CHAPTER VI

SUMMARY AND CONCLUSION

Corporate governance has emerged on the Indian scenario recently. During the last few years the need for improvement in corporate governance has received considerable attention in India. The takeover boom, entry of multinational corporations and foreign institutional investors, after the announcement of new economic policy, all have brought the concept of corporate governance to prominence. Good corporate governance is the key to ensure the competitiveness of the Indian industry and future strength for its maintenance.

It is appropriate at this juncture to give a brief summary of what has been done in the earlier chapters in the present study. Accordingly in the introductory chapter, a brief account of the need for a good corporate governance in the midst of complex economic and business activity in Indian Scenario has been stated. The chapter also clearly specified the aim and objectives of the study, followed by the methodology, sample design, statistical tools of analysis, limitation of the study and chapter arrangement.

In the subsequent chapter on "Corporate Governance, Corporate Growth and Shareholder Enrichment - A Theoretical Analysis" - a detailed attempt has been made to narrate the key elements of corporate governance and governance. Due emphasis was also given to the different aspects such as conflict of interests in corporate governance, its position in India and other developing
countries, the diverse nature of the subject, the major players in the area of
corporate governance and review of related literature.

In the third chapter - "Corporate Governance in India" - adequate emphasis
has been given to the origin and growth of corporate governance. In this chapter a
brief summary of reports of various committees on corporate governance both at
the international level and at Indian level have been portrayed. In addition, the
reports of World and its Recommendations, Confederation of Indian Industry's
report and recommendations and the report of Kumaramangalam Birla Committee
were also discussed. On the recommendations one can know the way in which a
good corporate governance shall be established in future.

The fourth chapter contains an analysis of the basic behaviour of selected
performance variables and the impact of corporate governance on shareholder
enrichment. The inter-relationship between corporate governance and
performance is also evaluated and analysed. It also gives an analytical approach
of the top and bottom five companies and its economic value added per share. The
results of correlation analysis, multiple regression analysis, regression co-
efficients, t tests, value of R square, correlation co-efficient Matrix of selected
variables and the model results for market price per share have been carefully
analysed.

The fifth chapter has also been devoted to further statistical analysis of
growth rates of selected variables. It establishes the relationship between
corporate governance and growth with selected variables. This analysis growth
rate was made through summary statistical analysis and frequency distribution. The characteristics of growth rates have been explained by average, range, standard deviation, co-efficient of variation, skewness and kurtosis.

Within the framework of the study as stated earlier, following are the salient findings.

6.1 FINDINGS OF SUMMARY STATISTICAL ANALYSIS OF SELECTED VARIABLES

The average earning per share has improved gradually up to the year 1996. In the year 1997 there has been a decline of 18.45 percent over previous year. The average dividend per share (Rs. 3.966) seems to be increasing over the years. The dividend per share is minimum in the year 1993 at Rs. 2.856 and maximum in 1996 (Rs. 4.624). The retained earnings per share on an average is observed to be increasing from the year 1993 (Rs. 7.79) to 1996 (Rs. 16.20) though there has been a decline in the year 1997 (Rs. 13.13). The average net worth per share is observed to be increasing over the years with Rs. 60.791 in the year 1993 and Rs. 100.267 in the year 1997. The average total funds employed per share are observed to have improved gradually over the years from 1993 to 1997. The average market price per share is high in the year 1994 (Rs. 333.599) and low in the year 1993 (Rs. 226.204). There has been a gradual increase in market price per share over the years. Average negative economic value added is observed for all the years except during the year 1996, where the average economic value added is 0.017. The fluctuations in economic value added also seem to be high for all the years. The
average market value added is the least in the year 1993 at Rs. 165.413 and maximum in the year 1994 (Rs. 257.411). It has declined in the year 1995 to Rs. 190.767 after which there has been a gradual increase. The average total shareholders returns are observed to be low in the year 1995 (0.083) and 1996 (-0.001).

6.2 FINDINGS OF FREQUENCY DISTRIBUTION

The net worth per share for all the years in the study period ranges between Rs. 10.00 and Rs. 400.00. The maximum number of companies falls in the class interval Rs. 49.00 to Rs. 88.00 for all the years. The total funds employed per share for all the years ranges between Rs. 10.00 and Rs. 800.00. Maximum number of companies falls in the class interval Rs. 10.00 to Rs. 89.00. The market price per share ranges between Rs. 100.00 to Rs. 2000.00. The maximum number of companies falls between Rs. 100.00 to Rs. 290.00 for all the years. Negative Economic value added per share is observed in all the years for most of the companies in the sample. The market value added per share for all the five years for most of the companies fall between Rs. 0.00 to Rs. 120.00. Total shareholders' return is negative for majority of the companies during the study period.

