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Corporate governance disclosure practices in India: A study of large and mid-cap companies

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Abstract
Corporate governance is about how an organization is managed. In the present times, corporate governance is a term of precise discussions. Corporate governance disclosure is the only way by which various stakeholders come to know about the working of the company. With the advent of the term corporate governance, more and more disclosure of it is required. Corporate governance disclosure has started crystallizing the working of the companies. Accurate and comprehensive disclosure of corporate governance is as important as disclosure of financial position and performance. It helps stakeholders in understanding the cultures, activities, structures, values, ethics and policies of the organization. It enhances the trust and confidence among the stakeholders. In India it is in the evolution stage. Though some noticeable steps have been taken for the disclosure of corporate governance matters but much is needed to be done. In Indian context, large variations are found in the corporate governance disclosure practices followed by corporate houses. In the present paper, an attempt has been made to highlight the general corporate governance disclosure practices followed by large and mid-cap companies in India with regard to mandatory and voluntary disclosures. The sample of the study consists of 20 companies, 10 each from NSE CNX Nifty Index and NSE CNX Mid-Cap Index. The Study is based upon the corporate governance reports disclosed by these companies in their annual reports for the year ended on 31st March 2015.

Keywords: Corporate governance, large and mid-cap companies, NSE CNX nifty index, NSE CNX mid-cap index

Introduction

Corporate Governance refers to the ethical code of conducts by which the corporate sector organizations are managed. It states the values, cultures, ethical conducts, commitments and principles, which an organization deploys and exercises while managing the enterprise. In the modern times, corporate governance is a subject of precise discussions. The basic objective behind good corporate governance practices is to enhance transparency and accountability of the working of corporate managers. Timely and accurate disclosure of corporate Governance matters is as important as the disclosure of other financial and non-financial matters. It helps various stakeholders in understanding the diverse governance issues pertaining to cultures, values, ethics, moves etc. of an organization. It ultimately lets the users of such information to take more rational decisions by exploring new insights into the working of an organization. In the age of globalization and liberalization, the term corporate governance and its disclosure assumes a great importance and a definite role to play.

The forces of globalization and liberalization have created both pros & cons (opportunities & challenges). With the dismantling of all sorts of barriers (physical & monetary), it has become hard for the Indian corporates to survive. Now, they go global for the access of funds and to operate. To operate at the global level one needs best corporate performance & a positive picture in the minds of stakeholders so as to satisfy the aspirations of global investors. This can be done by enhancing the levels of transparency and accountability by adopting the best corporate governance disclosure practices.

In the Indian context, the ongoing reforms in the Indian economy has also forced Indian corporate sector to adopt and maintain the highest level of corporate governance practices.

Many high-powered committees have been set-up to deal with the issues of corporate governance and to give some valuable suggestions to improve the transparency and to control over the corporate crimes & frauds. Many noticeable improvements have taken place in the form of listing agreement but much more is needed in this direction to improve the situation. Therefore, efficient & good corporate governance and its disclosure is the need of the hour and a pre-requisite for the efficient working of corporate sector and economy as a whole.

Corporate governance in the global scenario

In the global economic setup, various steps have been taken to formulate the principles of corporate governance. In 1992, the Cadbury Report was published in the United Kingdom, which covered the financial assets of corporate governance. It was a landmark in the field corporate governance. It formulated the basic foundations of corporate governance. Thereafter, the Vienot Report was published in France in 1995. In Canada, the Dey Report suggested some useful guiding principles & guidelines in this regard. United States of America took lead in this regard. In the year 2001, the corporate world was mauled by numerous accounting and regulatory frauds. The President of the U.S., George W. Bush, signed into law the "Sarbanes-Oxlely Act of 2002" on July 30, 2002. It basically concentrates upon the internal control systems and to ensure that proper internal control systems are designed and operating objectively over the financial reporting. In November 2003, the New York Stock Exchange (NYSE) and NASDAQ listing requirements were amended and approved by the Securities and Exchange Commission (SEC) with regard to various corporate governance issues. The systematic review of corporate governance undertaken in the U.K. & Europe was the outcome of the Higgs Report & the Smith Report, both published in January 2003. A major step in the field of corporate governance was taken by the 30 nation's organization called OECD. On April 2004, OECD approved a revised version of the OECD's principles of corporate governance. It holds governments responsible to ensure effective regulatory framework for effective corporate governance practices. These are the clear indications that the topic of corporate governance is no more restricted to national contexts. It has become a global issue that has attracted the attentions of thinkers' world over.

