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“A STUDY ON CORPORATE GOVERNANCE  
AND THE FINANCIAL PERFORMANCE  
OF SELECTED INDIAN COMPANIES.”

:: SUBMITTED TO ::

SAURASHTRA UNIVERSITY

FOR THE AWARD OF THE DEGREE OF  
DOCTOR OF PHILOSOPHY  
UNDER THE FACULTY OF COMMERCE

BY

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## Certificate by The Guide

This is to certify that Mr. Ashish B. Joshi has carried out the research work as presented in this thesis under my supervision and the presentation is his contribution. It is a standard piece of work, which embraces a fresh approach towards analysis and interpretation of facts, which provides the candidate's capacity for critical examination and sound judgment over the problem studies by him.

He has devoted himself to the conduct of this research work under my guidance and supervision as per the stipulated norms of Saurashtra University and this work has not been submitted for the award of any degree to any other university.

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## Declaration by Research Scholar

I, the undersigned Mr. Ashish Joshi, a research student of Doctor of Philosophy, Department of Business Management, Saurashtra University, Rajkot here by declare that the research work embodied in this thesis is the outcome of my endeavor and it was supervised by Dr. Hitesh J. Shukla, Associate Professor, Department of Business Management, Saurashtra University, Rajkot.

I further declare that this thesis not in any form has been submitted to any other institution of higher learning for the award of any degree or diploma.

Date:

Ashish Joshi

Place : Rajkot

## Acknowledgement

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Ashish Joshi

## Executive Summary

Good governance is the expectations of every stakeholder, specially, shareholder. Governance is related with the controlling of the activity and controlling of the corporate sector can be termed as corporate governance. But the implementation of ‘Corporate Governance’ is not that much simple as its meaning. Corporate Governance is recently emerged concept and has taken the attention of each and every country, investors and corporate professionals.

Corporate governance is the practice, which requires transparency, accountability and good performance from the corporate executives. It has, its strong base from the internal management of company, to the shareholders’ value as well as corporate social responsibility. Reasons for selecting corporate level units which are functioning in India is to find out whether corporate governance is actually being practiced by the corporate level executives or not.

The first chapter gives an overview of corporate governance. It introduces the concept of Corporate Governance in narrow as broad definitions. The corporate governance and relationship with various stakeholders is also narrated in it. The global landmarks in the history of corporate governance in the countries like USA, UK is also discussed in this chapter. Brief reports of various corporate governance committees formed at international level, OECD principles and Sorbanes – Oxley Act is also discussed in this chapter. Finally the chapter describes the history of all efforts made by various players in the area of corporate governance in India. The chapter also contains recent developments in India related to corporate governance like report of CII Task Force and Corporate Governance: Voluntary Guidelines issued by Ministry of Corporate Affairs, Government of India.

The second chapter is about the measuring financial performance. It discusses stake holders who are interested in the financial performance. There are various techniques for analysis is discussed in this chapter like, Ratio Analysis, Du-Pont Analysis, Comparative Statement Analysis, Time Series Analysis and Inter Firm Analysis. Various types are ratios are also discussed in this chapter, including Liquidity Ratios, Leverage Ratios, Activity Ratios and Profitability Ratios.

The Third chapter is about research methodology. It includes the methodology to compute score for Corporate Governance and parameters to judge the financial performance. Researcher has selected BSE 100 Companies spread across various sectors. For the study of sample, researcher has used secondary data and for that Annual Reports of 90 companies are gathered and analyzed. Researcher has collected the data from the annual reports of the financial year 2008. The collected data are then classified and segmented into various groups. The parameters for arriving at financial corporate governance performance score and financial performance score are also discussed in this chapter.

The Forth chapter analyses the corporate governance practices in Indian companies. The sample of 90 companies is further classified into 12 sectors. The corporate governance is calculated using several parameters and is grouped into 17 different aspects having total weightage score of 100.

Average score of all sample companies in India is 67. The average score of FMCG and Information Technology sector companies is highest at 71. The lowest average score (63) is from Capital Goods sector companies. The Infosys Technologies Limited scores highest points (91), whereas Mahanagar Telecom Nigam Limited scores lowest (48) points in the corporate governance performance parameters.

The Fifth Chapter analyses the financial performance of companies. The four key parameters used to evaluate the financial performance are, EBT/Sales Ratio, Sales/Total Assets Ratio, Earnings Per Share and Price/Earnings Multiple. Further a co-relation is also established between above four financial performance parameters and four key corporate governance parameters. Four key areas of corporate governance area are: Director's Information (DI), Board Committees (BC), Transparency & Disclosure (TD) and General Information (GI). A cross tabulation is also formed for each sector using financial performance related parameters on one axis and the corporate governance parameters on the other axis. The three hypotheses are also tested using various techniques.

The sixth chapter includes the summary of every chapter. A comprehensive data related to calculations related with Corporate Governance score and summary of financial performance is also produced in it. The Table indicated correlation and hypothesis testing is also included in the chapter.



## List of Abbreviations

BSE	:	Bombay Stock Exchange
BC	:	Board Composition (& Related Disclosure)
CII	:	Confederation of Indian Industry
CG	:	Corporate governance
CSR	:	Corporate Social Responsibility
DIR	:	Directors (& Related Disclosure)
EBT	:	Earnings Before Tax
EPS	:	Earnings Per Share
EHS	:	Employee Health and Safety
FDI	:	Foreign Direct Investors
FP	:	Financial Performance
FII	:	Foreign Institutional Investor
FMCG	:	Fast Moving Consumer Goods
Govt.	:	Government
GI	:	General Information (& Related Disclosure)
HRD	:	Human Resources Development
IR	:	Industrial Relations
NM	:	Not Mentioned
NSE	:	National Stock Exchange
N.W.	:	Net worth
PAT	:	Profit After Tax
PE	:	Price Earnings Multiple
SEBI	:	Securities and Exchange Board of India
TA	:	Total Assets
TD	:	Transparency (& Related Disclosure)

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# Chapter: 1

## Introduction to Corporate Governance

- Corporate Governance : An Understanding
- Global landmarks in the Emergence of Corporate Governance
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## Corporate Governance: An understanding

Before delving further on the subject, it is important to define the concept of corporate governance. The vast amount of literature available on the subject ensures that there exist innumerable definitions of corporate governance. To get a fair view on the subject it would be prudent to give a narrow as well as a broad definition of corporate governance.

In a narrow sense, corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders.

While corporate governance essentially lays down the framework for creating long-term trust between companies and the external providers of capital, it would be wrong to think that the importance of corporate governance lies solely in better access of finance.

Companies around the world are realizing that better corporate governance adds considerable value to their operational performance:

- It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience, and a host of new ideas
- It rationalizes the management and monitoring of risk that a firm faces globally
- It limits the liability of top management and directors, by carefully articulating the decision making process
- It assures the integrity of financial reports
- It has long term reputational effects among key stakeholders, both internally and externally

In a broader sense, however, good corporate governance- the extents to which companies are run in an open and honest manner- is important for overall market confidence, the efficiency of capital allocation, the growth and development of countries' industrial bases, and ultimately the nations' overall wealth and welfare.

It is important to note that in both the narrow as well as in the broad definitions, the concepts of disclosure and transparency occupy centre-stage. In the first instance, they create trust at the firm level among the suppliers of finance. In the second instance, they create overall confidence at the aggregate economy level. In both cases, they result in efficient allocation of capital.

Having committed to the above definitions, it is important to note that ever since the first writings on the subject appeared in the academic domain, there have been many debates on the true scope and nature of corporate governance mechanisms around the world.

More specifically on the question 'Who should corporate governance really represent?' This issue of whether a company should be run solely in the interest of the shareholders or whether it should take account the interest of all constituents<sup>1</sup> has been widely discussed and debated for a long time now. Two definitions of Corporate Governance highlight the variation in the points of view:

***'Corporate governance is concerned with ways of bringing the interests of investors and manager into line and ensuring that firms are run for the benefit of investors'.<sup>2</sup>***  
***Corporate governance includes 'the structures, processes, cultures and systems that engender the successful operation of organizations'<sup>3</sup>***

The issue raised here is whether the recognition of claims of a wider set of stakeholders, than those of shareholders alone, is the legitimate concern of corporate governance. If it can be established that there are groups other than shareholders with legitimate claims on companies, and that their involvement in corporate decision making is both a right and is also economically beneficial, then the task of policy



makers is to consider: ‘How should the company be regulated so as to enhance its effectiveness as a mechanism for enhancing the overall wealth or well-being of all stakeholders?’

The belief that the purpose of the modern corporation is to maximize shareholder value, along with typical capital market and ownership features has been associated with the ‘Anglo-Saxon’ agency model of the corporation.

This contrasts the ‘German (and Japanese) conception of the company as a social institution’. In making this distinction, commentators have mostly focused on the extent and nature of the separation of ownership and control. The Anglo-Saxon model is said to be characterized by a clear separation between management control and shareholder ownership, and hence is described as an ‘outsider’ system of corporate governance. It is contrasted with the ‘insider’ system, thought to be more descriptive of continental European and Japanese corporate forms.

Shareholder primacy is embodied in the finance view of corporate governance, which is a special instance of the principal-agent framework in economic theory. In terms of the finance view, the primary justification for the existence of the corporation is to maximize shareholder wealth. Since ownership and control are separate (for purposes of liquidity, risk sharing and specialization), the central corporate governance issue from this perspective is aligning the objectives of management with the objective of shareholder wealth maximization.

While companies are encouraged to foster long-term relationships with stakeholders by taking their interests into account, there is no concomitant pressure to build into corporate governance, structures and processes that would ensure company accountability towards stakeholder groups. It is frequently argued that attempts to mediate stakeholder claims may obscure performance evaluation and therefore facilitate discretionary behaviour by management.

The issue raised in the stakeholder theories is whether the recognition of a wider set of claims than those of shareholders alone is the legitimate concern of corporate governance.

It is argued that the new high technology world has significantly reduced the opportunity, ability, and motivation of consumers to engage in rational decision making. Therefore, the development of loyal, inclusive stakeholder relationships, rather than the production of a better product at a lower price, will be the most important determinant of commercial viability and business success.

The main intention of the stakeholder's concept as theory is to affirm and show that the company together with its executive board is responsible not only for shareholders but also for individuals or groups that have a stake in the actions and decisions of such organization. Concerning the concept of company, the theory implies understanding the company as a social institution that conforms a plural project in which distinct groups with rights and demands take part.

With reference to company manageability, this theory implies searching for a balance among the distinct company interest groups – shareholders, workers, clients, suppliers, banks, subsidiaries, local communities, pressure groups and the like- on part of the executive board. Furthermore, the executive board should also look for participation of those individuals and groups – either directly or by means of representatives- that are somehow linked to the organization aims.<sup>4</sup>

## Global Landmarks in the Emergence of Corporate Governance

There were several frauds and scams in the corporate history of the world. It was felt that the system for regulation is not satisfactory and it was felt that it needed substantial external regulations. These regulations should penalize the wrong doers while those who abide by rules and regulations, should be rewarded by the market forces. There were several changes brought out by governments, shareholder activism, insistence of mutual funds and large institutional investors, that corporate they invested in adopt better governance practices and in formation of several committees to study the issues in depth and make recommendations, codes and guidelines on Corporate Governance that are to be put in practice. All these measures have brought about a metamorphosis in corporate that realized that investors and society are serious about corporate governance.

- **Developments in USA**

Corporate Governance gained importance with the occurrence of the Watergate scandal in United States. Thereafter, as a result of subsequent investigations, US regulatory and legislative bodies were able to highlight control failures that had allowed several major corporations to make illegal political contributions and to bribe government officials. This led to the development of the Foreign and Corrupt Practices Act of 1977 that contained specific provisions regarding the establishment, maintenance and review of systems of internal control. This was followed in 1979 by Securities and Exchange Commission's proposals for mandatory reporting on internal financial controls. In 1985, following a series of high profile business failures in the US, the most notable one of which being the savings and loan collapse, the Tradway Commission was formed to identify the main cause of misrepresentation in financial reports and to recommend ways of reducing incidence thereof. The tradway Report published in 1987 highlighted the need for a proper control environment, independent audit committees and an objective internal audit function and called for published reports on the effectiveness of internal control The commission also requested the sponsoring organizations to develop an integrated set of internal control criteria to enable companies to improve their control.<sup>5</sup>

- Developments in UK

In England, the seeds of modern corporate governance were sown by the Bank of Credit and Commerce International (BCCI) Scandal. The Barings Bank was another landmark. It heightened people's awareness and sensitivity on the issue and resolve that something ought to be done to stem the rot of corporate misdeeds. These couple of examples of corporate failures indicated absence of proper structure and objectives of top management. Corporate Governance assumed more importance in light of these corporate failures, which was affecting the shareholders and other interested parties.

As a result of these corporate failures and lack of regulatory measurers from authorities as an adequate response to check them in future, the Committee of Sponsoring Organizations (COSO) was born. The report produced in 1992 suggested a control framework and was endorsed a refined in four subsequent UK reports: Cadbury, Ruthman, Hampel and Turbull.

There were several other corporate failures in the companies like Polly Peck, British & Commonwealth and Robert Maxwell's Mirror Group News International were all victims of the boom-to-bust decade of the 1980s. Several companies, which saw explosive growth in earnings, ended the decade in a memorably disastrous manner. Such spectacular corporate failures arose primarily out of poorly managed business practices.