6.3 FINDINGS OF ANALYSIS OF FIVE TOP AND BOTTOM COMPANIES

The low economic value added per share for five years period 1993 to 1997 ranges from Rs.-71.60 (1997) for Century Textiles to Rs.-21.77 (1993) for Ballarpur Industries Ltd. The high economic value added per share ranges between
Rs. 9.98 in 1994 for BPL Ltd. and Rs. 120.72 in 1996 for Lakme Ltd. The low market value added ranges from Rs. -364.57 (Hindalco) to Rs. -10.24 (Balrampur Chinni Mills Ltd.) high market value added ranges between Rs. 2137.05 in 1996 for MRF Ltd. to Rs. 519.73 in 1993 for Century Textiles. MRF Ltd. has been among the top five companies for all the years. Lowest total shareholders return per share for four years period 1994 to 1997 ranges from -0.81 for Phillips India Ltd. to -0.40 for Balrampur Chinni Mills Ltd. High total shareholders return per share for top five companies ranges between 0.48 in 1995 for MRF Ltd. and 6.12 in 1994 for Industrial Oxygen.

6.4 FINDINGS OF CORRELATION ANALYSIS

In the year 1993 the economic value added is negatively correlated with all other variables except with market value added, profit after interest and tax per share and profit before tax per share. In the year 1994 economic value added is negatively correlated with all other variables except with market value added, sales per share, and total shareholders return. In the year 1995 economic value added is negatively correlated with other variables except market value added, sales per share and total shareholders return. Economic value added per share in the year 1996 was negatively correlated with other variables but a positive correlation existed between economic value added and market value added. Negative correlation is observed between economic value added and gross fixed assets per share, long term loans per share, net fixed assets per share, net worth per share, profit after interest and tax per share, reserves and surplus per share, total
funds employed per share. Hence it may be concluded that economic value added per share was not associated with other variables.

6.5 FINDINGS OF MULTIPLE REGRESSION ANALYSIS

The results of the stepwise multiple regression reveal that for a period of four years Earnings per share, previous market per share, previous economic value added, previous market value added per share, previous dividend per share and net worth per share have significant effect on market price. Previous market price per share and net worth per share for the period of three years, previous economic value added per share for a period of two years, earning per share, previous earning per share, previous market value added per share and previous dividend per share for a period of one year explain the changes in market price well.

6.6 FINDINGS OF SUMMARY STATISTICAL ANALYSIS OF GROWTH RATES

Since the coefficient of variation is high for sales per share, the growth rate in sales per share of the 100 companies would have been widely distributed. The average growth in the sales per share of 100 companies is 0.159 during the period 1993-97. The average growth in profit before interest and tax per share is 0.124. But in case of profit before tax per share, the average growth rate is 0.2466. Average growth rate in profit after interest and tax per share is 0.2137. The average growth in earnings per share (0.2427) for 100 companies during the period 1993-97 is less than the average growth in retained earnings per share during the period 1993-97. Coefficient of variation of earnings per share (203.72)
is also less than the coefficient of variation of retained earnings per share (311.67). Hence the growth in retained earnings per share is higher than the growth in earnings per share.

The average growth rate of gross fixed assets per share is (0.1485) less than the average growth rate of net fixed asset per share (0.2113). The distribution of growth rate in net fixed assets per share is positively skewed and peaked. In case of market price per share, positive skewness is observed since most of the companies have experienced positive growth rate. In economic value added per share, the fluctuations in economic value added per share is very high i.e. the growth rate in economic value added of all the companies differ widely. The growth rate in market value added differs widely since the coefficient of variation is very high. The distribution of market value added per share is negatively skewed since few companies may have very low growth rate.

6.7 FINDINGS OF AVERAGE OF GROWTH RATES IN TOP AND BOTTOM FIVE COMPANIES

Highest growth rate in net worth per share is observed for Dr.Reddy's Laboratories Ltd (17.065). But growth rate in market price per share is highest for German Remedies Ltd (1.663). The average growth in gross fixed assets per share for the 4 years for all the companies is 0.149. Average growth in net fixed assets per share is 0.211. Though the average growth in net worth per share is 0.432, the growth in total funds employed per share is only 0.154.
Hindustan Lever Chemicals Ltd bags the first position among the top five companies out of 100 companies with seven variables (Total funds employed per share, reserves and surplus per share, market price per share, gross fixed assets per share, earnings per share dividend per share and cash profit per share). But in case of economic value added per share, the company left behind at 31st position out of 100 companies.