Corporate Governance: Indian Experience

In India, corporate governance issues started developing roots right from the year 1998. In Indian scenario, the Confederation of Indian Industry (CII) took the initiatives in April 1998 by framing a possible code of corporate governance. Thereafter, the Securities & Exchange Board of India (SEBI), set-up a committee named as Kumar Mangalam Birla Committee on Corporate Governance. On December 1999, SEBI accepted the recommendations made by Kumar Mangalam Birla Committee. These recommendations were included in the Listing Agreement in the form of Clause 49 of the Listing Agreement of Indian stock exchanges. These were fundamental in nature and acted as the basic foundations of corporate governance principles in Indian scenario. On the other hand, the Department of Company Affairs, Government of India, also took some initiatives by constituting a nine members committee under the chairmanship of Mr. Naresh Chandra, former Indian Ambassador to the U.S. This committee was given the charge to examine various corporate governance issues and to make some useful suggestions. The committee made valuable suggestions, which have now been included in the Listing Agreement. Further, Narayana Murthy Committee was set-up by the SEBI under the chairmanship of Mr. N.R. Narayana Murthy. The committee has made some useful suggestions with regards to the amendments in Clause 49 of the Listing Agreement, which are yet to be incorporated. It reflects the fact that in India too, corporate governance is a matter of discussions and importance. Some basic reasons behind this situation may be the dominant position occupied by the corporate sector to influence the Indian economy, the ongoing economic reforms, the poor governance practices in the corporate sector especially in the public sector undertakings and corporate crimes and frauds etc. Many high-powered committees have been set-up, which made valuable suggestions. Many mandatory as well as in form of non-mandatory compliance requirements are in place for the corporate houses. Although, much concrete steps have been taken in the Indian contexts, but much more is required to be done to change the situation so that the rights of stakeholders can be properly protected and to align our corporate governance practices with that of the global standards.

The present study

As corporate governance has started getting importance in Indian as well as global scenario, it is useful to check the compliance with those requirements by the corporate organizations. In the present study, an attempt has been made to check the compliance with the mandatory as well as non-mandatory disclosure requirements of corporate governance matters by the Indian corporate houses. This study is based upon a sample of companies in the large-cap and mid-cap segments. For the purpose of this study, 10 companies have been selected from the National Stock Exchange (NSE) S & P CNX Nifty Index, representing the large-cap companies and 10 companies from the National Stock Exchange (NSE) S & P CNX Mid-cap Index, representing mid-cap companies. The corporate governance reports of these companies have been collected for the accounting period ended on 31st March 2015. These reports have been properly analyzed for the purpose of the study. The present study is aimed at the following objectives:

- To analyze the general corporate governance disclosure practices followed by large and mid-cap companies.
- To check the compliance with mandatory corporate governance disclosure requirements by large and mid-cap companies.
- To evaluate the voluntary corporate governance disclosure practices followed by large and mid-cap companies.

Companies have been selected by using systematic sampling technique so as to select those companies in both large and mid-cap companies, representing different industries.

Analysis

In this part of the paper, analysis of the sample data has been made with regard to the corporate governance disclosure practices followed by large and mid-cap companies.

Attempts have been made to check three dimensions namely, size and get-up of these reports, mandatory disclosures as are required under the listing agreement and to check the voluntary corporate governance disclosure practices. The analysis is divided into three parts namely:

- Size and get-up.
- Compliance with mandatory corporate governance disclosure requirements.
- Voluntary disclosure practices.

