

Corporate Governance Practices and Shareholder Protection in India¹

MICHAEL YUIVAMUNG ZIMIK*
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 place. 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).

* Assistant Professor, CHRIST (Deemed to be University), Hosur Rd, Bhavani Nagar, S.G. Palya, Bengaluru, Karnataka 560029, INDIA

** Assistant Professor, CHRIST (Deemed to be University), Department of Commerce, Hosur Rd, Bhavani Nagar, S.G. Palya, Bengaluru, Karnataka 560029, INDIA

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

- Porta, R.L., F.L.d. Silanes, A. Shleifer and R. Vishny, (2000), "Investor protection and corporate governance", *Journal of Financial Economics*, pp. 3-27
- Bistrova, J. and N. Lace, (2012), "Quality of Corporate Governance System and Quality of Reported Earnings: Evidence from CEE Companies", *Economics and Management*
- Klapper, L. and I. Love, (2002), "Corporate Governance, Investor Protection and Performance in Emerging Markets", *The World Bank Development Research Group a Finance*
- Klapper, L.F. and I. Love, (2004), "Corporate governance, investor protection, and Performance in Emerging Market", *Journal of Corporate Finance*, pp. 703-728

- Matic, B. and N. Papac, (2014), "Measuring the quality of corporate governance in the banking sector of Bosnia and Herzegovina", *Economic Research-Ekonomska Istraživanja*, pp. 784-798
- Pagano, M. and P. Volpin, (2006), "Shareholder Protection, Stock Market Development and Politics", *Journal of the European Economic Association*, pp. 315-341
- Agarwal, A. and C. Sahiba, (2005), "Corporate Governance and Accounting Scandals", *Journal of Law and Economics*, pp. 371-406
- Arjoon, S., (2005), "Corporate Governance: An Ethical Perspective", *Journal of Business Ethics*, pp. 343-352
- Bhasin, M.L., (2013), "Corporate Accounting Fraud: A Case Study of Satyam Computers Limited", *Open Journal of Accounting*, pp. 26-38
- BSE., (2018), "Corporate Governance Scores S&P BSE 100 Companies", BSE, Mumbai
- Chen, V.J., (2013), "The Evolution of Malaysian Shareholder Protection: A legal Origins Analysis", *Singapore Journal of Legal Studies*, pp. 100-124
- CIPE., (2005), "Center for International Private Enterprise", US: Chamber of Commerce
- Clarke, T., (2017), "International corporate governance: A comparative approach", New York, NY: Routledge
- Cromme, G., (2005), "Corporate Governance in Germany and the German Corporate Governance Code", Blackwell Publishing Ltd, pp. 262-267
- Dechow, P.M. and I.D. Dichev, (2002), "The Quality of Accrual and Earnings: The Role of Accrual Estimator Errors", *The Accounting Review*, pp. 35-59
- Desoky, A.M. and G.A. Mousa, (2012), "Corporate Governance Practices: Transparency and Disclosure - Evidence from the Egyptian Exchange", *Journal of Accounting, Finance and Economics*, pp. 49-72
- Gompers, P., J. Ishii and A. Metrick, (2003), "Corporate Governance and Equity", *Journal of Economics*, pp. 02-32
- Gupta, P. and A.M. Sharma, (2014), "A study of the impact of corporate governance practices on firm performance in Indian and South Korean companies", *Procedia - Social and Behavioral Sciences*, pp. 4-11
- Karpagam, V., (2013), "Impact of Corporate Governance Factors on the Firm Performance of NSE Listed Companies in India", *Journal of Business Management Studies*
- Khanna, T., J. Kogan and K. Palepu, (2002), "Globalization and Corporate Governance Convergence? A Cross-Country Analysis", *Harvard Business School Working Paper*, pp. 02-41
- Lokare, S.M., (2014), "Re-emerging Stress in the Asset Quality of Indian Banks: Macro-Financial Linkages", *Department of Economic and Policy Research, RBI*
- Murthy, N.N., (2020), "Corporate Governance and Its Relevance to India", *India International Centre Quarterly*, pp. 280-288

OECD, (2019), "The G20/OECD Principles of Corporate Governance: An international standard put to active use", Organisation for Economic Cooperation and Development (OECD), Fukoka, Japan

Pancholi, J., (2013), "NSEL Debacle", *Economic and Political Weekly*, pp. 17-19

Pathak, J., and J. Sun, (2012), "Does investor protection regime affect the effectiveness of outside directorship on the board", *Journal of Multinational Financial Management*

Saravanan, P., (2012), "Corporate Governance and Company Performance - A Study with Reference to Manufacturing Firm in India", *Sponsored by NFCG through CII Under Ministry of Corporate Affairs*