The publication of a serious of reports consolidated into the Combined Code on Corporate Governance (The Hampel Report) in 1998 resulted in major changes in the area of corporate governance in United Kingdom. The corporate governance committees of last decade have analyzed the problems and crises besetting the corporate sector and the markets and have sought to provide guidelines for corporate management. Studying the subject matter of the corporate codes and the reports produced by various committees highlighted the key practical problem and concerns driving the development of corporate governance over the last decade.<sup>6</sup>

- Corporate Governance Committees

The main committees, known by the names of the individuals who chaired them are discussed hereunder

a) Cadbury committee on Corporate Governance – 1992 <sup>7</sup>

The stated objectives of the Cadbury Committee<sup>5</sup> was “To help raise the standards of corporate governance and the level of confidence in financial reporting and auditing by setting out clearly what it sees as the respective responsibilities of those involved and what it believes his expected of them.

The committee investigated the accountability of the board of directors to shareholders and to society. It submitted its report and associated “Code of Best Practices” in 1992 wherein it spelt out the methods of governance needed to achieve a balance between the essential power of the board of directors and their proper accountability. Its recommendations were not mandatory. The Cadbury code of best practices had 19 recommendations. The recommendations are in the nature of guidelines relating to the board of directors, non-executive directors, executive directors and those on reporting and control.

The stress in the Cadbury committee report is on the crucial role of the board and the need for it to observe the Code of Best Practices. Its important recommendations include the setting up of an audit committee with independent members.

b) The Paul Ruthman Committee

The committee was constituted later to deal with the said controversial point of Cadbury Report. It watered down the proposal on the grounds of practicality. It restricted the reporting requirement to internal financials controls only as against “the effectiveness of the company’s system of internal control” as stipulated by the Code of Best Practices contained in the Cadbury Report.

The final report submitted by the Committee chaired by Ron Hampel had some important and progressive elements, notably the extension of directors' responsibilities to "all relevant control objectives including business risk assessment and minimizing the risk of fraud...."

c) The Greenbury Committee <sup>8</sup>

This committee was setup in January 1995 to identify good practices by the Confederation of British Industry (CBI), in determining directors' remuneration and to prepare a code of such practices for use by public limited companies of United Kingdom.

The committee aimed to provide an answer to the general concerns about the accountability by the proper allocation of responsibility for determining directors' remuneration, the proper reporting to shareholders and greater transparency in the process.

The committee produced the Greenbury Code of Best Practice which was divided into the four sections : Remuneration Committee, Disclosures, Remuneration Policy and Service Contracts and Compensation.

The Greenbury committee recommended that UK companies should implement the code as set out to the fullest extent practicable, that they should make annual compliance statements, and that investor institutions should use their power to ensure that the best practice is followed.

d) The Hampel Committee <sup>9</sup>

The Hampel committee was setup in November 1995 to promote high standards on Corporate Governance both to protect investors and preserve and enhance the standing of companies listed on the London Stock Exchange.

The committee developed further the Cadbury report. And it made the following recommendations.

- i) The auditors should report on internal control privately to the directors.
- ii) The directors maintain and review all controls.
- iii) Companies should time to time review their need for internal audit function and control.

It also introduced the combined code that consolidated the recommendation of earlier corporate governance reports (Cadbury Committee and Greenbury Committee).

e) The Combined Code

The combined code was subsequently derived from Ron Hampel Committee's Final Report, Cadbury Report and the Greenbury Report. The combined code is appended to the listing rules of the London Stock Exchange. As such, compliance of the code is mandatory for all listed companies in UK.

The stipulations contained in the Combined Code require, among other things, that the boards should maintain a sound system of internal control to safeguard shareholder's investments and the company's assets. The directors should, at least annually, conduct a review of the effectiveness of the group's system of internal control covering all controls, including financial, operational and compliance and risk management, and report to shareholders that they have done so.

f) The Turnbull Committee <sup>10</sup>

The Turnbull Committee was set up by the Institute of Chartered Accountants in England and Wales (ICAEW) in 1999 to provide guidance to assist companies in implementing the requirements of the Combined Code relating to internal control.

The committee provided guidance to assist companies in implementing the requirements of the Combined Code relating to internal control. It recommended that where companies do not have an internal audit function, the board should consider the need for carrying out an internal audit annually.

The committee also recommended that board of directors confirm the existence of procedures for evaluation and managing key risks.

Corporate Governance is constantly evolving to reflect the current corporate economic and legal environment. To be effective, corporate governance practices need to be tailor to particular needs, objectives and risk management structure of an organization.

- World Bank on Corporate Governance

The World Bank, involved in sustainable development was one of the earliest economic organization to study the issue of corporate governance and suggest certain guidelines. The World Bank report on corporate governance recognizes the complexity of the concept and focuses on the principles such as transparency, accountability, fairness and responsibility that are universal in their applications.

Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible, the interests of individuals, organizations and society.

The foundation of any corporate governance is disclosure. Openness is the basis of public confidence in the corporate system and funds will flow to those centers of economic activity, which inspire trust. This report points the way to establishment of trust and the encouragement of enterprise. It marks an important milestone in the development of corporate governance.

- OECD Principles <sup>11</sup>

Organization for Economic Co-operation and Development (OECD) was one of the earliest non-governmental organizations to work on and spell out principles and practices that should govern corporate in their goal to attain long-term shareholder value.

The OECD were trend setters as the Code of Best practices are associated with Cadbury report. The OECD principles in summary include the following elements.

- i) The rights of shareholders
- ii) Equitable treatment of shareholders
- iii) Role of stakeholders in corporate governance
- iv) Disclosure and Transparency
- v) Responsibilities of the board

The OECD guidelines are somewhat general and both the Anglo-American system and Continental European (or German) system would be quite consistent with it.



- Sarbanes- Oxley Act, 2002 <sup>13</sup>

The Sarbanes-Oxley Act (SOX) is a sincere attempt to address all the issues associated with corporate failure to achieve quality governance and to restore investor's confidence. The Act was formulated to protect investors by improving the accuracy and reliability of corporate disclosures, made precious to the securities laws and for other purposes. The act contains a number of provisions that dramatically change the reporting and corporate director's governance obligations of public companies, the directors and officers. The important provisions in the SOX Act are briefly given below.

- i) Establishment of Public Company Accounting Oversight Board (PCAOB): SOX creates a new board consisting of five members of whom two will be certified public accountants. All accounting firms have to get registered with the board. The board will make regular inspection of firms. The board will report to SEC. The report will be ultimately forwarded to Congress.
- ii) Audit Committee: The SOX provides for new improved audit committee. The committee is responsible for appointment, fixing fees and oversight of the work of independent auditors. The registered public accounting firms should report directly to audit committee on all critical accounting policies.
- iii) Conflict of Interest: The public accounting firms should not perform any audit services for a publically traded company.
- iv) Audit Partner Rotation : The act provides for mandatory rotation of lead audit or co-ordinating partner and the partner reviewing audit once every 5 years.
- v) Improper influence on conduct of Audits : According to act, it is unlawful for any executive or director of the firm to take any action to fraudulently influence, coerce or manipulate an audit.
- vi) Prohibition of non-audit services : Under SOX act, auditors are prohibited from providing non-audit services concurrently with audit financial review services.

- vii) CEOs and CFOs are required to affirm the financials : CEOs and CFOs are required to certify the reports filed with the Securities and Exchange Commission (SEC).
- viii) Loans to Directors : The act prohibits US and foreign companies with Securities traded within US from making or arranging from third parties any type of personal loan to directors.
- ix) Attorneys : The attorneys dealing with publicly traded companies are required to report evidence of material violation of securities law or breach of fiduciary duty or similar violations by the company or any agent of the company to Chief Counsel or CEO and if CEO does not respond then to the audit committee or the Board of Directors.
- x) Securities Analysts : The SOX has provision under which brokers and dealers of securities should not retaliate or threaten to retaliate an analyst employed by broker or dealer for any adverse , negative or unfavorable research report on a public company. The act further provides for disclosure of conflict of interest by the securities analysts and brokers or dealers.
- xi) Penalties : The penalties are also prescribed under SOX act for any wrong doing. The penalties are very Stiff.

The Act also provides for studies to be conducted by Securities and Exchange Commission or the Government Accounting Office in the following area :

- i) Auditor's Rotation
- ii) Off balance Sheet Transactions
- iii) Consolidation of Accounting firms & its impact on industry
- iv) Role of Credit Rating Industry
- v) Role of Investment Bank and Financial Advisers.

The most important aspect of SOX is that it makes it clear that company's senior officers are accountable and responsible for the corporate culture they create and must be faithful to the same rules they setout for other employees. The CEO for example, must be responsible for the company's disclosure, controls and financial reporting.

## Corporate governance : History in India

There have been several major corporate governance initiatives launched in India since the mid-1990s. The first was by the Confederation of Indian Industry (CII), India's largest industry and business association, which came up with the first voluntary code of corporate governance in 1998. The second was by the SEBI, now enshrined as Clause 49 of the listing agreement. The third was the Naresh Chandra Committee, which submitted its report in 2002. The fourth was again by SEBI — the Narayana Murthy Committee, which also submitted its report in 2002. Based on some of the recommendation of this committee, SEBI revised Clause 49 of the listing agreement in August 2003.

Subsequently, SEBI withdrew the revised Clause 49 in December 2003, and currently, the original Clause 49 is in force.

- The CII Code <sup>14</sup>

More than a year before the onset of the Asian crisis, CII set up a committee to examine corporate governance issues, and recommend a voluntary code of best practices. The committee was driven by the conviction that good corporate governance was essential for Indian companies to access domestic as well as global capital at competitive rates. The first draft of the code was prepared by April 1997, and the final document (*Desirable Corporate Governance: A Code*), was publicly released in April 1998. The code was voluntary, contained detailed provisions, and focused on listed companies.

### **Desirable Disclosure**

“Listed companies should give data on high and low monthly averages of share prices in a major stock exchange where the company is listed; greater detail on business segments, up to 10% of turnover, giving share in sales revenue, review of operations, analysis of markets and future prospects.” Major Indian stock exchanges should gradually insist upon a corporate governance compliance certificate, signed by the

CEO and the CFO.” If any company goes to more than one credit rating agency, then it must divulge in the prospectus and issue document the rating of all the agencies that did such an exercise. These must be given in a tabular format that shows where the company stands relative to higher and lower ranking.”

“Companies that default on fixed deposits should not be permitted to accept further deposits and make inter-corporate loans or investments or declare dividends until the default is made good.”

The CII code is voluntary. Since 1998, CII has been trying induce companies to disclose much greater information about their boards. Consequently, annual reports of companies that abide by the code contain a chapter on corporate governance

- Kumar Mangalam Birla committee report and Clause 49<sup>15</sup>

While the CII code was well-received and some progressive companies adopted it, it was felt that under Indian conditions a statutory rather than a voluntary code would be more purposeful, and meaningful.

Consequently, the second major corporate governance initiative in the country was undertaken by SEBI. In early 1999, it set up a committee under Kumar Mangalam Birla to promote and raise the standards of good corporate governance. In early 2000, the SEBI board had accepted and ratified key recommendations of this committee, and these were incorporated into Clause 49 of the Listing Agreement of the Stock Exchanges.

This report pointed out that the issue of corporate governance involves besides shareholders, all other stakeholders. The committee’s recommendations have looked at corporate governance from the point of view of the stakeholders and in particular that of shareholders and investors.

The control and reporting functions of boards, the roles of the various committees of the board, the role of management, all assume special significance when viewed from this perspective.

At the heart of committee's report is the set of recommendations, which distinguish the responsibilities, and obligations of the boards and the management in instituting the systems for good C.G. Many of them are mandatory. These recommendations are expected to be enforced on listed companies for initial disclosures. This enables shareholders to know, where the companies are in which they have involved. The committee recognized that India had in place a basic system of corporate governance and that SEBI has already taken a number of initiatives towards raising the existing standards.

The committee also recognized that the Confederation of Indian Industries (CII) had published a code entitled "Desirable code of corporate of Governance and was encouraged to note that some of the forward looking companies have already reviewed their annual report through complied with the code.

Now to protect investors especially shareholders from any malpractices and injustice the Securities and Exchange Board of India appointed committee on corporate governance on May 7, 1999 under chairmanship of Shri Kumar Managalam Birla, Member of SEBI Board to promote standard of Corporate Governance.

### **The constitutions of Committee**

The committee has identified the three key constituents of corporate governance as the share holders, the Board of Directors and the Management. Along with this the committee has identified major 3 aspects namely accountability, transparency and equality of treatment for all shareholders. Crucial to good corporate governance are the existence and enforceability of regulations relating to insider information and insider trading. These matters are currently being examined over here. The committee had received good comments from almost all experts institutions, chamber of commerce Adrian Cadbury – Cadbury Committee etc.

### **Corporate Governance Objectives**

Corporate Governance has several claimants – shareholders, suppliers, customers, creditors, the bankers, employees of company and society. The committee for SEBI keeping view has prepared primarily the interests of a particular class of stakeholders namely the shareholders this report on corporate governance. It means enhancement of shareholder value keeping in view the interests of the other stack holders.

Committee has recommended C.G. as company's principles rather than just act. The company should treat corporate governance as way of life rather than code.