In detail, these are discussed in the following discussion:

Size and Get-up of The Reports

In this part of the analysis, the size, coverage and the modes & forms of presentation have been analyzed so as to find the general practice of corporate governance disclosure. This analysis is divided into four parts. The results of this analysis are shown in Table 1, which is as follows;

Table 1: Size & Get-up of The Reports

Sr. No	Items	Large-cap	Percentage (%)	Mid-cap	Percentage (%)
1.	**Size of The Reports**				
	0-5 Pages	02	20	01	10
	5-10 Pages	Nil	Nil	03	30
	10-15 Pages	02	20	05	50
	15-20 Pages	06	60	01	10
2.	**Mode of Presentation**				
	Colored Presentation	09	90	05	50
	B & W Presentation	01	10	05	50
3.	**Forms of Presentation**				
	Magazine Form	10	100	10	100
	Other Forms	Nil	Nil	Nil	Nil
4.	**Use of Charts, Graphs & Snaps**				
	Use of Charts & Graphs	08	80	09	90
	Use of Snaps	01	10	01	10

Table 1. Shows that the size of corporate governance reports by majority of the companies' ranges between 10-15 pages and 15-20 pages. In case of large companies, Larsen & Toubro Ltd. disclosed the smallest sized report, having only 5 pages report and in mid-cap companies Birla Corporation Ltd issued 3 pages report. In case of large companies, the largest report was that of Infosys Ltd. and Reliance Industries Ltd., having 20 pages reports each. But the largest report in size among the mid-cap companies was that of Godrej Consumer Products Ltd., which had 18 pages reports. It clearly indicates that the large companies are disclosing large sized reports as compared to mid-cap companies. In case of mode of presentation too, large companies have better corporate governance presentations as compare to mid-cap companies. Table - I shows that 90 percent of the large companies have disclosed colorful corporate governance reports. Only one company, namely Reliance Industries Ltd. adopted black & white method of presentation. In case of mid-cap companies 50 percent of the reports are colored and 50 percent are black & white. Use of charts & graphs have been disclosed by a fairly good number of companies in both these groups i.e. 80 percent and 90 percent representing large and mid-cap companies respectively. One company each in both the groups has included snaps. The analysis with regard to the form of presentation reflects that almost all the companies have reported corporate governance reports in the magazine form. So, this analysis also reflects that large companies have better corporate governance reports as compare to mid-cap companies.

Compliance with Mandatory Requirements

In India, companies seeking enlistment on stock exchanges are required to follow the requirements and compliances given in the listing agreement. Because the present study is based upon the companies, listed on the National Stock Exchange (NSE), the compliance of corporate governance disclosure is checked with regard to the Listing Agreement of NSE. Clause 49 of listing agreement deals with the corporate governance issues. As per the requirements of this clause, all the listed companies are required to follow the same. It is mandatory for all the listed companies to follow the same. Clause 49 requires companies to prepare a corporate governance report along with the certificate of compliance from the statutory auditors of the company and to include the same in the annual report of the company. Three separate annexure have been mentioned in this regard. But Annexure-2 is mandatory a nature. Compliance with regard to the mandatory disclosure requirements are enshrined in Annexure-2 of Clause 49 of the listing agreement has been checked with regard to the sample companies. In Annexure-2, there are main 9 items, which are required to be disclosed by every company. One another requirement is that of compliance certificate with regard to corporate governance. The results of analysis to check the compliance with regard to these ten items by the sample companies is given in Table-2.

The compliance with these mandatory requirements by both the group of companies is quite high. Items like philosophy on code of governance, board of directors, audit committee, shareholders' committee, general body meetings disclosures have been strictly followed by majority of the companies. But there are variations found in the disclosure of items like remuneration committee, means of communication etc. The possible reason may be the fact that these items are not compulsorily required. So, this analysis reflects that compliance with mandatory requirements by both the group of companies is quit high.