Singh, G., (2012), "The Good Governance: Need of the Hour", *The Indian Journal of Political Science*

Srivastava, D.A., (2011), "Ownership Structure and Corporate Performance: Evidence from India", *International Journal of Humanities and Social Science*

V, K., and M.S., (2013), "Impact of Corporate Governance Mechanism and Firm Performance with Special Reference to BSE Listed Companies in India", *International Conference on Emerging Issues and Global Challenges*, Excel India Publishers

Valenti, A., (2007), "The Sarbanes-Oxley Act of 2002: Has It Brought About Changes in the Boards of Large U. S. Corporations?", *Journal of Business Ethics*, pp. 401-412

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)

Sl No.	Parameters	Yes	No	N/A
Segment I : Right and Equitable Treatment of Shareholder				
1.	Has the company taken steps to ensure that the basic rights of shareholders are clear and unequivocal?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	Did the previous AGM allow sufficient time for shareholder engagement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	Can a minority shareholder, with less than 10% stake, propose an agenda item in a shareholder meeting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.	Was there any evidence of combining multiple matters or issues in a single resolution?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.	Was shareholder participation facilitated for all shareholders at the previous AGM in the past one year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6.	Did the company provide proxy and e-voting facility for all shareholder meetings in the past one year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7.	Did all board members attend the previous AGM?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8.	Did the external auditors attend and participate in the previous AGM?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9.	Within how many months of the fiscal year end was the last AGM held?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10.	Were any preferential warrants issued to the controlling shareholders in the past one year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.	Do the charter documents of the company give additional rights to certain shareholders?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12.	Does the company have a policy requiring all related party transactions (RPTs) to be dealt only by independent non-conflicted board members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13.	Does the company have in place a system, including policies and procedures, to facilitate disclosures of conflicts of interest by stakeholders?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14.	Did the company undertake any related party transaction in the past three years, which may have been prejudicial to the interests of minority shareholders?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15.	Does the company pay out disproportionately high royalty to its group entities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16.	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?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17.	Has the company been transparent while undertaking any M&A, restructuring, or slump sale?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18.	Does the company have a policy to publicly disclose the reasons for pledging of shares by the controlling shareholders?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19.	Is there evidence of structures or mechanisms that have the potential to violate minority shareholder rights?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Total Score				
Segment II : Role of Stakeholders in Corporate Governance				
20.	Is the company committed towards developing stakeholder relationships?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21.	Does the company have publicly disclosed policies and/or mechanisms to address the health, safety, and welfare of employees?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22.	Does the company have in place policies and practices which explain its supplier/contractor selection and management processes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23.	Has the company demonstrated commitment to protect the rights of its lenders, creditors, and suppliers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24.	Does the company demonstrate a commitment to strong ethical practices and is clearly anti-corruption and anti-bribery?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
25.	Does the company demonstrate its commitment to being a good corporate citizen?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

(Contd...)

Segment IV: Responsibilities of the Board

52.	Are all directors fully engaged in company matters and committed to corporate governance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
53.	Does the board meet sufficiently to exercise due diligence?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
54.	Is there separation of roles between the Chairperson and the CEO?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
55.	Does the board have sufficient skills, competence and expertise?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
56.	Does the board have gender diversity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
57.	Does the company have adequate independent representation on the board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
58.	Do the board committees have adequate independent representation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
59.	Is the audit committee effective in its composition and its meeting frequency?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
60.	Does the company have a strong and robust internal audit framework?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
61.	Were all resolutions proposed by the board to shareholders in the past one year accepted?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
62.	Is there evidence to show that the company, directors or its key managerial personnel (KMP) have violated normally expected ethical/ behavioral norms?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
63.	Does the remuneration structure for executive directors align pay with performance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
64.	Has executive director(s) pay been aligned to company performance in the last three years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
65.	If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
66.	Is the CEO compensation commensurate with the company's size and performance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
67.	Does the company have a succession plan for its directors and senior leadership?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
68.	Are the disclosures on succession planning detailed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
69.	Is the board evaluation policy and process in place and effective?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
70.	Are board committees evaluated separately?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Total Score			

Corporate Governance Index - calculation

(Weightage to be consider for score calculation)

Sl No.	Categories	Max attainable score	Score of the company	Weightage	Weighted score
1.	Segment I: Rights and equitable treatment of shareholders	38		30	
2.	Segment II: Role of stakeholders	18		10	
3.	Segment III: Disclosure and Transparency	46		30	
4.	Segment IV: Responsibilities of the board	38		30	
	Total Score	—		—	

(Rounding off to be at the final score only)

Thanks with regards