6.8 FINDINGS OF AVERAGE GROWTH RATE FOR 100 COMPANIES

Maximum growth rate is observed in the year 1994-95 and minimum growth is recorded in the year 1996-97 for sales per share. The growth seems to be increasing up to 1995-96 and declines in the year 1996-97 for profit before interest and tax per share. For both profit before tax per share and profit after interest and tax per share, negative growth is observed during the years 1994-95 and 1996-97. For both earnings per share and retained earnings per share, with the exception of the year 1996-97 for all the years positive growth rate is observed. The growth in dividend per share ranges from a minimum of 0.050(1996-97) to a maximum of 0.215(1993-94). For both gross fixed asset per share and net fixed asset per share, the growth is observed to be increasing over the years and there is slight decrease in the year 1996-97.

6.9 FINDINGS OF GROWTH RATES OF 100 COMPANIES

Out of 100 companies selected for the study, 98 companies' growth in sales per share fall between -0.60 and 0.60. In case of profit before interest and tax per share, 82 companies fall in the class interval between -0.300 and 0.300. But a
maximum of 87 companies fall in the class interval from -1.00 to 1.00 for profit before tax per share. In the case of Profit after interest and tax per share, the majority of companies (98 companies) fall in the class interval between -2.20 and 3.20. In case of retained earnings per share, 97 percent of the companies have their growth rate between 1.80 and 3.00. Growth in reserves and surplus per share are widely scattered.

6.10 FINDINGS OF ANALYSIS OF GROWTH RATES OF INDIVIDUAL VARIABLES

Twenty two companies have registered negative growth rate in sales per share. The lowest growth rate is observed in the case of Dr.Reddy's Laboratories Ltd (-2.380) in profit before interest and tax per share. But in case of profit before tax per share, the lowest growth rate is observed for Bata India Ltd (-11.243). Lowest growth rate is observed in Lakme Ltd for profit after interest and tax per share. Ballarpur Industries Ltd is observed to have the lowest growth rate (-0.128) in earning per share. ITC Bhadrachalam Papers Boards Ltd (-0.263) have the lowest growth rate in dividend per share. Wartsila Nsd India Ltd have registered the lowest growth rate of -1.897 in retained earnings per share. The growth rate is least in the case of Godrej Soap Ltd (-1.759) for reserves and surplus per share.

The lowest growth rate is observed for Lakme Ltd (-0.201) in gross fixed asset per share. But in case of net fixed asset per share, the lowest growth rate is observed for Great Eastern Shipping Ltd (-0.194). In case of networth per share, minimum growth rate is observed for Voltas Ltd (-0.062). For Total funds
employed per share, the lowest growth rate is observed for Ballarpur Industries Ltd (-0.116). Zuari Industries Ltd (-11.663) and Indian Rayon Industries Ltd (-44.881) have registered lowest growth rate for economic value added per share and market value added per share respectively.

Though 94 companies have an average positive growth rate in earnings per share; only 83 companies have registered a positive average growth rate in case of dividend per share. The growth in retained earnings per share is highest for Voltas Ltd (8.090). But the growth rate of reserves and surplus per share is maximum for Grasim Industries (2.492).

To sum up in general it may be concluded that majority of the companies in the sample have not enriched the shareholders in all the years as can be observed from summary statistical analysis, analysis of top and bottom five companies and frequency distribution analysis. Economic value added, market value added and total shareholders return are considered major indication of shareholder enrichment. An analysis of these three indicators reveal that most of the companies have generated little economic value added, market value added and total shareholders return while few companies have enriched the shareholders much. Hence it may be concluded that enrichment of shareholders is not uniform in all the companies selected for the study and there is poor corporate governance in most of the companies and it is also observed that enrichment is also not constant factor throughout the period of study. Stepwise multiple regression analysis indicates that there is a possibility of forecasting market price per share based on selected performance variables.
It may be inferred that the distribution of growth in most of the variables are positively skewed implying that very few companies have high growth rates. Distribution of growth rates of most variables are leptokurtic implying that the growth rates does not exhibit normal distribution. Major indicators of shareholder enrichment and best corporate governance reveals the following points.