### **Applicability of the Recommendation**

#### **Recommendations : Mandatory Non-Mandatory**

The committee was of the firm view that mandatory compliance of the recommendations at least in respect of essential the essential would be most appropriate in the Indian context for the present.

The committee felt that some of the recommendations are absolutely essential for the framework of corporate governance and virtually from its core while others could be considered desirable. Thus committee has classified recognize into two parts.

#### **Applicability**

The committee was of the opinion that the recommendations should be made applicable to the listed companies them directors, management, employees and professionals associated with such companies, in accordance with time table proposed in the schedule given later in this section.

According to the committee, the recommendations were to be applied to all the listed private and public sector companies, in accordance with the schedule of implementation. As for listed entitles which are not companies, but body corporate e.g. private sector banks, financial institutions, insurance companies etc. incorporated under statutes, the recommendations will apply to the extent that they do not violate guidelines issued by prevalent authority.

### **Schedule of implementation**

The committee recognized that compliance with the recommendations would involve restructuring the existing boards of companies. Within financial year 2000-2001, not later than March 31, 2001 by all entities, which are included either in-group 'A' of the BSE on in S&P CNX Nifty index as on January 1, 2000. However, to comply with recommendations, these companies may have to begin the process of implementation as early as possible. These companies would cover more than 80% of the market capitalization.

Within Financial year 2001-2002 but not later than March 31, 2002 by all the entities which are presently listed with paid up share capital of Rs. 10 crore and above and net worth of Rs. 25 crore as more any time in the history of the company. Within financial year 2002-03 but not later than March 31, 2003 by all the entities which are presently listed with paid up share capitals of Rs. 3 crore and above.

### **Mandatory Recommendations**

#### *Board of Directors:*

An effective corporate governance system is one, which allows the board to perform these dual functions efficiently. The board of directors of a company thus directs and controls the management of a company and is accountable to the shareholders. The board directs the company, by formulating and reviewing company's policies strategies, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance and overseeing major capital expenditures, appointments and change in financial control and compliance with applicable law taking into account the interests of the stakeholders.

#### *Composition of the B.O.D.:*

The composition of the Board is as important as it determines the ability of the board to collectively provide leadership and ensures that no one individual or a group is able to dominate the board. This has undergone a change and increasingly the boards comprise of following groups of directors. Promoter, director executive and non-executive directors, a part of who are independent.

*Independent Direction:*

Independent directions are those directors who apart from receiving director's remuneration do not have any other material pecuniary relationship with company. Further, all pecuniary relationship or transactions of the non executive directors should be disclosed in the annual report. The committee recommended that the board of a company have an optimum combination of executive and non-executive directors with not less than fifty percent of the board comprising the non-executive directors. In case a company has a non-executive chairman, at least one third of board should comprise of independent directors and in case a company has an executive chairman at least half of board should be independent.

*Nominee Directors:*

These directors are the nominees of the financial as investment institutions to safeguard their interest it may be present of retired employee of financial institution on outsider. The committee recommend that institutions should appoint nominees on the boards of companies only on a selective basis where such appointment is pursuant to a right under loan agreements as where such appointment in is considered necessary to protect like interest of the institutions.

*Chairman of the Board:*

The committee recommended that a non-executive chairman should be entitled to maintain a chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties. This will enable him to discharge the responsibilities effectively.

*Audit committee (Non Mandatory):*

The committee is of the view that the need for having an audit committee grows from the recognition of the audit committees' position in the larger mosaic of governance process. The audit committee's job is one of oversight and monitoring and carrying out this job it relies on similar financial management and outside auditors. The committee believes that the progressive standards of governance applicable to the full board should also be applicable to the audit committee.



The committee therefore recommended that the board of a company should set up a qualified and independent audit committee. The committee states that audit committee should have minimum three members, all being non-executive directors, with the majority being independent and with at least one director having financial and accounting knowledge.

*Frequency of Meeting and Quorum (Mandatory Recommendation):*

The committee recommends that to be begun with the audit committee should meet at least thrice a year. One meeting must be held before finalization of annual accounts and one necessarily every six months. The quorum should be either two members or one third of members of audit committee, whichever is higher and there should be a minimum of two Independent directors.

*Powers of audit committee (Mandatory):*

- (1) To investigate any activity within its terms of reference.
- (2) To seek information from any employee.
- (3) To obtain outside legal or other professional advice.
- (4) To secure attendance of outsiders with relevant expertise, if it considers necessary.

*Functions of Audit Committee (Mandatory):*

- (1) To ensure that the financial statement is correct, sufficient and creditable.
- (2) Recommending the appointment and removal of external audit.
- (3) Reviewing with management annual financial statement before submission to board related to changes in accounting policies and practices.
  - (a) Major accounting entries.
  - (b) Qualifications in draft audit report.
  - (c) Significant adjustments arising out of audit.
  - (d) Compliance with accounting standards.
  - (e) Compliance with stock exchange and legal requirement concerning financial statements.
  - (f) Any transaction that may have potential conflict with the interest of company at large.

- (4) Reviewing with the management about adequacy of control.
- (5) Discuss with internal auditors into the matter suspecting fraud on irregularity.
- (6) Discuss with external auditors before the audit commences and also post-audit discussion to ascertain any area of concern. .

**Remuneration Committee (Mandatory):**

The committee is of the view that a company must have a creditable and transparent policy in determining and accounting for the remuneration of the directors. For this purpose the committee recommends that the board should set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of references. The Remuneration Committee should comprise of at least three directors, all of them should be non-executive directors, the chairman being an independent one. The chairman of Remuneration Committee should present at AGM. It is important for the shareholders to be informed of the remuneration of the directors of the company, which is mandatory.

- Naresh Chandra Committee Report <sup>16</sup>

The Naresh Chandra committee was appointed in August 2002 by the Department of Company Affairs (DCA) under the Ministry of Finance and Company Affairs to examine various corporate governance issues. The Committee submitted its report in December 2002. It made recommendations in two key aspects of corporate governance: financial and non-financial disclosures: and independent auditing and board oversight of management.

The committee submitted its report on various aspects concerning corporate governance such as role, remuneration, and training etc. of independent directors, audit committee, the auditors and then relationship with the company and how their roles can be regulated as improved. The committee stingily believes that “a good accounting system is a strong indication of the management commitment to governance.

Good accounting means that it should ensure optimum disclosure and transparency, should be reliable and credible and should have comparability.

According to the committee, the statutory auditor in a company is the “lead actor” in disclosure front and this has been amply recognized sections 209 to 223 of the companies act.

The chief aspects concerning the auditors functioning as per the act are:

- Auditors are fiduciaries of the shareholders not of the management as they are appointed as the shareholders appoint them.
- Auditor’s independence is guaranteed as rules for removing or replacing an auditor are more stringent than for reappointment.
- The statutory auditor of a company can, at all times, have the right of access to all books of accounts and vouchers of a company and his report can be quite exhaustive to specify whether, The auditor could obtain from management all information and explanations that were necessary for the purpose of audit.
- Proper books of accounts have been kept by the company
- Brained offices have been audited by him
- Company’s accounts conform to accounting standards set by the institute of chartered Accountants of India.

Some Mandatory functions are,

- The adequacy of internal control commensurate to the size of the company and its business.
- The adequacy of records maintained on fixed assets and inventories and whether any fixed assets were re-valued during the year.
- Loans and advances that were given by the company, and whether the parties concerned were regular in repaying the principal and interest.
- Loans and advances taken by the company and whether these were at terms in judicial to the interest of the company and also whether these were being properly repaid according to conducted schedules.
- Transactions including loans and advances, with related parties as defined by section 301 of the companies act.

- Fixed deposits accepted by the company from the public and if so, whether these conform to the provisions laid down by section 58A of Co.'s Act.
- Regularity of depositing of provident fund dues and whether the employees' State Insurance Act 1948, was applicable to the company.
- No personal expenses of directors and employees were charged to the profit & loss Act.

. Guidelines of Committee to Auditors:

- i) For the public to have confidence in the quality of audit, it is essential that auditors should always be and be seen to be independent of the company, which includes integrity, professional ethics and objectivity.
- ii) Before taking any work auditor must consider that there should not be any threat to his independence. And if it present he should adopt risk aversion virtue.
- iii) Where such threats exist the auditor should either desist from the task or, at the very least, put in place safeguards that cruminate them to reduce the threats to clearly insignificant levels. For the auditor is unable to fully implement credible and adequate safeguards then he must not do the work.

- Narayana Murthy Committee report on Corporate Governance<sup>17</sup>

The fourth initiative on corporate governance in India is in the form of the recommendations of the Narayana Murthy committee. The committee was set up by SEBI, under the chairmanship of Mr. N. R. Narayana Murthy, to review Clause 49, and suggest measures to improve corporate governance standards. Some of the major recommendations of the committee primarily related to audit committees, audit reports, independent directors, related party transactions, risk management, directorships and director compensation, codes of conduct and financial disclosures.

Clause 49 of the listing agreement of SEBI  
is attached as annexure : I

## Corporate governance: Recent Developments in India

It is observed that the scale and scope of economic reform and development in India over the past 20 years has been impressive. The country has opened up large parts of its economy and capital markets, and in the process has produced many highly regarded companies in sectors such as information technology, banking, autos, steel and textile manufacturing. These companies are now making their presence felt outside India through global mergers and acquisitions.

As mentioned above, a lesser known fact remains about India is that in April 1998 the country produced one of the first substantial codes of best practice in corporate governance in Asia. It was published not by a governmental body, a securities regulator or a stock exchange, but by the Confederation of Indian Industries (CII), the country's peak industry body.

The following year, the government appointed a committee under the leadership of Kumar Mangalam Birla, Chairman, Aditya Birla Group, to draft India's first national code on corporate governance for listed companies. Many of the committee's recommendations were mandatory, closely aligned to international best practice at the time and set higher governance standards for listed companies than most other jurisdictions in Asia. The Indian Code of Corporate Governance, approved by the Securities and Exchange Board of India (SEBI) in early 2000, was implemented in stages over the following two years and led to changes in stock exchange listing rules, notably the new Clause 49 in the Listing Agreement.

Further reforms have been made over the past decade to modernise both company law and securities regulations. The Companies Act, 1956 has been amended several times, in areas such as postal ballots and audit committees, while committees were appointed in 2002 and 2004 to recommend improvements. The latter committee, chaired by Dr J.J Irani, was charged with undertaking a comprehensive review of the 1956 Act and its recommendations led to a rewrite of the law and a new Companies Bill, 2008. (This bill was resubmitted as the Companies Bill, 2009 following national elections in 2009. It is still waiting to pass Parliament.)

In the area of securities regulation, SEBI has made numerous changes in recent years including: revising and strengthening Clause 49 in relation to independent directors and audit committees; revising Clause 41 of the Listing Agreement on interim and annual financial results; and amending other listing rules to protect the interests of minority shareholders, for example in mergers and acquisitions.

Not surprisingly, the recent Satyam fraud of late 2008 led to renewed reform efforts by Indian authorities and regulators. SEBI brought out new rules in February 2009 requiring greater disclosure by promoters (i.e., controlling shareholders) of their shareholdings and any pledging of shares to third parties. And in November 2009 it announced it would be making some further changes to the Listing Agreement, including requiring listed companies to produce half yearly balance sheets.<sup>18</sup>

- Confederation of Indian Industry (CII) Taskforce on Corporate Governance<sup>19</sup>

History tells us that even the best standards cannot prevent instances of major corporate misconduct. This has been true in the US - Enron, WorldCom, Tyco and, more recently gross miss-selling of collateralized debt obligations; in the UK; in France; in Germany; in Italy; in Japan; in South Korea; and many other OECD nations. The Satyam-Maytas Infra-Maytas Properties scandal that has rocked India since 16th December 2008 is another example of a massive fraud.

Satyam is a one-off incident - especially considering the size of the malfeasance. The overwhelming majority of corporate India is well run, well regulated and does business in a sound and legal manner. However, the Satyam episode has prompted a relook at our corporate governance norms and how industry can go a step further through some voluntary measures.

With this in mind, the CII set up a Task Force under Mr. Naresh Chandra in February 2009 to recommend ways of further improving corporate governance standards and practices both in letter and spirit.

The recommendations of the Naresh Chandra Task Force evolved over a series of meetings. The leitmotif of the report is to enunciate additional principles that can improve corporate governance in spirit and in practice. The report enumerates a set of voluntary recommendations with an objective to establish higher standards of probity and corporate governance in the country.

The recommendations outlined in this report are aimed at listed companies and wholly owned subsidiaries of listed companies.

The recommendations in brief are as under :

1. Appointment of Independent Director
  - a. Nomination Committee
2. Duties, liabilities and remuneration of independent directors
  - a. Letter of Appointment to Directors
  - b. Fixed Contractual Remuneration
  - c. Structure of Compensation to NEDs
3. Remuneration Committee of Board
4. Audit Committee of Board
5. Separation of the offices of the Chairman and the Chief Executive Officer
6. Attending Board and Committee Meetings through Tele-conferencing and video conferencing
7. Executive Sessions of Independent Director
8. Role of board in shareholders and related party transactions
9. Auditor – Company Relationship
10. Independence to Auditors
11. Certificate of Independence
12. Auditor Partner Rotation
13. Auditor Liability
14. Appointment of Auditors
15. Qualifications of Auditors Report
16. Whistle Blowing Policy
17. Risk Management Framework

18. The legal and regulatory standards
19. Capability of Regulatory Agencies - Ensuring Quality in Audit Process
20. Effective and Credible Enforcement
21. Confiscation of Shares
22. Personal Liability
23. Liability of Directors and Employees
24. Institutional Activism
25. Media as a stakeholder

According to the report, much of best-in-class corporate governance is voluntary – of companies taking conscious decisions of going beyond the mere letter of law. The spirit of this Task Force Report is to encourage better practices through voluntary adoption - based on a firm conviction that good corporate governance not only comes from within but also generates significantly greater reputational and stakeholder value when perceived to go beyond the rubric of law.

