Corporate Governance Practices and Shareholder Protection in India

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SURESH G**

Abstract

The present study aims to study the corporate governance practices and shareholder protection among Indian companies. For this purpose a sample of 100 companies are selected. The selected companies listed in BSE 100 Index. The required data are collected from various secondary sources like company website, annual report, notices and annual general meeting. Data were collected using a structured schedule adapted from G20/OECD principles of corporate governance. The finding of the study indicates that out of the selected companies, the level of practicing the corporate governance are not the same. The result of this study will help investors in identifying the companies for their investment, based on their priorities by keeping corporate governance scorecard as a benchmark. It will also be helpful for companies to see their scorecard and check the parameters for improvement and to attract and safeguard the investors and other stakeholders. This study will also add value to the existing literature in their relevant field.

I. Introduction

CORPORATE GOVERNANCE IS an extensively researched topic among the academicians but there are still a number of scandals, which have taken placed. For example, some of the tycoon industries like Enron, HealthSouth, Tyco etc., which had a big scandal during the year of early 2000’s, due to the manipulation in accounting work, weak corporate governance and lack of transparency. As the outcome of this kind of scandals in the corporate world, the investors have lost their trust in the market, which leads to decline in the share price of most of the companies (Agarwal and Sahiba, 2005). Hence, the regulators and the policy makers of different economies have come up with

1 Presented at FI International Research Conference (4th July, 2020).  
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Submitted June 2020; Accepted March 2021
Out of the total 100 companies taken for the study, 25 percent fall under the category of leadership, 20 percent in good and 55 percent in fair categories, none of the companies fall under the category of basics, as every company is practicing and keeping the minimum standards of corporate governance practice. However, only 25 percent of the companies fall in the category of leadership, hence there is a scope to improve the corporate governance practice by the other companies. To attain the leadership category they should concentrate more on ‘Responsibility of the board’ and ‘role of stakeholders’.

Practice among the industry sector show us that, manufacturing industry got the highest score and service sector got the least, which can be improved by giving more priority to reduce in the default of payment to outside creditors. Further, by increasing the role of stakeholders in the functioning of the company they can improve the fair governance practices.

The companies owned by institutions come at the top score of CG and public owned companies come at the lowest, indicating that most of the manipulation and error or failure to show the required documents falls under the public owned companies which lead to higher corruption. The issue relating to the public sector can be overcome by reducing the power that given to the white-collar employees and setting a policy requiring all related party transactions (RPTs) which has to be dealt only by independent non-conflicted board members. Since, the lowest score is above 50% of the total scoreboard, the finding indicates that there are certain standards and rule, which were followed by all the companies.

The result of this study will help investors in identifying the companies for their investment, based on their priorities by keeping corporate governance scorecard as a benchmark. It will also be helpful for companies to see their scorecard and check the parameters for improvement and to attract and safeguard the investors and other stakeholders. This study will also add value to the existing literature in their relevant field.

References


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Cromme, G., (2005), “Corporate Governance in Germany and the German Corporate Governance Code”, Blackwell Publishing Ltd, pp. 262-267


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Appendix

Corporate Governance Index Score Card

(To be filled by the content analyzer based on the analyses from annual reports, website etc.)

1. Type of Industry
   Manufacturing Industry
   Financial Institution
   Service Industry

2. Type of Organization
   Institutional sector
   Multinational sector
   Family owned business
   Public sector

3. Content analyzer should evaluate the following parameters from the company websites, annual reports, notices, agenda of board meetings and other relevant reports.

   (If any information relating to the parameters is available in the reports then tick in yes or else tick in no box. If the particulars parameter is not applicable to the company then tick N/A)

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<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Parameters</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Has the company taken steps to ensure that the basic rights of shareholders are clear and unequivocal?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>2.</td>
<td>Did the previous AGM allow sufficient time for shareholder engagement?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>3.</td>
<td>Can a minority shareholder, with less than 10% stake, propose an agenda item in a shareholder meeting?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>4.</td>
<td>Was there any evidence of combining multiple matters or issues in a single resolution?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>5.</td>
<td>Was shareholder participation facilitated for all shareholders at the previous AGM in the past one year?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>6.</td>
<td>Did the company provide proxy and e-voting facility for all shareholder meetings in the past one year?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>7.</td>
<td>Did all board members attend the previous AGM?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>8.</td>
<td>Did the external auditors attend and participate in the previous AGM?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>9.</td>
<td>Within how many months of the fiscal year end was the last AGM held?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>10.</td>
<td>Were any preferential warrants issued to the controlling shareholders in the past one year?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>11.</td>
<td>Do the charter documents of the company give additional rights to certain shareholders?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>12.</td>
<td>Does the company have a policy requiring all related party transactions (RPT's) to be dealt only by independent non-conflicted board members?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>13.</td>
<td>Does the company have in place a system, including policies and procedures, to facilitate disclosures of conflicts of interest by stakeholders?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>14.</td>
<td>Did the company undertake any related party transaction in the past three years, which may have been prejudicial to the interests of minority shareholders?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>15.</td>
<td>Does the company pay out disproportionately high royalty to its group entities?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>16.</td>
<td>In the past, has the company (or its subsidiaries) provided financial assistance to promoter entities which had to be written off or unlikely to be recovered?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>17.</td>
<td>Has the company been transparent while undertaking any M&amp;A, restructuring, or slump sale?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>18.</td>
<td>Does the company have a policy to publicly disclose the reasons for pledging of shares by the controlling shareholders?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>19.</td>
<td>Is there evidence of structures or mechanisms that have the potential to violate minority shareholder rights?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