**AVERAGE GROWTH RATES**

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<th>Positive</th>
<th>Negative</th>
<th>Above average</th>
<th>Below average</th>
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<tr>
<td>EVA</td>
<td>58</td>
<td>42</td>
<td>7</td>
<td>93</td>
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<tr>
<td>MVA</td>
<td>63</td>
<td>37</td>
<td>79</td>
<td>21</td>
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<tr>
<td>TSR</td>
<td>24</td>
<td>76</td>
<td>19</td>
<td>81</td>
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Majority of the companies (58 companies) had positive growth in the case of economic value added. Even though it is found that these companies are well governed only 7 companies have above average growth rates. Hence, it may be inferred that most companies have not been governed well since only seven companies have the growth rates above average. As regards market value added is concerned it may be inferred that most of the companies in the sample were able to provide positive addition to market value. Total shareholders return is considered the best indicator of corporate governance. Applying this criteria it may be concluded that most companies have not been governed well and failed to enrich the shareholders. This is well understood with the fact that only 24 companies have positive growth and only 19 companies have above average
growth rates in total shareholders return. Overall it is concluded that most of the companies have not enriched the shareholder adequately due to low level of corporate governance.

6.11 FINDINGS ON THE RECOMMENDATIONS OF VARIOUS COMMITTEES ON CORPORATE GOVERNANCE

The Cadbury committee states that board of directors is responsible for the governance of their companies. It insists that the boards should pay particular attention to their duty to present a balanced and understandable assessment of their company’s position. Financial reporting should be true and fair. The committee further recommends that the board should also ensure the integrity and consistency of their reports.

Kumaramangalam Birla committee recommends that board meetings should be held at least four times in a year, with a maximum time gap of four months between any two meetings. The committee further recommends that the members of the board give due importance and commitment to the meetings of the board and its committees. The committee insists that there should be a ceiling on the maximum number of committees across all companies in which a director could be a member or act as chairman.

Organisation for Economic Co-operation and Development (Europe) and Cadbury committee emphasize the need to protect the rights of shareholders and they recommend that all shareholders should be treated equally. Kumar Mangalam Birla committee recommend that a director should not be a member in more than
ten committees or act as chairman of more than five committees across all companies in which he is a director.

Confederation of Indian Industry and Kumaramangalam Birla committee insist that the disclosure of financial statements should be accurate and regular. They further insist that financial statements should reveal timely, accurate, substantive and material information. Organization for Economic Co-operation and Development (Europe) recommend that any material interest in transactions or matters affecting the corporation should be disclosed by board of directors of the company.

All committees invariably recommend setting up of audit committees. Confederation of Indian Industry insist that listed companies with either a turnover of over Rs.100 Crores or a paid up capital of Rs.20 Crores should set up audit committees within two years. Both Kumaramangalam Birla committee and Confederation of Indian Industry recommend that the audit committee should have maximum non-executive members, who should have adequate knowledge of finance, accounts and basic elements of company law. Cadbury committee recommend that the audit committee should have minimum of three members. Membership should be confined to the non-executive directors of the company and a majority of the non-executive directors serving on the committee should be independent. Membership of the committee should be disclosed in the annual report.
The Associated Chambers of Commerce and Industry recommend that the board of directors, when they find themselves unable to accept the advice of audit committees on any issue, the board should be competent to overrule the advice but should be required to report the facts fully to the general body of shareholders at the next annual general meeting for their information. A welcome step basis, the chance of the audit committee should be present at the Annual General Meeting to answer queries of the member.

However, in India audit committees do not exist except in few well-managed companies. It is expected that with the implementation of the recommendations of various committees audit committees would be set up in all the listed companies in future.

Cadbury committee, Confederation of Indian Industry and Kumaramangalam Birla committee recommend that non-executive directors should be included in board of directors to bring an independent judgement to bear on issues of strategy, resources including key appointments and standards of conduct. Confederation of Indian Industry recommends that in order to secure better effort from non-executive directors, companies should pay a commission over and above the sitting fees and consider offering stock options for the use of professional inputs. It further recommends that independent directors should have clearly defined responsibilities within the board and become active participants in boards, not passive advisors.
In England Greenbury committee was especially set up to report on remuneration policy. It recommends that the remuneration committee should be setup by the board of directors. The remuneration committee should consist of only non-executive directors. It further recommends that remuneration committees must provide the packages needed to attract, retain and motivate directors of the quality required but should avoid paying more than is necessary for this purpose.

Kumaramangalam Birla committee recommends that the remuneration committee should comprise minimum of three non-executive directors, the chairman of the committee being an independent director. The committee also recommends that the chairman of remuneration committee should be present at the annual general body meetings to answer the shareholder queries.