- Corporate Governance voluntary guidelines 2009<sup>20</sup>

More recently, in December 2009, the Ministry of Corporate Affairs (MCA) published a new set of “Corporate Governance Voluntary Guidelines 2009”, designed to encourage companies to adopt better practices in the running of boards and board committees, the appointment and rotation of external auditors, and creating a whistle blowing mechanism.

The guidelines are divided into the following six parts:

- i) Board of Directors
- ii) Responsibilities of the Board
- iii) Audit Committee of the Board
- iv) Auditors
- v) Secretarial Audit
- vi) Institution of mechanism for Whistle Blowing

These guidelines provide for a set of good practices which may be voluntarily adopted by the Public companies. Private companies, particularly the bigger ones, may also like to adopt these guidelines. The guidelines are not intended to be a substitute for or addition to the existing laws but are recommendatory in nature.



Despite these wide-ranging developments in regulation and policy, what becomes increasingly apparent in India is that the reform process has not addressed, or effectively addressed, a key challenge at the heart of the governance problem, namely the accountability of promoters to other shareholders. Even though most listed companies have large controlling shareholders, typically a family, the regulation of related-party transactions in India is minimal. Promoters have considerable freedom of action in undertaking such transactions and are subject to only limited regulatory controls. They are also permitted to issue preferential warrants to themselves at an effective discount to the market price—something that would not be condoned in more developed markets.

In this context, relying largely on independent directors (appointed by controlling shareholders), independent board committees and greater corporate disclosure as the primary mechanisms to check abuses of power by promoters and to safeguard the interests of minority shareholders is likely to prove weak and insufficient (as indeed it did in the Satyam case). Board reform is fundamentally important, and is a major issue of concern to institutional investors, but it needs to be complemented by other regulations that directly address the relationship between controlling and minority shareholders—in other words, a proper regime for the regulation of related-party transactions.

While some leading Indian companies deserve credit for actively pursuing high standards of governance, including producing examples of world-class corporate disclosure, the strong growth of the economy and capital markets has fostered, in our view, a fair degree of complacency towards corporate governance and the rights of minority shareholders. As this paper shows, few listed companies in India are attuned to a major global trend of the past five years—the expansion of cross-border proxy voting—nor do they seem interested in voluntarily enhancing the transparency and fairness of their annual general meetings (e.g., by fully counting all votes through a “poll”, rather than conducting voting by the old system of a show of hands). This complacency is also reflected in the ongoing difficulties that investors face in deciphering the financial statements of some listed companies, including even some large caps.

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## Chapter: 2

### Introduction to Financial Performance

- Financial Performance : An Introduction
- Usefulness of financial performance to various stakeholders.
- Techniques \ Tools to measure financial performance
  - Financial Ratio Analysis
  - Du-pont Analysis
  - Comparative Statement Analysis
  - Time-Series Analysis
  - Inter-firm Analysis
- Ratio Analysis.
  - Liquidity Ratios
  - Leverage Ratios
  - Activity Ratios
  - Profitability Ratios

## Financial Performance : An Introduction

The performance of the firm can be measured by its financial results, i.e., by its size of earnings Riskiness and profitability are two major factors which jointly determine the value of the concern. Financial decisions which increase risks will decrease the value of the firm and on the other hand, financial decisions which increase the profitability will increase value of the firm. Risk and profitability are two essential ingredients of a business concern.

There has been a considerable debate about the ultimate objective of firm performance, whether it is profit maximization or wealth maximization. It is observed that while considering the firm performance, the profit and wealth maximization are linked and are effected by one-another.

A company's financial performance, therefore is normally judged by a series of ratios or figures, however there are following three ratio parameters which can be used to evaluate financial performance, they are:

- a) Return on Equity
- b) Earnings Per Share and
- c) Price Earnings Ratio.

All three parameters are discussed in detailed along with various other ratios.

However, it is to be noted that fundamentally, the balance sheet indicates the financial position of the company as on that point of time. However, profit and loss account is a statement, which is prepared for a particular financial year.

In Indian context, where an analyst has to rely upon the audited financial statement for a particular company, the performance is to be judged from the financial statement only. This chapter, however indicates some of the techniques, which can be used for such analysis of financial performance.<sup>1</sup>

## Usefulness of financial performance to various stakeholders. <sup>2</sup>

The analysis of financial performance is used by most of the business communities.

They include the following.

### 1. Trade Creditors

The creditors provide goods / services on credit to the firm. They always face concern about recovery of their money. The creditors are always keen to know about the liquidity position of the firm. Thus, the financial performance parameters for them evolve around short term liquidity condition of the firm.

### 2. Suppliers of long term debt

The suppliers of long term debt provide finance for the on-going / expansion projects of the firm. The long term debt providers will always focus upon the solvency condition and survival of the business. Their confidence in the firm is of utmost importance as they are providing finance for a longer period of time.

Thus, for them the financial performance parameters evolve around the following:

- i) Firm's profitability over a period of time.
- ii) Firm's ability to generate cash - to be able to pay interest and
- iii) Firm's ability to generate cash – to be able to repay the principal and
- iv) The relationship between various sources of funds.

The long term creditors do consider the historical financial statements for the financial performance.

However, the financial institutions \ bank also depends a lot on the projected financial statements indicating performance of the firm.

Normally, the projections are prepared on the basis of expected capacity expansion, projected level of production \ service and market trends for the price movements of the raw material as well as finished goods.

### 3. Investors

Investors are the persons who have invested their money in the equity share capital of the firm. They are the most concerned community as they have also taken risk of investments – expecting a better financial performance of the firm. The investors' community always put more confidence in firm's steady growth in earnings. They judge the performance of the company by analyzing firm's present and future profitability, revenue stream and risk position.

### 4. Management

Management for a firm is always keen on financial analysis. It is ultimately the responsibility of the management to look at the most effective utilization of the resources. Management always tries to match effective balance between the asset liability management, effective risk management and short-term and long-term solvency condition.

## Techniques \ Tools to measure financial performance

There are various tools available to judge the financial performance of the firm. They include the following.

### 1. Financial Ratio Analysis <sup>1</sup>

The Financial Ratio Analysis is considered to be the most powerful tool of financial analysis. In simple language ratio means relationship between two or more things. It is also said that a ratio is the indicated quotient of two mathematical expressions.

It is observed that the absolute financial figures published in the annual report do not give any clear picture about the performance of a firm.

Let us take an example that a firm claims that it has earned a net profit after tax of Rs. 5,00,000/- (Five Lac) this figure alone is not sufficient to judge the performance of the firm. This profit of Rs. Five Lac may look very impressive when it is achieved on an investment of Rs. 50,00,000/- (Fifty Lac) but it may not so much impressive when it is achieved on investment of Rs. 5,00,00,000/- (Five Crores). This is where the ratio analysis is very useful to judge the financial performance.

The ratio analysis also helps to summarize the large quantities of financial data and to make qualitative judgment about the firm's financial performance. There are various liquidity ratios which are quantitative in nature but are helpful to make qualitative judgment about the firm.

The financial ratios involve useful information about the analysis of the firm. However, standalone ratio of one firm alone may not be useful to evaluate the firm's performance. Therefore, ratio should ideally be compared with some standard which may consist of the following.<sup>3</sup>



- i) **Past Ratios**  
Past ratios are the ratios which are calculated from the financial statements of previous years.
  
- ii) **Competitors' Ratios**  
The ratios of some same size and industry representative firm, which can be considered as the progressive and successful competitor can be useful for comparison. However, they should be compared within a similar timeframe.
  
- iii) **Industry Ratio**  
There are some ratios which are common at industry level. However, they may be compared at the firm level – in reference to which the industry belongs.
  
- iv) **Projected Ratios**  
Whenever, a firm approaches to any long term finance provider, they have to give financial projections, which are based on some ratios.

Above points are normally refereed for inter-firm or firm v/s industry comparison. However, in all circumstances it is difficult find the exact competitor company for comparison because of several reasons.

The ratio analysis can further be used in the following context:

- a. **Time Series Analysis**  
This is a very easy way to evaluate the performance of a firm. In this, the current year's financial ratios are compared over a period of time. This is an indication of direction of the firm's direction of change.

Here, the role of analyst is also becoming important. It should be noted that the analyst should not only stick to mathematical aspect of the ratio. They should go into root cause and try to analyze the reasons behind changing trend of ratios.

b. Cross Sectional Analysis \ Inter-firm analysis

When the financial ratio of one firm is compared with some selected firms in the same industry, at the same point of time, it is known as Cross Sectional Analysis or Inter-firm analysis.

In many cases, comparison of firm's performance with carefully selected firms from the industry is more beneficial. It may indicate the firm's strengths or weaknesses in terms of operating leverage or financial leverage.

c. Industry Analysis

In this type of analysis, the ratio of one firm is compared with the average ratios of industry – of which a firm is a member. This type of analysis is known as Industry Analysis.

It is well accepted fact that each industry has its unique characteristics, which will have impact on the financial and operating relationships of the firm. But in many cases, it is difficult to get the actual ratios of the industry because of various reasons.

d. Proforma Analysis

In many cases, future - projected ratios are used as the standard of comparison. The future ratios are normally used in the Financial Projections which are also popularly known as Proforma Ratios.

The comparison of firm's projected v/s actual ratio will indicate the relative position of the firm. Mainly it will also indicate the operational or financial leverage position of the firm – when it started the project and actual position when the project is completed or half way.

## 2. DuPont Analysis <sup>1</sup>

According to the Du-pont analysis, RONA (or ROCE) is an important tool for judging the operating financial performance <sup>4</sup>. It is an indication of the earning power of the firm.

RONA is calculated as under :

$$\text{RONA} = \frac{\text{EBIT}}{\text{NA}} = \frac{\text{Sales}}{\text{NA}} \times \frac{\text{GP}}{\text{Sales}} \times \frac{\text{EBIT}}{\text{GP}}$$

Where :

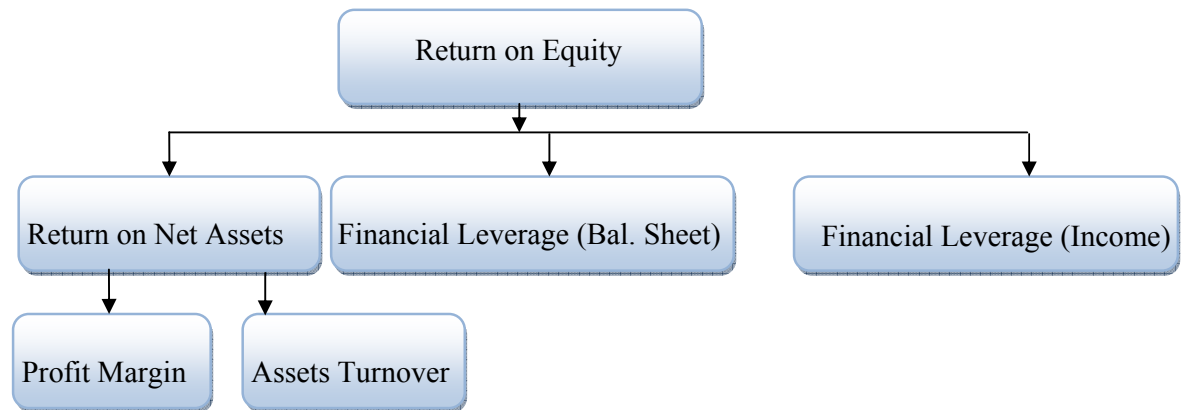
- RONA = Return on Net Assets
- EBIT = Earnings Before Interest and Tax
- GP = Gross Profit
- NA = Net Assets

It is observed that most of the firms would like to improve their RONA. However, in this competitive world, RONA is always under pressure. Hence, firms have to balance between the Asset Turnover and Gross profit Margin. Many firms adopt various ways to increase the Gross Profit Margin some firms resort to vertical integration for cost reduction also.

A firm can convert impressive RONA into an impressive ROE through financial efficiency. It is observed that ROE is certainly affected by the Financial leverage and combination of debt and equity. Therefore, ROE is a product of RONA and financial leverage ratios which reflect the operating efficiency.

Therefore, ROE = Operating Performance X Leverage Factor.

The Du-pont chart can also be indicated with the help of the following diagramme.



Therefore, the combined effect of the du-pont chart can be explained with the following.

$$ROE = \frac{\text{Sales}}{\text{NA}} \times \frac{\text{GP}}{\text{Sales}} \times \frac{\text{EBIT}}{\text{GP}} \times \frac{\text{PAT}}{\text{EBIT}} \times \frac{\text{NA}}{\text{NW}}$$

As discussed above, ROE when it is multiplied by retention ratio gives growth.

### 3. Comparative Statement Analysis <sup>1</sup>

Comparative Statement Analysis is one of the methods to trace periodic change in the financial performance of a firm.

