seems inadequate representation of Independent Directors on the Board. Another area is to explore the relationship between compliance levels of CG provisions with profitability, in order to ascertain whether CG contributes to profitability.