All committees invariably emphasize the need for increasing shareholder value by good corporate governance. The Associated Chamber of Commerce and Industry recommends that companies should concentrate not only on wealth maximization of the shareholders but also on the social responsibility and the accountability to its other stakeholders.

It may be concluded that with the implementation of the recommendations of various committees analyzed in this study the shareholders in future would be protected and rewarded and it is certain that there will be a overall growth in shareholders value, which is the core of Corporate Governance.
6.12 SUGGESTIONS FOR BETTER CORPORATE GOVERNANCE IN INDIA

By undertaking this study, the scholar has reviewed the Reports of several committees both in India and abroad. The study has also enriched the scholar the present trend in the field and experience to offer possible recommendations. Towards the end, it is of out of keen interest and involvement in the field of study, following specific recommendations are suggested for policy makers, with a view for further strengthening an effective corporate governance system in India.

1. The Board

A. The board should consist of 50 percent executive and 50 percent non-executive independent professionals as its Board of directors. Individual director means a director who has no pecuniary interest in the company.

B. The chief executive should not be the chairman of the board. The board should be headed by a professional non-executive chairman.

C. A person should not hold directorship in more than 10 companies and the chairman of a committee of directors in not more than 5 committees across all companies in which he is a director.

D. The board should meet at least 4 times in a year with a gap of not more than 4 months
E. Financial institutions should not have nominee directors form the institution itself. However the institution can nominate outside professionals with rich experience and

F. Informal outside directors should be well remunerated to enable them discharge their duties more efficiently and effectively.

II. Committees of the Board of Directors

A. The following three committees of the board are recommended.
   i) Audit committee.
   ii) Remuneration committee and
   iii) Grievance redresal committee

B. The audit committee should consist of at least 3 non-executive directors with at least one director having accounts and financial knowledge. The chairman of the audit committee shall be present at the Annual general meeting to answer shareholders' queries and

C. The remuneration committee and grievance redressal committee should have 50 percent non-executive directors.

III. Transparency and Disclosure of Information

A. Key information, operating plans and budgets together with long term plans should be disclosed in the Annual report.

B. Quarterly and half yearly results should be provided to the shareholders.
C. Shareholders should be informed of any transaction involving substantial payments.

D. Companies should provide "shareholders' charter" listing out significant developments about the performance of the company and

E. The annual report should contain details of Economic value added, Market value added, Total shareholders return, Brand value and Human assets value.

IV. Rights of Shareholders

A. All categories of shareholders should be treated equally.

B. Shareholders should be entitled to postal ballot voting and

C. Shareholders should be provided with the bio data of new directors and they should also be informed of any pending legal proceedings against any director.

V. Implementation of the Suggested Code of Corporate Governance

A. The code suggested above should be incorporated in the listing agreement with the stock exchanges where the stock is listed for trading.

B. All listed companies with a paid up capital Rs 10 crores and above and a market capitalisation of Rs.50 crores and above should implement the above codes from 1st April 2001, and
C. There should be a separate section on corporate governance in the annual report with a detailed compliance report of code of corporate governance.

D. The institution representative on to the Board should be restricted. They can call for periodical reports from the company and conduct due diligence if need be. Main function of financial institution is only to lend moneys and earn interest / profits, therefore they should not indulge in managing the affairs the companies through nominee directors where loans are given. Nominee directors can be considered when there is default in the company repayment and they should be liable like any other director and should not be given any special treatment.

E. Disclosure in the annual report about the role played by the committees, non executive professional directors and the decision taken and the results achieved should be mandatory. This report should be authenticated by those who authenticate the accounts.

F. Board meeting should take place in real business professional sense with all the directors on the board are well informed of the agenda and the directors act in the larger interests of the company and every stake holders.

CONCLUSION

The implementation of New Economic Policy and the introduction of corporate governance have taken place in India only during the end of the 20th
century. However, it is an accepted fact that the strategies incorporated have started functioning in the right direction.

The ongoing economic reforms initiated have created a conducive environment and has started yielding expected gains. Optimistically, it can be viewed that the establishment and growth of corporate governance in the expected lines will definitely bring a stable and steady economic development in India. It will place India in an enviable position in the world map on economic development. It is expected that the implementation of corporate governance code suggested by the researcher will help to achieve the goal of attaining good corporate governance system in India. The study would be useful to Securities Exchange Board of India, Confederation of Indian Industry, various chamber of commerce and other agencies in training and implementing appropriate guidelines in achieving the goal of a desirable corporate governance system in India.