The changes over the period are described by way of Increase of Decrease in income statement and balance sheet. The changes are normally of two types :

- i) Aggregate Changes
- ii) Proportional Changes

A sample of comparative statement is described as under:

Particulars	Previous Year (Amt. Rs.)	Current Year (Amt. Rs.)	Change (in Amt)	Change (in % )
<b><i>Liabilities and Capital</i></b>				
Current Liabilities	XX	XX	(+ / -)	(+ / -) %
Long Term Liabilities	XX	XX	(+ / -)	(+ / -) %
Share Capital & Res.	XX	XX	(+ / -)	(+ / -) %
<b>Total</b>	<b>XX</b>	<b>XX</b>	<b>(+ / -)</b>	<b>(+ / -) %</b>
<b><i>Assets</i></b>				
Fixed Assets	XX	XX	(+ / -)	(+ / -) %
Current Assets	XX	XX	(+ / -)	(+ / -) %
Other Assets	XX	XX	(+ / -)	(+ / -) %
<b>Total</b>	<b>XX</b>	<b>XX</b>	<b>(+ / -)</b>	<b>(+ / -) %</b>

The financial statement mentioned in above table indicates corresponding changes in two balance sheet data. An assessment of comparative financial statement helps to highlight the significant facts and points out the items requiring further analysis. All annual report of the selected companies provides data related to last two financial years.

#### 4. Time Series Analysis OR Trend Analysis <sup>1</sup>

The Time Series Analysis or Trend Analysis indicates of ratio indicates the direction of changes. The trend analysis is advocated to be studied in light of the following two factors.

- i) The rate of fixed expansion or secular trend in the growth of the business and
- ii) The general price level.

Any increase sales statement may be because of two reasons, one may be the increase in volume of business and another is the variation in prices of the goods / services.

For trend analysis, the use of index number is generally advocated. The procedure followed is to assign the number 100 to the items of each base year and to calculate percentage changes in each item of the other years in relation to the base year. This is known as 'Trend-Percentage Method'. The following table indicates it.

Particulars	Base Year	Previous Year	Current Year
Sales	100		
EBIT	100	(+ / -)	(+ / -)
PAT	100	(+ / -)	(+ / -)
Current Assets	100	(+ / -)	(+ / -)
Current Liabilities	100	(+ / -)	(+ / -)
Gross Fixed Assets	100	(+ / -)	(+ / -)
Net Assets	100	(+ / -)	(+ / -)
Total Assets	100	(+ / -)	(+ / -)
Net Worth	100	(+ / -)	(+ / -)
<b>Dividend</b>	100	(+ / -)	(+ / -)

## 5. Inter-Firm Analysis

A firm would like to know its financial standing vis-à-vis its major competitors and the industry group. Analysis of financial performance of all firms in an industry and their comparison at a given point of time is referred to the Cross Section Analysis or Inter-firm analysis. To ascertain the relative financial standing of a firm, its financial ratios are compared either with its immediate competitors or with the industry average. The following table can be used to consider the inter-firm analysis.

Particulars	CE	NW	NS	PBIT	PBT	PAT	DIV
Company A	--	--	--	--	--	--	--
Company B	--	--	--	--	--	--	--
Company C	--	--	--	--	--	--	--
Company D	--	--	--	--	--	--	--
Company E	--	--	--	--	--	--	--
Company F	--	--	--	--	--	--	--
Company G	--	--	--	--	--	--	--
Company H	--	--	--	--	--	--	--
Company I	--	--	--	--	--	--	--
Company J	--	--	--	--	--	--	--

Where...

CE	=	Capital Employed
NW	=	Net Worth
NS	=	Net Sales
PBIT	=	Profit Before Interest and Tax
PBT	=	Profit Before Tax
PAT	=	Profit After Tax
DIV	=	Dividend

For further analysis, the following ratios can also be used for inter-firm analysis. They are mentioned in the table described as below.

Particulars	NS CE	PBIT NS	PBIT CE	PAT PBIT	CE NW	PAT NW
Company A	--	--	--	--	--	--
Company B	--	--	--	--	--	--
Company C	--	--	--	--	--	--
Company D	--	--	--	--	--	--
Company E	--	--	--	--	--	--
Company F	--	--	--	--	--	--
Company G	--	--	--	--	--	--
Company H	--	--	--	--	--	--
Company I	--	--	--	--	--	--
Company J	--	--	--	--	--	--

Where...

NS / CE = Net Sales to Capital Employed

PBIT / NW = Profit Before Int. & Tax (PBIT) to Net Sales

PBIT / CE = Profit Before Int. & Tax (PBIT) to Cap.

Employed

PAT / PBIT = Profit After Tax to Profit Before Interest and

Tax

CE / NW = Capital Employed to Net Worth

PAT / NW = Profit After Tax to Net Worth

## Ratio Analysis

Ratios are calculated based on the financial and related statement like. Profit & Loss account, Balance Sheet etc. The ratios are classified as under <sup>5</sup>:

- a) Liquidity Ratios
- b) Leverage Ratios
- c) Activity Ratios and
- d) Profitability Ratios

The objective behind calculating each of the ratios is different and the outcome expected is also different. Let us study the objective behind every type and sub-type of ratio.

### a) Liquidity Ratios

Liquidity Ratios are calculated to measure the firm's ability to meet its current obligations. The solvency position is indicated by the liquidity ratios. The solvency position is very critical for any firm. It is often indicated by the Indian industry that it has ample sources available for the long term finance, but very limited sources are available for the short term finance or to meet working capital requirement. So, a firm's performance in this area is an important indication towards the performance.

The following are the ratios that indicate liquidity position.

#### i) Current Ratio

Current Ratio is calculated by dividing current assets by Current Liabilities. The formula for the Current Ratio is as under:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Where...

Current Assets include cash and those assets which are convertible into cash within a period of one year.

Current Liabilities includes all obligations which are to maturing within a period of one year.



ii) Quick Ratio

It is also popularly known as an acid test ratio. This ratio normally describes the quick or liquid assets and current liabilities.

It is considered that an asset is liquid if it can be converted into cash immediately. Cash is considered to be the most liquid assets other assets those are relatively liquid and included in quick assets are debtors and bills receivable and marketable securities. As the inventories are treated as less liquid as they requires some time for realizing into cash. The quick ratio is calculated as under:

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

Where...

Current Assets include cash and those assets which are convertible into cash within a period of one year.

Current Liabilities includes all obligations which are to maturing within a period of one year.

Inventories include all three types – Raw Material, Work In Process (WIP) and Finished Goods.

iii) Cash Ratio

Cash is considered to be the most liquid asset. The financial analysts normally examine cash ratio and its equivalent to current liabilities. Trade investment or marketable securities are equivalent of cash; therefore, they may be included in the computation of cash ratio. The Cash ratio is calculated as under:

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

Cash ratio can be more or less. The less ratio should also not to be the issue of huge concern as the company may have a strong reserve power.

iv) Interval Measure

The interval measure assesses the firm's ability to meet its regular cash expenses. The interval measure relates liquid assets to average daily operating cash outflows. The Interval Measure is calculated in number of days as under:

$$\text{Interval Measure} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Average Daily Operating Expenses}}$$

Where...

$$\begin{aligned} \text{Average Daily Operating Expenses} = \\ [ (\text{Cost of Goods Sold} + \text{Selling \& Admin overheads} \\ - \text{Depreciation}) / 360 ] \end{aligned}$$

v) Net Working Capital Ratio

The difference between current assets and current liabilities (excluding short term bank borrowings) is known as Net Working Capital (NWC) **OR** Net Current Assets (NCA). NWC is sometimes used as a measure of a firm's liquidity. The ratio is calculated as under :

$$\text{NWC Ratio} = \frac{\text{Net Working Capital (NWC)}}{\text{Net Assets.}}$$

The NWC measures the firm's potential reservoir of funds. It can be related to net assets (or Capital Employed)

All above ratios indicate firm's liquidity situation. But during the analysis it is to be considered that Current Assets & Current Liabilities keeps on changing at a rapid pace and can change quickly.

## b) Leverage Ratios

Leverage Ratios are popularly known as the capital structure ratios as well. Any firm has got two sources of finance one is owned funds and the other is borrowed funds. As a general rule, there should be an appropriate mix of debt and owners' equity in financing the firm's assets. As popularly known, these ratios indicate mix of funds provided by owners and lenders. There are various implications of the manner in which the funds are arranged they can be prescribed as under:

1. The composition of debt and equity. The debt is considered as more risk from a firm's point of view. As it is obligation on the part of the firm to re-pay the amount along with the interest component.
2. The use of debt can also be sometimes advantageous in case where the firm can retain control of the firm with a limited stake and their earnings will be increased when a firm earns a rate which is higher than its cost of capital of borrowed funds.
3. It is observed that highly debt firm find it difficult to get appropriate return. As they are facing the problem of incremental level of marginal rate of interest.

The process of magnifying the shareholders' return through use of debt is popularly known as 'trading on equity'. However, the situation can be different when the rates are reverse or the situation is different.

The leverage ratios are calculated on the basis of balance sheet, it may also be computed using profit and loss account by determining the extent to which operating profits are sufficient to cover the fixed charges.

### i) Debt Ratio

The debt ratios can be considered to arrive at the ratio of proportion of total debt and net assets. The following two debt ratios are popular.

$$\text{a) Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Debt} + \text{Net Worth}}$$

$$\text{Where... Total Debt} + \text{Net Worth} = \text{Capital Employed}$$

$$\text{b) Debt Ratio} = \frac{\text{Total Debt (TD)}}{\text{Net Assets (NA)}}$$

Where... Net Assets = Net Fixed Assets + Net Current Assets

It is to be noted that the Capital Employed (CE) equals Net Assets that consists of Net Fixed Assets (NFA) and Net Current Assets (NCA). The Net Current Assets are Current Assets (CA) minus Current Liabilities (CL) excluding interest bearing short term debt for working capital

ii) Debt – Equity Ratio

The Relationship describing the lenders' contribution for each rupee of the owners' contribution is called as debt-equity ratio. Debt-equity (DE) ratio is directly computed by dividing total debt by net worth.

$$\text{Debt-Equity Ratio} = \frac{\text{Total Debt}}{\text{Net Worth}}$$

The ratio can be less \ greater than 1 : 1 or equal to 1 : 1.

iii) Capital Employed to Net Worth Ratio

There is another way of expressing the basic relationship between debt and equity. One way can be How much funds are being contributed together by lenders and owners for each rupee of the owners' contribution? Calculating the ratio of capital employed or net assets to net worth can find this out :

$$\text{CE-to-NW ratio} = \frac{\text{Capital Employed}}{\text{Net Worth}}$$

As the Capital Employed is normally equal to Net Assets, it can be replaced. Treatment of Preference share capital as debt ignores fact that debt and preference capital present different risk to shareholders.<sup>6</sup> Heavy indebtedness leads to creditors's pressure on managements functioning.<sup>7</sup>

iv) Interest Coverage Ratios

Debt ratios are described as a static in nature and many times make it difficult to exactly direct towards firm's ability to meet the interest or other fixed charges obligation.

The interest coverage ratio or the Times – interest-earned is used to test the firm's debt servicing capacity. The interest coverage ratio is calculated as under:

$$\text{Interest Coverage} = \frac{\text{EBIT}}{\text{Interest}}$$

Some times, the depreciation – being a non cash item it can be excluded. Therefore the interest coverage can also be computed as under :

$$\text{Interest Coverage} = \frac{\text{EBITDA}}{\text{Interest}}$$

This ratio indicates the extent to which earnings may fall without causing any embarrassment to the firm regarding the payment of the interest charges. A higher ratio is desirable; but too high a ratio indicates that the firm is very conservative in using debt and that it is not using credit to the best advantage of shareholders. A lower ratio indicates excessive use of debt or inefficient operations.

### c) Activity Ratios

Activity Ratios are calculated evaluate the efficiency with which the firm manages and utilized its assets. These ratios are known as turnover ratios as well. The activity ratios involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed properly.

The following are the ratios that indicate level of activities.

#### i) Inventory Turnover Ratio

Inventory Turnover Ratio indicates the efficiency of the firm in manufacturing and selling of its product. The ratio is arrived at by dividing cost of goods sold by the average inventory.

$$\text{Inventory Turnover} = \frac{\text{Cost Of Goods Sold}}{\text{Average Inventory}}$$

Where...

Average Inventory is the average of opening and closing balance of inventory.

When 360 (Appro. No. of days in a year) is divided by this ratio, it gives us days of inventory holding. Therefore,

$$\text{Days of Inventory Holding} = \frac{360}{\text{Inventory Turnover}}$$

The inventory turnover indicates how fast the inventory is turning into receivable through sales. Generally, a high level of inventory turnover indicates of good inventory management. For further analysis of inventory, this ratio may be divided into the following sub-ratios

- a) Finished Goods Turnover
- b) Work-in-process Turnover
- c) Materials Turnover
- d) Sales to total inventory
- e) Inventory to Sales

ii) Debtors Turnover Ratio

When a firm sells goods on credit to its customers, debtors (Accounts receivables) are created in the firm's account. The debtors are convertible into cash over a short period and therefore, they are included in current assets. The liquidity position of the firm depends on the quality of debtors to a great extent. The debtors turnover ratio is calculated as under :

$$\text{Debtors Turnover} = \frac{\text{Credit Sales}}{\text{Average Debtors}}$$

The debtors turnover indicates the number of times debtors turnover each year. Generally, the higher the value of debtors turnover, more efficient is the management of credit.