Table 2: Compliance with Mandatory Requirements

Sr. No	Items	Large-cap	Percentage (%)	Mid-cap	Percentage (%)
1.	Company's Philosophy on Code of Governance	10	100	10	100
2.	**Board of Directors**				
	Composition	10	100	10	100
	Category	10	100	10	100
	Attendance at Board Meetings	10	100	10	100
	Attendance at Last AGM	10	100	10	100
	Memberships/Chairmanships	10	100	10	100
	Number & Dates of Board Meetings	10	100	10	100
3.	**Audit Committee**				
	Terms of Reference	10	100	10	100
	Composition	10	100	10	100
	Meetings Held	10	100	10	100
	Attendance	10	100	10	100
4.	**Remuneration Committee**				
	Terms of Reference	09	90	05	50
	Composition	08	80	06	60
	Attendance	05	50	05	50
	Remuneration Policy	10	100	07	70
	Details of Directors' Remuneration	10	100	10	100
5.	**Shareholders' Committee**				
	Name of Non-Executive Chairman	10	100	10	100
	Details of Compliance Officer	08	80	10	100
	Number of Complaints Received	09	90	09	90
	No. Not Resolved To Satisfaction	09	90	10	100
	Number of Pending Share Transfers	09	90	10	100
6.	**General Body Meetings**				
	Location & Time of Last 3 AGMs	09	90	10	100
	Spl. Resl. Through Postal Ballot	09	90	10	100
	Votting Pattern of Postal Ballot	09	90	10	100
7.	**Disclosures**				
	Materially Related Party Transaction	10	100	09	90
	Details of Non-Compliances	09	90	09	90
8.	**Means of Communication**				
	Half Yearly Report To Shareholders	09	90	09	90
	Name of Newspapers Publish In	09	90	10	100
	Any Website For Quarterly Results	09	90	10	100
	Display of Official News Releases	07	70	08	80
	Presentations To Investors/Analysts	08	80	06	60
	MD&A Forms Part of Report or Not	09	90	10	100
9.	**General Shareholders Information**				
	AGM: Date, Time and Venue	09	90	10	100
	Financial Calendar	08	80	10	100
	Date of Book Closure	08	80	10	100
	Dividend Payment Date	07	70	08	80
	Listing on Stock Exchanges	08	80	10	100
	Stock Code	08	80	10	100
	Market Price Data	08	80	10	100
	Comparative Performance	08	80	10	100
	Registrar and Transfer Agent	08	80	10	100
	Share Transfer System	09	90	10	100
	Distribution of Shareholding	08	80	10	100
	Dematerialization of Shares	07	70	10	100
	Outstanding ADRs/GDRs/Warrants	08	80	08	80
	Plant Locations	06	60	09	90
	Address For Correspondence	08	80	09	90
10.	Compliance Certificate	08	80	06	60

Non-Mandatory Requirements

In Clause 49 of the listing agreement, along with the mandatory disclosure requirements, there are non-mandatory requirements. These are recommendatory in nature. There is a mention in Clause 49, which is given in Annexure-1 and Annexure-3. The results of this analysis have been shown in Table-3.

Table-3 shows that the compliance with regard to the annexure-1 is not very high. In the large companies only 50 percent of the companies have disclosed the information as contained in Annexure-1. But the situation in case of mid-cap companies is worse. In this group only 20 percent of the sample companies complied with this requirement. The results of compliance with regard to Annexure-3 i.e. non-mandatory requirements, have been given in Table-4, which is as follows

Table 3: Information to Be Placed Before Board of Directors

Sr. No	Items	Large-cap	Percentage (%)	Mid-cap	Percentage (%)
1.	Annual Operating Plans	05	50	02	20
2.	Capital Budgets	05	50	01	10
3.	Quarterly Results	05	50	02	20
4.	Minutes of Meetings	05	50	02	20
5.	Rect of Sr. Officers	04	40	02	20
6.	Show Cause, Penality etc.	05	50	02	20
7.	Fatal or Serious Accidents	04	40	02	20
8.	Material Defaults	05	50	02	20
9.	Public/Product Claims	04	40	02	20
10.	Details of Joint Ventures	05	50	02	20
11.	Payment of Goodwill etc.	05	50	02	20
12.	Labour Problems	05	50	02	20
13.	Sale of Investment	05	50	02	20
14.	Foreign Exchange Dealing	05	50	02	20
15	Non-Compiance	05	50	02	20

Table 4: Non-Mandatory Requirements

Sr.	Items	Large-cap	Percentage (%)	Mid-cap	Percentage (%)
1.	Non-Executive Chairman	08	80	09	90
2.	Remuneration Committee	06	60	09	90
3.	Shareholders' Right	10	100	10	100
4.	Postal Ballot	09	90	10	100

Analysis of Table-4 shows that compliance with regard to this is quite high. Most of the companies did not make any separate disclosure with regard to this but included these in the other parts of corporate governance report. Comparative analysis of both these groups shows that mid-cap companies compliant with this requirement with fairly high degree as compared to the large companies.

