

CORPORATE GOVERNANCE PRACTICES IN INDIA

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ABSTRACT

This paper describes the status of corporate governance practices in Indian listed companies for the period 2018 to 2024. The study used the data of 108 companies of BSE 200 and constructed a corporate governance index. This index includes three sub-indices namely board index, ownership index and audit committee index to study the role of board variables, ownership variables and audit committee variables respectively in corporate governance practices. The score of corporate governance index reflected good corporate governance practices in India.

Keywords: Corporate governance practices, Board index, Ownership index, Corporate governance index

1. Introduction

Corporate governance is set of rules, regulations and policies used to manage the relationships among various stakeholders and to give a right direction to ensure a better performance of the organization (Hitt et al., 2012). Stakeholders should be able freely to communicate with board members regarding unethical issues in organization and it is the responsibility of organization to disclose timely and accurate information to all stakeholders. Corporate governance regulations came into existence in 1961. Investors lost faith in the American securities market due to the collapse of prominent corporations such as Enron and WorldCom etc. and economy of various nations impacted adversely. To gain investors' confidence and to stabilize economy of various nations, implementation of corporate governance practices became a requisite. Diverse committees were established by different nations to implement changes, such the Cadbury Committee (1992) in the United Kingdom and the Sarbanes-Oxley Act of 2002 in the United States. These reforms were applied to regain the investor's confidence in corporate entities and nations started to understand the importance of transparency and disclosures and compliance with corporate governance practices. After the introduction of Liberalization and Globalization in early 1990's and Harshad Mehta stock market scam in 1992, India realized the importance of corporate governance. The trend commenced with the formation of the Securities and Exchange Board of India (SEBI) in 1992. Various committees were formed to give suggestions such as Kumar Mangalam (1999), Naresh Chandra (2002), Narayana Murthy (2003), J.J. Irani (2005) and these committees address different issues. Keeping in view the recommendations of these committees, clause 49 came into existence in 2006 and was made mandatory for listed companies. Compliance of corporate governance practices is very good in

India (Patel and Patel, 2012). Vithalani (2014) revealed that Maharatna companies of India are complied with legal requirement of Clause 49.

2. Review of Literature

Corporate governance practices are very good in India except one or two parameters (Dessai and Bhanumurthy, 2010). Corporate governance practices are the different guidelines provided by the different Acts/Clause. Clause 49 provides some mandatory and non-mandatory requirement to be followed by companies. Corporate governance practices differ from company to company due to the different nature and market capitalization of industry (Patel and Patel, 2012). To understand corporate governance practices, corporate governance index is constructed and for that purpose, there is need to quantify corporate governance. Binary scoring is used to construct the index. Clause 49 and different academic studies are used to assign score to different variables. For compliance or disclosure of a particular variable, '1' is assigned and for non-compliance or non-disclosure '0' is assigned. The description of the variables and supported literature for scoring is in the table 1. The study used board variables, ownership variables and audit committee variables to understand the corporate governance practices.

Table 1: Supported Literature for assigning score to the variables

Index	Description of variables	Supported literature for scoring the variables
Board Index		
BIND	Percentage of Independent directors, which must be at least 50% for an executive chairman and at least one-third for a non-executive chairman.	Clause 49
WB	Women on Board (at least one)	Clause 49
BS	Board size (Between six to fifteen members)	Brown and Caylor (2009)
BM	Number of Board meetings (at least four in a year)	Clause 49
NED	Percentage of non-executive directors (Not less than fifty percent)	Clause 49
Ownership structure Index		
PO	Percentage of Promoter ownership (above 40 per cent)	Kumar and Singh (2013)
CO	Percentage of Corporate ownership (0-5 & above 25 per cent)	Morck <i>et al.</i> (1988)
FIO	Percentage of Financial institutional ownership (above 15 per cent)	Kumar (2004)

FIIO	Percentage of Foreign institutional investors' ownership (above 18 percent)	Kumar (2004)
Audit Committee Index		
SAC	Size of audit committee (at least three members in audit committee)	Clause 49
IND	Percentage of independent directors (at least two-third of audit committee)	Clause 49
ACM	Number of Audit Committee meetings held (at least four in a year)	Clause 49
CID	Chairman as independent director	Clause 49
DLE	Disclosure about literacy and expertise of committee members	Clause 49
Corporate Governance Index		
All above variables		

(Source: Dalbir, 2017)

3. Research Methodology

3.1 Objectives of the study

The primary objective is to research Indian corporate governance practices. The following sub-objectives have been developed for this purpose:

- a) to examine role of board variables in corporate governance practices;
- b) to examine role of ownership variables in corporate governance practices and
- c) to examine role of audit committee variables in corporate governance practices.

3.2 Methodology

To better understand corporate governance standards, 108 organizations were chosen from a sample of 200 BSE companies. The Center for Monitoring Indian Economy's (CMIE) financial database (Prowess), corporate governance reports, and firm annual reports provided the secondary data used in the study's research.

The study constructed a corporate governance index of governance variables. The study formulates three sub-indexes using board variables, ownership variables and audit committee variables. Binary scoring is used and by adding the score of all variables under study and divided by total score and multiply by 100, index is created.