When 360 (Approx no. of days in a year) is divided by this ratio, it gives us days of Collection Period. Therefore,

$$\text{Days of Collection Period} = \frac{360}{\text{Debtors Turnover}}$$

The days of collection indicates the average number of days for which debtors remain outstanding.

The interpretation of Average Collection Period should be done cautiously. It helps in determining collectability of debtors and ascertaining firm's collection experience.<sup>8</sup>

iii) Assets Turnover Ratio and Working Capital Turnover

Assets are used to generate sales. Therefore, a firm is required to manage the assets with adequate efficiency to maximize sales. The relationship between Sales and Assets is known as Assets Turnover. There are several types of Assets Turnover can be calculated. But it is required to understand the following.

$$\text{NA} = \text{CE}$$

$$\text{NA} = \text{NFA} + (\text{CA} - \text{CL}) \quad \text{or} \quad \text{NA} = \text{NFA} + \text{NCA}$$

$$\text{TA} = \text{NFA} + \text{CA}$$

Based on the above, there can be various types of Asset Turnover Ratio.

$$\text{Net Asset Turnover} = \frac{\text{Sales}}{\text{Net Assets}}$$

$$\text{Total Asset Turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

$$\text{Fixed Asset Turnover} = \frac{\text{Sales}}{\text{Net Fixed Assets}}$$

$$\text{Net Current Assets Turnover} = \frac{\text{Sales}}{\text{Net Current Assets}}$$

$$\text{Current Assets Turnover} = \frac{\text{Sales}}{\text{Current Assets}}$$

A firm's ability to produce a large volume of sales for a given amount of net asset is most important aspect of its operating performance. Unutilized or Under Utilized assets increase the firm's need for costly financing as well as expenses for maintenance and upkeep. The Asset Turnover Ratios should be interpreted cautiously.



#### d) Profitability Ratios

A majority of the discussion in the financial performance evolves around the concepts of profit maximization and wealth maximization. Profits are always essential. But it would not be appropriate to go ahead with the discussion of profit maximization until the concept of profit is properly understood. The method to arrive at profit is as under:

	Sales / Total Income
Less	<u>Cost of Goods Sold</u>
	PBITDA
Less	<u>Interest</u>
	PBDTA
Less	<u>Depreciation</u>
	PBT
Less	<u>Tax &amp; Adjustments</u>
	PAT
Add	<u>Depreciation &amp; Non Cash Exp</u>
	Cash Profit.

Where...

PBITDA = Profit Before Interest Tax Depreciation & Adjustments

PBDTA = Profit Before Depreciation Tax & Adjustments

PBDTA = Profit Before Depreciation Tax & Adjustments

PBT = Profit Before Tax

PAT = Profit After Tax

Cash Profit = Profit After Tax + Depreciation (and other non cash  
exps.)

A firm's performance is often judged by the profitability. However, two types of profitability ratios are calculated.

- a) Profitability in relation to sales.
- b) Profitability in relation to investments.

The following are the ratios that profitability position of a firm. It is a fact that sufficient profit must be earned by a firm to sustain, expand and grow.<sup>9</sup>

i) Gross Profit Margin

Gross profit is the first profitability ratio. It is calculated on gross profitability margin. It is calculated as under:

$$\begin{aligned}\text{Gross Profit Margin} &= \frac{\text{Sales} - \text{Cost of Goods Sold}}{\text{Sales}} \\ &= \frac{\text{Gross Profit}}{\text{Sales}}\end{aligned}$$

The gross profit margin reflects the efficiency with which management produces each unit of product. This ratio also indicates the aggregate spread between the Cost of Goods Sold (COGS) and the sales revenue.

A high gross profit margin ratio can be sign of good management. The high gross margin may be due to any of the following <sup>10</sup>.

- a) Higher sales prices, while cost of goods sold remain constant.
- b) Lower Cost of Goods Sold, sales pricing remaining constant.
- c) An increase in the proportionate volume of higher margin items.

The analysis of these factors will reveal to the management how a depressed gross profit margin can be improved.

A lower gross profit margin may reflect higher cost of goods sold due to the firm's inability to purchase raw materials at favorable terms, and inefficient utilization of plant and machinery or over investment in plant and machinery, resulting in higher cost of production.

ii) Net Profit Margin

Net profit is obtained by deducting operating expenses, interest and taxes are subtracted from the gross profit. The net profit margin ratio is measured by dividing profit after tax by sales. The formula can be narrated as under:

$$\text{Net Profit Margin} = \frac{\text{Profit After Tax}}{\text{Sales}}$$

Net profit margin ratio establishes relationship between net profit and sales. It also indicates management's efficiency in manufacturing, administering and selling the products. This ratio is overall measure of the firm's ability to turn each rupee sales into net profit. If the net margin is inadequate, the firm will fail to achieve satisfactory return on shareholders' funds.

The ratio also indicates the firm's ability to withstand adverse economic conditions. Where a firm with higher net margin ratio will be in advantageous, position to survive in the face of falling selling prices, rising costs of production or declining demand for the product. Such conditions are very difficult for low profit margin firms.

iii) Operating Expense Ratio

The operating expense ratio explains the changes in the profit margin. (EBIT to Sales) ratio. This ratio is computed by dividing operating expenses *viz.* cost of goods sold plus selling expenses and general and administrative expenses (excluding interest) by sales:

$$\text{Operating Expense Ratio} = \frac{\text{Operating Expenses}}{\text{Sales}}$$

A higher operating expense ratio is un-favourable as it indicates a smaller amount of operating income to meet interest, dividends etc. The variations in this ratio can be because of various reasons like:

- a) Changes in Sales Prices
- b) Changes in the demand for the product
- c) Changes in administrative or selling expenses                      or
- d) Changes in the proportionate shares of sales of different products with varying gross margins.

These, along with other causes are reasons for variations in the ratio.

iv) Return On Investment

Term investment is equal to 'Total Assets' or 'Net Assets'. The funds employed in net assets are known as capital employed. Net Assets is equal to Net Fixed Assets plus Current Assets minus Current Liabilities (Excluding Bank Loans). Alternatively, capital employed is equal to net worth plus total debt.

As per the conventional approach of calculating Return on Investment (ROI) is to divide PAT by investment. Investment indicates pool of funds supplied by shareholders and lenders.

The taxes are not something which is within the control of management, and since the firm's opportunities for availing tax incentives differ, it is more prudent to use before-tax measure of ROI. The following two methods indicate calculation of ROI.

$$\text{ROI} = \text{ROTA} = \frac{\text{EBIT}}{\text{TA}}$$

$$\text{ROI} = \text{RONA} = \frac{\text{EBIT}}{\text{NA}}$$

Some companies even use EBITDA to calculate the ROI.

v) Return On Equity

The common shareholder is entitled to the residual profits. A return on shareholders' equity is calculated to see the profitability of owners' investment. The shareholders' equity or net worth will include paid-up share capital, share premium and reserves and surplus less accumulated losses. Net worth can also be found by subtracting total liabilities from total assets.

The return on equity is net profit after taxes divided by shareholders' equity which is given by net worth.

$$\text{ROE} = \frac{\text{Profit After Taxes}}{\text{Net Worth (Equity)}} = \frac{\text{PAT}}{\text{NW}}$$

ROE indicates how well the firm has used the resources of owners. The earning of a satisfactory return is the most desirable objective of a business. The ratio of net profit to owners' equity reflects the extent to which this objective is accomplished. Therefore, this ratio is of great interest to the present as well as the prospective shareholders and also of great concern to management.

The return on owners' equity of the company is normally compared with the ratios for other similar companies and the industry average. This reveals the relative performance and strength of the company in attracting future investments.

vi) Earnings Per Share

The Earnings Per Share is one of the key measures of profitability of shareholders' investment. The EPS is calculated by dividing the profit after taxes by total number of ordinary shares outstanding. The formulae to calculate EPS is as under :

$$\text{EPS} = \frac{\text{Profit After Tax}}{\text{Number of Outstanding Shares}}$$

The calculation of EPS over the years indicates whether the firm's earnings power on per-share basis has changed over that period or not. The EPS of the Company should be compared with industry average and the EPS of the other firms. However, EPS does not indicate how much of EPS is distributed as a dividend and how much is retained earnings.

vii) Dividend Per Share

The dividend is the income which a shareholder really receives. This is the amount which is a part of earnings distributed as cash to the shareholders. Therefore, it is a large number of interest to majority of the investors. Some investors put greater weightage on Dividend Per Share rather than on EPS.

The DPS is calculated as under:

$$\text{DPS} = \frac{\text{Earnings paid to shareholders (Dividends)}}{\text{Number of ordinary shares outstanding}}$$

Now, for example a company earns Rs. 8.00 per share and distributes Rs. 2.00 per share, then the difference per share is retained in the business.

viii) Dividend Payout Ratio

The dividend payout ratio is the comparison of amount distributed as dividend and amount earned per share. The payout ratio is calculated as under.

$$\text{Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}$$

Earnings not distributed per share are retained in the business. Therefore, retention ratio in the business will be equal to 1 – Payout Ratio. If this figure is multiplied by ROE, one can know the growth in the owners' equity as a result of retention policy.

ix) Dividend and Earnings Yield

The dividend yield is the dividends per share divided by market value per share. It can be calculated as under :

$$\text{Dividend Yield} = \frac{\text{Dividend Per Share}}{\text{Market Value Per Share}} = \frac{\text{DPS}}{\text{MV}}$$

The earnings yield is the earnings per share divided by market value per share. It can be calculated as under :

$$\text{Earnings Yield} = \frac{\text{Earnings Per Share}}{\text{Market Value Per Share}} = \frac{\text{EPS}}{\text{MV}}$$

Above ratios evaluate the shareholders' return in relation to the market value of the share. The earnings yield ratio is also called as Earnings – Price (E/P) Ratio.

x) Price Earnings Ratio

This ratio is reciprocal to the above ratio. This is one of the most popular among the financial analysts to value the firm's performance as expected by the shareholders. This can be calculated as under :

$$\text{P/E Ratio} = \frac{\text{Market Value Per Share}}{\text{Earnings Per Share}} = \frac{\text{MV}}{\text{EPS}}$$

This also indicates investors' judgment or expectations about the firm's performance.

Normally, this ratio reflects investors' expectations about the growth in the firm's earnings.

xi) Market Value to Book Value Ratio

This ratio is primarily indication of market v/s book value of share. Hence, it is the ratio of share price to book value per share :

$$\text{M/B Ratio} = \frac{\text{Market Value Per Share}}{\text{Book Value Per Share}}$$

Where...

$$\text{Book Value Per Share} = \frac{\text{Net Worth}}{\text{No. of shares outstanding}}$$

This is also an indication of the company's worth compared to funds which are put into by shareholders.

xii) Tobin's Q

This is the ratio of Market Value of Firm's assets ( or equity an debt) to its assets' replacement costs.

Thus, this can be calculated as under :

$$\text{Tobin's Q} = \frac{\text{Market Value of Assets}}{\text{Replacement Cost of Assets}}$$

It is assumed that the firms will have incentive to invest when Q is greater than 1. However, they will be reluctant to invest once the Q becomes equal to 1.

It is to be noted that this ratio differs from market value to book value ratio in the following respects:

- a) It includes both debt and equity in the numerator and
- b) All assets in the denominator, not just the book value of equity.

However, it is observed that in most of the cases it is difficult to arrive at the genuine market value of assets. It is argued that firms will have incentive to invest then Q is greater than 1. They will be reluctant to invest once Q becomes equal to 1.<sup>11</sup>



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## Chapter: 3

### Research Methodology

- Introduction
  - Statement of Problem
  - Significance of Study
- Review of Literature
- Objectives
  - Perspectives and Assumptions
- Methodology
  - Ratios
  - Questionnaire
- Selection of sample
- Limitations of Study

## Introduction

Corporate Governance has a buzzword in the corporate world. It is the most happening area where several bodies across several countries are trying to improve the standards of governance in corporate world. The other aspect which is required to be looked into is whether standard of governance affect the performance of the company on financial parameters or not.

As the research is on the corporate governance related topic, before delving further on the subject, it is important to dwell upon the concept of corporate governance. Corporate governance is about commitment to values and about ethical business conduct. It is about how an organization is managed. This includes its corporate and other structures, its culture, policies and the manner in which it deals with various stakeholders. Accordingly, timely and accurate disclosure of information regarding the financial performance, ownership and governance of the company is an important part of corporate governance.

This improves public understanding about the structure, activities and policies of the organization. Consequently, the organization is able to attract investors and enhance the trust and confidence of the stakeholders. This is the system by which companies are run and the means by which they are responsive to their shareholders, employees and society.

This study is mainly focus on measuring the corporate governance practices adopted by selected Indian companies on various parameters and also to study the implication of governance on the financial performance.

## Statement of Problem

Title of the study – **“A STUDY OF CORPORATE GOVERNANCE AND THE FINANCIAL PERFORMANCE OF SELECTED INDIAN COMPANIES.”**

## Significance of study

There are several developments in corporate sector at national and international level which indicate that a detailed study is required in corporate governance area.

If we look into history, there are several attempts made by Government and various trade associations for systematic development of Corporate Governance.