Voluntary Information Disclosure

In this part of the analysis, voluntary information disclosure made by the sample companies with regard to the corporate governance issues has been analyzed. Over and above what was statutorily required, companies have disclosed many other items. Table-5 shows the results of voluntary corporate governance disclosure made by the sample companies, which is as follows.

Table 5: Voluntary Information Disclosure

Sr.	Items	Large-cap	Percentage (%)	Mid-cap	Percentage (%)
1.	Corporate Governance Rating	02	20	Nil	Nil
2.	Disclosure of Accounting Treatments	01	10	Nil	Nil
3.	Insider Trading	05	50	02	20
4.	Social Reporting	01	10	01	10
5.	Awards & Recognitions	Nil	Nil	01	10
6.	Report of Audit Committee	01	10	Nil	Nil
7.	Report of Remuneration Committee	01	10	Nil	Nil
8.	Internal Control System	02	20	Nil	Nil
9.	Per Share Data	02	20	01	10
10.	Other Committees	05	50	01	10
11.	Academic Qualification of Directors	03	30	02	20
12.	Profile of Directors	02	20	Nil	Nil
13.	Profile of Directors Seeking Appointments/Re-appointments	04	40	05	50
14.	Relationship With Other Directors	03	30	Nil	Nil
15.	Business Transacted at AGM	03	30	Nil	Nil
16.	Code of Business Conduct/Ethics	06	60	01	10
17.	Details of Management Council	01	10	Nil	Nil
18.	Information To Debenture holders	01	10	Nil	Nil

The Above Table shows that voluntary disclosure of corporate governance information by the sample companies is very low. A very few companies have disclosed information at their own. In case of the large companies, all the sample companies have made the voluntary disclosures in the corporate governance report though the number of items disclosed varies from one item to eight items. But in case of mid-cap companies, only 60 percent of the companies have made voluntary information disclosure. Their number of items is also low ranging between one and maximum of three items. On the other hand, the analysis with regard to the items frequently disclosed reflects that the items like profile of directors seeking appointment/reappointment, insider trading, code of business conduct and other committees have been disclosed by majority of the companies. So, this analysis reflects many things. Firstly, the Indian companies are reluctant in disclosing the corporate governance issues over and above the mandatory requirements. Secondly, large companies are aggressive in disclosing information voluntarily as compare to the mid-cap companies. Thirdly, a very few items have been frequently disclosed voluntarily by majority of the companies, which have been mentioned earlier.

Conclusion

So, the present study has highlighted many things. It has brought to light many untouched issues. The study concludes that the corporate governance disclosure practices in India are complying with the mandatory requirements with a fairly good degree. But at their own companies are not disclosing much of the information. Comparatively large companies are disclosing more and in a better manner as compare to the mid-cap companies. On the other hand, compliance with the other non-mandatory requirements of listing agreements is again poor. Though the corporate governance disclosure practices in large and mid-cap companies in India are fully in compliance with what is statutorily required but much more should be disclosed by the companies at their own. In a nutshell, it can be concluded that voluntary corporate governance disclosure in India is poor as compare to the mandatory disclosure. Further large companies are better in disclosing corporate governance matters as compare to mid-cap companies.

List of Companies

Sr.	Large-cap Companies	Mid-cap Companies
1.	Bharti Televentures Ltd.	Cadila Healthcare Ltd.
2.	Bharat Petroleum Corporation Ltd.	Bongaigaon Refineries & Petrochemicals Ltd.
3.	Dr. Reddy's Laboratories Ltd.	Bombay Dyeing & Manufacturing Ltd.
4.	Graism Ltd.	Asahi India Safety Glass Ltd.
5.	Hindustan Petroleum Corporation Ltd.	Century Textiles & Industries Ltd.
6.	Infosys Ltd.	Glenmark Pharma Ltd.
7.	Hero Honda Ltd.	Godrej Consumer Products Ltd.
8.	Hindalco Ltd.	Indian Rayon & Industries Ltd.
9.	Larsen & Toubro Ltd.	Jubilant Organosys Ltd.
10.	Reliance Industries Ltd.	Birla CorporationLtd.

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