4. Analysis and Interpretation

The present study used the data of 108 companies to study the corporate governance practices in India. The study constructed the corporate governance index to examine such practices which constitute three sub-indices namely board index, ownership structure index and audit committee index. In analysis, companies are classified according to compliance/disclosed and non-compliance/non-disclosed criteria. A detailed discussion on the results of corporate governance index is as follows:

4.1 Results and Discussions

The table 2 shows compliance/ non-compliance of 108 companies under study with respect to requirements of Clause 49 and previous academic studies. The results show that women on board has low compliance in board index and number of compliance companies increases in year 2021, 2023 and 2024. In ownership structure index, promoter ownership and corporate ownership has good number of compliance companies while financial institutional ownership and foreign institutional investors' ownership has a smaller number of compliance companies. In audit committee index, disclosure about literacy and expertise of committee members has less compliance companies in comparison to other variables such as size of audit committee, independent directors, number of meetings and chairman as independent director. The study revealed that companies have less compliance in ownership structure variables in comparison to board and audit committee variables. For board size, compliance of companies decreases for year 2020, 2021, 2022, 2023 and increases in 2024. For non-executive directors, it is almost constant in all years. For promoter ownership, compliance increases year wise from 2018 to 2024. Financial institutional ownership starts increases from year 2018 to 2021 and then starts decreasing from year 2022 to 2024. Foreign institutional investors' ownership starts increasing from year 2021 to 2024.

Table 3 shows that number of compliance companies in board index increases from year 2020 to 2024. Number of compliance companies are less in ownership structure index in comparison to board and audit committee index. Corporate governance index starts increasing from year 2021 to 2024. So, it is found that, governance has been improving with passage of time and companies are working towards corporate governance.

Table 2: Distribution of companies for compliance/disclosed and non-compliance/non-disclosed for Corporate Governance Variables

Year		2018	2019	2020	2021	2022	2023	2024							
	Description of variables	Total=108	Total=108	Total=108	Total=108	Total=108	Total=108	Total=108							
Board Index		C/D	NC/ND	C/D	NC/ND	C/D	NC/ND	C/D	NC/ND						
BIND	Percentage of Independent directors (at least fifty per cent in case of an executive chairman and at least one-third of board in case of a non-executive chairman)	96	12	96	12	94	14	99	9	98	10	97	11	97	11
WB	Women on board (at least one)	44	64	46	62	42	66	52	56	47	61	51	57	52	56
BS	Board size (Between six to fifteen members)	97	11	99	9	94	14	94	14	95	13	95	13	99	9
BM	Number of board meetings (at least four in a year)	106	2	107	1	107	1	107	1	107	1	107	1	108	0
NED	Percentage of non-executive directors (Not less than fifty per cent)	106	2	106	2	105	3	106	2	106	2	106	2	105	3
Ownership structure Index															
PO	Percentage of promoter ownership (above 40 per cent)	80	28	81	27	82	26	82	26	84	24	84	24	85	23
CO	Percentage of corporate ownership (0-5 & above 25 per cent)	78	30	78	30	72	36	70	38	69	39	67	41	73	35
FIO	Percentage of financial institutional ownership (above 15 per cent)	30	78	34	74	47	61	50	58	33	75	29	79	24	84
FIIO	Percentage of foreign institutional investors' ownership (above 18 per cent)	32	76	29	79	25	83	31	77	35	73	39	69	48	60
Audit Committee Index															
SAC	Size of audit committee (at least three members in audit committee)	108	0	108	0	108	0	108	0	108	0	108	0	108	0
IND	Percentage of independent directors (at least two-third of audit committee)	108	0	108	0	108	0	108	0	108	0	108	0	108	0
ACM	Number of meetings held (at least four in a year)	108	0	108	0	108	2	108	0	106	2	108	0	108	0
CID	Chairman as independent director	106	2	106	2	105	3	106	2	104	4	106	2	106	2
DLE	Disclosure about literacy and expertise of committee members	52	56	54	54	53	55	59	49	51	57	50	58	51	57

Note: C-Compliance NC-Non-compliance D-Disclosed ND-Non-disclosed

(Source: Dalbir, 2017)

Table 3: Score of compliance year wise

Sr. No.	Index	2018	2019	2020	2021	2022	2023	2024	Total
1	Board Index	449	454	442	452	453	456	460	3166
2	Ownership Structure Index	220	219	214	217	221	219	230	1540
3	Audit Committee Index	482	481	479	481	476	480	481	3360
4	Corporate Governance Index	1151	1154	1135	1150	1150	1155	1171	8066

Table 4: Percentage of compliance year wise (Max-100)

Sr. No.	Index	2018	2019	2020	2021	2022	2023	2024	Average
1	Board Index	83.148	84.074	81.851	83.703	83.888	84.444	85.185	83.756
2	Ownership Structure Index	50.925	50.694	49.537	50.231	51.157	50.694	53.240	50.925
3	Audit Committee Index	89.259	89.074	88.703	89.074	88.148	88.888	89.074	88.888
4	Corporate Governance Index	76.124	76.322	75.066	76.058	76.058	76.388	77.447	76.209

Table 5: Descriptive analysis

	BI	ACI	OSI	CGI
Mean	83.756	88.888	50.925	76.209
Median	83.888	89.074	50.694	76.124
Maximum	85.185	89.259	53.240	77.447
Minimum	81.851	88.148	49.537	75.066
Std. Dev.	1.051	0.370	1.149	0.699
Observations	7.000	7.000	7.000	7.000

4.2 Descriptive Analysis

The table 5 presents the descriptive analysis of all indices. Ownership structure index has mean value 50.925 which is low in comparison to board index and audit committee index. Audit committee index has lowest standard deviation which means less variation in companies regarding compliance of corporate governance.

4.3 Conclusion

The present study constructed the corporate governance index of 108 companies of BSE 200 index to examine corporate governance practices. Audit committee index has highest score which shows that companies are more inclined towards compliance of audit committee variables. The score of corporate governance index reflected good corporate governance practices in India.

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