- The first attempt was made by Confederation of Indian Industries (CII), which came out with ‘CII Code on Corporate Governance’ in 1997-98.<sup>1</sup>
- The second attempt was by Securities and Exchange Board of India (SEBI) in 1999, which appointed Kumar Mangalam Birla Committee<sup>2</sup> and upon its recommendation, SEBI incorporated Clause 49 of Listing Agreement.
- In 2002 the Department of Company Affairs, Government of India appointed a committee under chairmanship of Shri Naresh Chandra to examine various Corporate Governance issues<sup>3</sup>.
- The fourth initiative on corporate governance in India is in the form of the recommendations of the Narayana Murthy committee. The committee was set up by SEBI, under the chairmanship of Mr. N. R. Narayana Murthy<sup>4</sup>, to review Clause 49, and suggest measures to improve corporate governance standards.
- More recently, in 2009, CII constituted a committee under the chairmanship of Shri Naresh Chandra to improve the corporate governance standards in India<sup>5</sup>.
- In December 2009, the Ministry of Corporate Affairs (MCA) published a new set of “Corporate Governance Voluntary Guidelines 2009”<sup>6</sup>, designed to encourage companies to adopt better practices in the running of boards and board committees, the appointment and rotation of external auditors, and creating a whistle blowing mechanism.
- Securities and Exchange Board of India has also incorporated various corporate governance practices as a part of listing agreement (Clause 49)<sup>7</sup>.

These points indicate that there is a need to examine the prevailing corporate practices in Indian context.

## Review of Literature

Empirical studies have been conducted in various countries on whether there is any link between the corporate governance / board composition and corporate performance. Some researchers had looked for a direct evidence of a link between board composition and corporate performance. Many foreign researchers have tried to study the correlation between the Corporate Governance and firm's performance.

Much of the previous literature has shown a positive relationship between governance and firm performance assuming that governance is an independent regressor, i.e. it is exogenously determined, in a firm performance regression. This would suggest that firms are not in equilibrium, and improvements in governance would lead to improvements in firm performance. On the other hand, Demsetz and Lehn (1985)<sup>8</sup>, among others, have shown that governance is related to *observable* firm and CEO characteristics.

Studies have generally examined three characteristics of boards, namely, the size of the board, proportion of outsiders on the board, and the number of board meetings. Among studies that assume board characteristics are exogenously determined, Jensen (1993)<sup>9</sup>, Yermack (1996)<sup>10</sup>, Eisenberg, Sundgren, and Wells (1998)<sup>11</sup>, and Mak and Kusnadi (2002)<sup>12</sup> find that small size boards are positively related to high firm value, Baysinger and Butler (1985)<sup>13</sup>, Mehran (1995)<sup>14</sup>, and Klein (1998)<sup>15</sup> find that firm value is insignificantly related to a higher proportion of outsiders on the board, and Vafeas (1999)<sup>16</sup> and Adams and Ferreira (2004)<sup>17</sup> find that firm value is increased when boards meet more often. Accordingly, good governance changes are defined when the board got smaller, the proportion of outsiders in the board were increased, and when the number of board meetings increases.

However, many theoretical and empirical studies have suggested board characteristics are endogenously determined and that board size and composition varies with firm characteristics (see, Kole and Lehn 1999<sup>18</sup>, Mak and Rousch 2000<sup>19</sup> and Adams 2005<sup>20</sup>).

The relation between the proportion of outside directors, a proxy for board independence, and firm performance is mixed. Studies using financial statement data and Tobin's Q find no link between board independence and firm performance, while those using stock returns data or bond yield data find a positive link. Consistent with Hermalin and Weisbach (1991)<sup>21</sup> and Bhagat and Black (2002)<sup>22</sup>, we do not find Tobin's Q to increase in board independence (in fact, we find the opposite), but we do find that firms with independent boards have higher returns on equity, higher profit margins, larger dividend yields, and larger stock repurchases, suggesting that board independence is associated with other important measures of firm performance aside from Tobin's Q.

Limiting board size is believed to improve firm performance because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision-making of larger groups (Lipton and Lorsch 1992)<sup>23</sup>. Consistent with this notion, Yermack (1996)<sup>24</sup> documents an inverse relation between board size and profitability, asset utilization, and Tobin's Q. Anderson (2004)<sup>25</sup> show that the cost of debt is lower for larger boards, presumably because creditors view these firms as having more effective monitors of their financial accounting processes.

Several studies have examined the separation of CEO and chairman, positing that agency problems are higher when the same person holds both positions.

The question of how corporate governance and board characteristics such as composition or size or quality related to profitability or performance are still remains unresolved. Yet, the recommendation of the Securities and Exchange Board of India committee on Corporate Governance under the Chairmanship of Kumar Mangalam Birla (1999)<sup>2</sup>, the Confederation of Indian Industry (CII) code on Corporate Governance (1999)<sup>1</sup>, The Naresh Chandra Committee (2002)<sup>3</sup> and the Securities and Exchange Board of India Committee on corporate Governance under the Chairmanship of N R Narayanamurthy (2003)<sup>4</sup> are in favour of improving the corporate governance scenario in India by favouring majority – independent director's board. However, the J J Irani Committee<sup>26</sup> has recommended 33 per cent independence, which can also vary with the size and type of organization.

According Garg ( 2007) <sup>27</sup>, the board size and performance as also board independence and performance were inversely related. A bad performance leads to increase in board size, which in turn hampers the performance. However, Shukla (2007) <sup>28</sup> suggests that the pay and performance of the directors is linked and a transparent policy should be place to decide the remuneration of the directors.

McKinsey's 'Global Investor Opinion Survey'(2000 (updated in 2002 and later)) is the most widely quoted opinion-based research into the link between corporate governance and performance as measured by the valuation of the company.

McKinsey surveyed over 200 institutional investors and found that 80% of the respondents would pay a premium for well governed companies. The size of the premium varied by market, from 11% for Canadian companies to around 40% for companies operating in countries where the regulatory backdrop was less certain, such as Egypt, Morocco, and Russia. The UK and US scored 12% and 14% respectively. Although the study is opinion-based, it was believed that the finding reflected a growing perception amongst market participants that well-governed companies, which were perceived to be run in the interests of investors, may benefit from a lower cost of capital.

There are a number of other studies that sought to link broad perceptions of the quality of companies to superior share price performance. <sup>31</sup>

They generally support McKinsey's finding that investors favour companies, which they perceive to be well governed. However, we note that opinion-based research relies on circumstantial and inevitably subjective data. The finding is therefore of limited evidentiary value.

Governance-ranking research seeks to establish a link between one or more factors or standards that objectively measure a company's governance quality and its performance. The focus on certain standards by reference to which the quality of corporate governance can to some extent be objectively measured has obvious attractions.

However, it also causes problems and distortions in the findings of the research. To begin with, any single governance standard may for a number of reasons be unrelated to the performance of companies in a particular market during a given period of time. Research that focuses on a single standard, such as the composition of boards, in isolation, may thus lead to incorrect conclusions. Moreover, such research does not effectively capture the general benefits that may result from active ownership involving engagement regarding a larger set of standards. More complex research considers a range of governance standards against which the corporate governance qualities of the companies investigated are assessed. The selection of a set of governance standards introduces a subjective element into governance-ranking research. In addition researchers may attach different weight to them for the purposes of the ranking that underlies the studies, introducing further subjectivity.

Many of the studies that suggest that there is no link between corporate governance and performance focus on a single governance standard.<sup>32</sup> For several reasons, such a result is perhaps unsurprising. Similarly, research involving a ranking based on compliance with too many potentially insignificant governance standards may distort the finding of a link between certain 'core' standards and performance. It is therefore, believed that the most valuable research focuses on a relatively small set of governance standards and seeks to identify which standards are directly related to performance.

The most celebrated governance-ranking study, which supports the proposition that there is a link between the quality of corporate governance, measured in terms of shareholder rights, and performance was carried out by Gompers et al (2004). Based on an assessment of the governance of 1,500 US companies using 24 governance 'provisions' analysed by the Institutional Investors Research Center (IRRC) during the 1990s, the study found that if a fund had taken long positions in companies scoring in the top decile of their governance ranking and short positions in companies in the bottom decile, it would have outperformed the market by 8.5% per year throughout the 1990s.<sup>33</sup>



The research also supported the proposition that companies with a good governance ranking were higher valued and had higher profits than those with a bad ranking. Prior to Gompers et al, Millstein and MacAvoy (1998) had found that over five years, well-governed companies (identified on the basis of CalPERS ratings) outperformed by 7%.

Support for a link between good governance practice and shareholder returns was also found in research conducted by Governance Metrics International. Following on from the research by Gompers et al, Bebchuk et al (2004) investigated which of the 24 governance provisions tracked by the IRRC.<sup>34</sup>

There is a need for stronger tests to discern whether Corporate Governance and composition of board has any impact on a firm's financial performance. Hence, a research can be conducted regarding corporate governance has any impact on firm performance.

## Objectives

The broader objective of this research is

to understand the Corporate Governance processes of Indian Companies and to see the impact of Corporate Governance on the Financial Performance.

These objectives can be summarized as under;

- To understand the concept of corporate governance practices in true sense and in Indian context.
- To study the acceptance and implementation of corporate governance in Indian corporate.
- To study the corporate governance practices and measure in terms of corporate governance score
- To understand firm financial performance and corporate governance.
- To know the impact of corporate governance on financial performance.

## Perspectives:

The formulation of the study has been framed out from two perspectives :

- To evaluate the implementation of Corporate Governance Code by assessing corporate governance score
- To evaluate the financial performance of the sample company using various financial ratios.

## Assumptions:

The broader assumptions in the study are as under:

- H01 There is no significant difference in the Corporate Governance Score of selected Indian Companies.
- H02 There is no significant difference in the Corporate Governance Score among various sectors of the Indian companies.
- H03 There is a positive impact of Corporate Governance on the financial performance of the selected Indian companies.

## Methodology

As a part of this study, the researcher is required to calculate various scores in the area of financial performance and Corporate Governance.

- Ratios (For measuring the Financial Performance)

To evaluate a financial performance has been a difficult task for any researcher. However we have considered the following ratios as key financial performance indicator.

There are several parameters to evaluate any financial statement. However as the focus of the research is on Corporate Governance, the following financial parameters are considered. They are as under :

- i) EBT / Sales
- ii) Sales / Total Assets
- iii) Earning Per Share
- iv) P/E Multiple

- Questionnaire (For estimating Corporate Governance Code)

The present study aims to examine the governance practices prevailing in the corporate sector within the Indian regulatory framework. The study is conducted to assess governance practices and process followed by Indian corporate houses. The study also aims to assess the substance and quality of reporting of Corporate Governance practices in annual reports.

The study aims to evaluate the state of compliance of various governance parameters in these companies. The parameters include the Statutory and Non mandatory requirements stipulated by revised Clause 49 of the listing agreement as prescribed by Securities and Exchange Board of India (SEBI) and relative amendments in the Companies Act, 1956.

To arrive at a corporate governance score, several parameters are considered they are mentioned in the following table<sup>29</sup>.

No.	Governance Parameters	Points / Score Assigned	
1	Statement of Company's philosophy on code of governance		2
2	Structure and Strength of board		2
3	Chairman & CEO Duality	(Max)-->	5
	i Promoter Executive Chairman - Cum - MD / CEO	1	
	ii Non promoter Executive Chairman cum MD / CEO	2	
	iii Promoter Non Executive Chairman	3	
	iv Non Promoter Non Executive Chairman	4	
	v Non Executive Independent Chairman	5	
4	Disclosure of Tenure and Age limit of directors		2
5	Disclosure of :		3
	i Definition of Independent Director	1	
	ii Definition of Financial Expert	1	
	iii Selection Criteria of Board of Directors incl. independent directors	1	
6	Post Board meeting follow up system and compliance of the board procedures		2
7	Appointment of lead independent director		2
8	Disclosure of other provision as to the boards and committees		1
9	Disclosure of :		2
	i Remuneration Policy	1	
	ii Remuneration of Directors	1	
10	Code of Conduct		2
	i Information on Code of Conduct	1	
	ii Affirmation of compliance	1	
11	Board Committee		
	A Audit Committee		8
	i Transparency in composition of audit committee	1	
	ii Compliance of minimum requirement of the number of independent directors in the committee	1	
	iii Compliance of minimum requirement of the number of meetings of the committee.	1	

	iv	Information about literacy & expertise of committee members.	1	
	v	information about participation of head of finance, statutory auditor and chief internal auditor in the committee meeting	2	
	vi	Disclosure of audit committee charter and terms of reference	1	
	vii	Publishing of audit committee report	1	
	B	Remuneration / Compensation Committee		6
	i	Formation of the committee	1	
	ii	Information about number of committee meetings	1	
	iii	compliance of minimum requirement of number of non executive directors in the committee	1	
	iv	Compliance of the provision of independent director as a chairman of the committee	1	
	v	Information about participation of all members in the committee meeting	1	
	vi	Publishing of committee report	1	
	C	Shareholders' / Investors Grievance Committee		5
	i	Transparency in Composition of the committee	1	
	ii	Information about nature of complaints & queries received and disposed -item wise.	1	
	iii	Information about number of committee meetings	1	
	iv	information about action taken and investors/shareholders survey	1	
	v	publishing of committee report	1	
	D	Nomination Committee		2
		i) Formation of the Committee	1	
		ii) Publishing of committee charter and report	1	
	E	Health, Safety and Environment Committee		1
	F	Ethics and Compliance Committee		1
	G	Investment Committee		1
	H	Share Transfer Committee		1

12		Disclosure and Transparency		25
	a	Significant related party transactions having potential conflicts with the interest of the company	2	
	b	Non Compliance related to capital market matters during last three years	2	
	c	Accounting treatment	2	
	d	Board Disclosure - Risk Management		
		i) Information to the board on Risk Management	2	
		ii) Publishing of Risk Management Report	1	
	e	Management Discussion and Analysis	2	
	f	Shareholders' Information		
		i) Appointment of new director / re appointment of existing director	1	
		ii) Quarterly results and Presentation	1	
		iii) Share Transfers	1	
		iv) Directors Responsibility Statement	1	
	g	Shareholder Rights	2	
	h	Audit Qualification	2	
	i	Training of Board Members	2	
	j	Evaluation of Non-Executive Directors	2	
	k	Whistle Blower Policy	2	
13		General Body Meetings		3
	i	Location and time of general meetings held in last three years	1	
	ii	Details of Special Resolution passed in last three AGMs \ EGMs	1	
	iii	Details of resolution passed last year through postal ballot incl. conducting official and voting process	1	
14		Means of communication and General shareholder information		2
15		CEO / CFO Certification		2

16		Compliance of Corporate Governance and Auditors' Certificate		10
		Clean Certificate from Auditor	10	
		Qualified Certificate from auditors	5	
17		Disclosure of Stakeholders' interests :		10
	i	Environment, Health & Safety Measures (EHS)	2	
	ii	Human Resource Development Initiative (HRD)	2	
	iii	Corporate Social Responsibility (CSR)	2	
	iv	Industrial Relation (IR)	2	
	v	Disclosure of policies on EHS, HRD, CSR & IR	2	
		<b>TOTAL</b>		<b>100</b>

### Evaluation of Governance Standard.

After analysis of governance structure, process and disclosures made on corporate governance, the question comes to mind is what is the standard and quality of governance that has been achieved by various companies?