**Total Score**

Segment II: Role of Stakeholders in Corporate Governance

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Parameters</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.</td>
<td>Is the company committed towards developing stakeholder relationships?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>21.</td>
<td>Does the company have publicly disclosed policies and/or mechanisms to address the health, safety, and welfare of employees?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>22.</td>
<td>Does the company have in place policies and practices which explain its supplier/contractor selection and management processes?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>23.</td>
<td>Has the company demonstrated commitment to protect the rights of its lenders, creditors, and suppliers?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>24.</td>
<td>Does the company demonstrate a commitment to strong ethical practices and is clearly anti-corruption and anti-bribery?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>25.</td>
<td>Does the company demonstrate its commitment to being a good corporate citizen?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

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26. Does the company have processes in place to implement and measure the efficacy of its CSR programs? □ □ □
27. Does the company have policies and processes in place to handle investor grievances? □ □ □
28. Does the company have an effective whistle-blower mechanism for stakeholders to report complaints and suspected or illegal activities? □ □ □

**Total Score**

**Segment III: Disclosure and Transparency**

29. Does the company have a policy for determining and disclosing material information? □ □ □
30. Have there been any concerns on the financial statements in the past three years? □ □ □
31. Is the company transparent in disclosing financial performance on a quarterly basis in the past one year? □ □ □
32. Is the company transparent in disclosing segmental information? □ □ □
33. Is the company transparent in disclosing non-financial information? □ □ □
34. Does the company provide comprehensive disclosures on its foreseeable risks? □ □ □
35. Has the company developed and disclosed a comprehensive related party transactions (RPT) policy? □ □ □
36. Did the company provide timely, accessible and comprehensive information for all shareholder meetings in the past one year? □ □ □
37. Are the detailed minutes or transcripts of the previous AGM publicly available? □ □ □
38. Did the company disclose voting results for each shareholder category for all resolutions proposed in the past one year? □ □ □
39. Is the company transparent in disclosing its shareholding pattern? □ □ □
40. Is the shareholding of individual board members and key managerial personnel (KMP) disclosed in the latest annual report? □ □ □
41. Has the company articulated a dividend policy for its shareholders? □ □ □
42. Is the information on the company website comprehensive and accessible? □ □ □
43. Does the company have a dedicated investor relations team/person whose contact details are publicly available? □ □ □
44. Does the company provide any information about the independence, competence and experience of the external auditor? □ □ □
45. Has the company periodically rotated its auditors (firm and partner)? □ □ □
46. Does the latest annual report contain a statement confirming the company's compliance with the regulatory requirements on corporate governance? □ □ □
47. Has the company identified its senior executives and their responsibilities? □ □ □
48. Has the company disclosed the experience of each board member and senior executives? □ □ □
49. Has the company clearly identified its independent directors in the annual report and on its website? □ □ □
50. Does the company fully disclose the process and criteria used for appointing new directors? □ □ □
51. Does the company disclose details on its training, development and orientation programs for directors? □ □ □

**Total Score**

(Cont'd...)
### Segment IV: Responsibilities of the Board

52. Are all directors fully engaged in company matters and committed to corporate governance? □ □ □

53. Does the board meet sufficiently to exercise due diligence? □ □ □

54. Is there separation of roles between the Chairperson and the CEO? □ □ □

55. Does the board have sufficient skills, competence and expertise? □ □ □

56. Does the board have gender diversity? □ □ □

57. Does the company have adequate independent representation on the board? □ □ □

58. Do the board committees have adequate independent representation? □ □ □

59. Is the audit committee effective in its composition and its meeting frequency? □ □ □

60. Does the company have a strong and robust internal audit framework? □ □ □

61. Were all resolutions proposed by the board to shareholders in the past one year accepted? □ □ □

62. Is there evidence to show that the company, directors or its key managerial personnel (KMP) have violated normally expected ethical/behavioral norms? □ □ □

63. Does the remuneration structure for executive directors align pay with performance? □ □ □

64. Has executive director(s) pay been aligned to company performance in the last three years? □ □ □

65. If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price? □ □ □

66. Is the CEO compensation commensurate with the company’s size and performance? □ □ □

67. Does the company have a succession plan for its directors and senior leadership? □ □ □

68. Are the disclosures on succession planning detailed? □ □ □

69. Is the board evaluation policy and process in place and effective? □ □ □

70. Are board committees evaluated separately? □ □ □

**Total Score**

---

### Corporate Governance Index - calculation

(Weightage to be consider for score calculation)

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Categories</th>
<th>Max attainable score</th>
<th>Score of the company</th>
<th>Weightage</th>
<th>Weighted score</th>
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<tbody>
<tr>
<td>1.</td>
<td>Segment I: Rights and equitable treatment of shareholders</td>
<td>38</td>
<td></td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Segment II: Role of stakeholders</td>
<td>18</td>
<td></td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Segment III: Disclosure and Transparency</td>
<td>46</td>
<td></td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Segment IV: Responsibilities of the board</td>
<td>38</td>
<td></td>
<td>30</td>
<td></td>
</tr>
<tr>
<td><strong>Total Score</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Rounding off to be at the final score only)

Thanks with regards

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