Score Range	Rank
86 – 100	Excellent
71 – 85	Very Good
56 – 70	Good
41 – 55	Average
Below 41	Poor

Considering the fact that there have been certain genuine difficulties because of non availability of inside information, no scope for discussion with key officials of these companies, their auditors – internal auditors, directors and major shareholders etc. as an alternative, it is developed as a working method, which is described in the above table. It was designed on the basis of Clause 49 of the listing agreement. This point based method gives weight-age to various components and ultimately, each of these companies has been awarded different points on key parameters.

## Selection of Sample

The study aims to focus on all companies which are part listed in Bombay Stock Exchange (BSE) and are part of BSE 100 index as on 1<sup>st</sup> April, 2008 as the work was started in the year 2008.

The selection of these companies is made on the ground that they are renowned players in various sectors and their scripts dominate and influence the stock market movement of the country. These companies are having a large basket of products.

As the research is based on the secondary data of publically listed company's annual report. The research is conducted by relying upon the published annual reports, for the year 2008-09 of these companies.

Out of BSE 100 companies <sup>30</sup>, there are following 10 companies which are not considered as a part of this sample because of various reasons like merger / take over, non availability of complete report etc. The companies which are not considered are as under:

Sr. No.	Company	Sector
1	BF Utilities Ltd	Power
2	I-Flex Solutions Ltd	Information Technology
3	Indiabulls Financial Services Ltd.	Finance
4	Indiabulls Real Estate Ltd.	Housing Related
5	Satyam Computer Services Ltd.	Information Technology
6	Union Bank of India	Finance
7	United Phosphorus Ltd.	Agriculture
8	Zee Entertainment Enterprises Ltd.	Media & Publishing
9	Indian Hotels Co Ltd.	Tourism
10	United Phosphorus Ltd.	Agriculture



Therefore the sample size of the study includes 90 companies as they fulfill the required criteria.

The sample for this study comprises 90 renowned corporate houses representing following the various sectors.

Sr. No.	Sector	No. of Companies
1	Capital Goods	08
2	Diversified	06
3	Finance	13
4	FMCG	05
5	Healthcare	07
6	Housing Related	08
7	Information Technology	07
8	Mining, Metal & Metal Products	08
9	Oil and Gas	11
10	Power	04
11	Telecom	05
12	Transport Equipments	08
	<b>Total</b>	<b>90</b>

## Limitations of Study

Despite of some efforts, there are several limitations of this study, they can be mentioned as under :

1. The study is conducted by depending upon the secondary sources of information
2. The study is limited to BSE 100 index companies as on 1<sup>st</sup> April, 2008 this indicated a reasonable sample size.
3. The Corporate Governance study is calculated by Score which can have a scope for further research.

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## Chapter: 4

### Analysis of Corporate Governance Practices

- Industry specific Analysis of Corporate Governance.
  - Capital Goods Industry
  - Diversified Industry
  - Finance Industry
  - FMCG Industry
  - Healthcare Industry
  - Housing Related Industry
  - Information Technology Industry
  - Metal, Metal Products & Mining Industry
  - Oil & Gas Industry
  - Power Industry
  - Telecom Industry
  - Transport Equipments Industry
- Summary of Corporate Governance score of various industries.

## Industry specific Analysis of Corporate Governance

### Capital Goods

The following companies represent the capital goods industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Capital goods industry.

*Table : 4.1: Sample Companies in Capital Goods Sector*

<b>Sr. No.</b>	<b>Company</b>	<b>Abbreviation</b>
1	ABB Ltd.	ABB
2	Bharat Electronics Ltd.	BEL
3	Bharat Heavy Electricals Ltd.	BHEL
4	Crompton Greaves Ltd.	CGL
5	Larsen & Toubro Limited	L&T
6	Punj LLOYd Ltd	PLL
7	Siemens Ltd.	Siemens
8	Suzlon Energy Ltd.	Suzlon

The summary of calculation for the corporate governance score for the Capital Goods Industry is as under.

Table : 4.2 : Corporate Governance Score for Capital Goods Sector

Criterion for Evaluation of Governance Standard for			CAPITAL GOODS - 08 - COMPANIES							
			INDUSTRY AVG : 63,				AGGREGATE AVG : 67			
No.	Governance Parameters	Points / Score Assigned	ABB	BEL	BHEL	CG	L&T	PL	Siemens	Suzlon
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2	2	2	2
3	Chairman & CEO Duality	5	4	2	2	3	2	1	4	1
4	Disclosure of Tenure and Age limit of directors	2	2	2	2	2	2	2	2	2
5	Disclosure of :	3	0	0	1	0	0	0	0	0
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	0	0	0	0	0	0
7	Appointment of lead independent director	2	0	0	0	0	0	0	0	0
8	Disclosure of other provision as to the boards and committees	1	1	1	1	1	1	1	1	1
9	Disclosure of :	2	2	1	1	1	2	1	1	1
10	Code of Conduct	2	2	2	2	2	2	2	2	2
11	Board Committee	25	15	10	16	15	16	15	15	16
12	Disclosure and Transparency	25	20	20	16	16	16	16	16	16
13	General Body Meetings	3	3	3	3	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	10	10	10	10	10
17	Disclosure of Stakeholders' interests :	10	2	0	2	0	0	0	2	2
TOTAL		100	69	59	64	61	62	59	64	62
COMPANY RANK →			1	5	2	4	3	5	2	3



**Capital Goods Industry - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the Capital Goods industry there are 8 sample units, while looking to the Corporate Governance, the first score point was statement of Company's philosophy on Corporate Governance and thus the point was assigned a weightage of 2 on a scale of 100. All 8 companies get the expected score of 2. On other hand all companies have sufficient disclosure of the statement of Company's philosophy on code of governance

However, ABB have better described Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board. The point was assigned a weightage of 2 on a scale of 100. All 8 companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman & CEO Duality

The appointment of Chairman of the board carries of critical importance. The third point describes about the duality of Chairman and CEO. The point assigned a weightage of total 5 points, which are assigned on the following basis.

*Table : 4.3: Criteria for determination of Points for Chairman & CEO*

Sr. No.	Particulars	Points
I	Promoter Executive Chairman - Cum - MD / CEO	1
Ii	Non promoter Executive Chairman cum MD / CEO	2
Iii	Promoter Non Executive Chairman	3
Iv	Non Promoter Non Executive Chairman	4
V	Non Executive Independent Chairman	5

No company among this sample is assigned a score of 5 as no company is having Non Executive Independent Chairman. However, Siemens and ABB have Non Promoter Non Executive Chairman hence are assigned a score of 4.

While, Punj Lloyd and Suzlon are assigned a score of 1 as they have Promoter Executive Chairman - Cum – Managing Director.

4. Disclosure of Tenure and Age limit of directors

In the Corporate Governance score, the fourth point was about Disclosure of Tenure and Age limit of directors. The point was assigned a weightage of 2 on a scale of 100. All 8 companies get the expected score of 2. All companies have sufficiently disclosed the tenure and age limit of Directors.

5. Disclosure of Definition and selection criteria for (Independent) Directors

In the Corporate Governance score, the fifth point was about the definition of 'Independent Director' and 'Financial Expert' and selection criteria for board members (including independent director). The point was assigned a weightage of 3 on a scale of 100. None of the companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director).

However, the definition of 'Independent Director' is available in the annual report of Bharat Heavy Electricals Ltd. (BHEL) hence it is assigned a score of 1 point. All companies (except BHEL) did not get any point.

6. Post Board meeting follow up system and compliance of the board procedures

In the Corporate Governance score, the sixth point was about disclosure of Post Board meeting follow up system and compliance of the board procedures. The point was assigned a weightage of 2 on a scale of 100. The systematic disclosures about the Post Board meeting follow up system are not sufficiently available in the annual report of the sample companies.

Hence, All 8 companies did not get any point in this section.

7. Appointment of lead independent director

In the Corporate Governance score, the seventh point was about the appointment of lead independent director. The point was assigned a weightage of 2 on a scale of 100. Among the sample, none of the companies have formally appointed lead independent director.

Hence, All 8 companies did not get any point in this section.

8. Disclosure of other provision as to the boards and committees

In the Corporate Governance score, the eighth point was about the disclosure of other provision as to the boards and committees. The point was assigned a weightage of 1 on a scale of 100. It is observed that all the companies have sufficiently disclosed about the various committees and sub-committees of the board.

Hence, All 8 companies get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

In the Corporate Governance score, the ninth point was about the disclosure of Remuneration Policy & Remuneration of Directors. The point was assigned a weightage of 2 on a scale of 100. The point was further equally divided into two points, ( i ) Disclosure of remuneration policy and (ii) Disclosure of remuneration to directors.

All companies have sufficiently disclosed about remuneration to directors. The remuneration policy of ABB is sufficiently disclosed in the annual report.

Hence, all companies (except ABB) did not get any point in this section.

However, ABB gets the score of 1.

10. Code of Conduct

In the Corporate Governance score, the tenth point was about the code of conduct. The point was assigned a weightage of 2 on a scale of 100. The point was further equally divided into two points,

- (i) Information on Code of Conduct and
- (ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies have sufficiently disclosed about both the above points.

Hence, All 8 companies get expected score of 2.

#### 11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point is assigned a weightage of 25 on a scale of 100. The classification of the point is as under.

*Table : 4.4 Criteria for Determination of points for Board Committees*

Sr. No.	Particulars	Points
I	Audit Committee	8
II	Remuneration Committee	6
III	Shareholders' / Investors Grievance Committee	5
IV	Nomination Committee	2
V	Other Committees	4
	Total	25

##### a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is further classified as under.

*Table : 4.5 Criteria for Determination of points for Audit Committees*

Sr. No.	Particulars	Points
I	Transparency in composition of audit committee	1
Ii	Compliance of minimum requirement of the number of independent directors in the committee	1
Iii	Compliance of minimum requirement of the number of meetings of the committee.	1
Iv	Information about literacy & expertise of committee members.	1
v	Information about participation of head of finance, statutory auditor and chief internal auditor in the committee meeting	2
vi	Disclosure of audit committee charter and terms of reference	1
vii	Publishing of audit committee report	1
	<b>Total</b>	<b>8</b>

It is observed that all companies have made sufficient disclosure about the audit committee.

However, none of among the sample companies, has published Audit Committee Report in the annual report.

Hence, All 8 companies get expected score of 7.

b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6.

It is further classified as under.

*Table:4.6 Criteria for Determination of points for Remuneration Committee*

Sr. No.	Particulars	Points
i	Formation of the committee	1
ii	Information about number of committee meetings	1
iii	compliance of minimum requirement of number of non executive directors in the committee	1
iv	Compliance of the provision of independent director as a chairman of the committee	1
v	Information about participation of all members in the committee meeting	1
vi	Publishing of committee report	1
	<b>Total</b>	<b>6</b>

It is observed that all companies, except Bharat Electronics Ltd. have formed the committee. They have also disclosed sufficiently about point No. i to v.

However, none of among the sample companies has published Remuneration Committee Report in the annual report.

It is observed that Bharat Electronics Ltd (BEL) have not formed the Remuneration / Compensation Committee.

Hence, All companies (except BEL) get the score of 5. However, BEL gets the ZERO score in this section.

c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is further classified as under.

*Table:4.7 Criteria for Determination of points for Shareholders / Investors Grievances Committee*

Sr. No.	Particulars	Points
i	Transparency in Composition of the committee	1
ii	Information about nature of complaints & queries received and disposed.	1
iii	Information about number of committee meetings	1
iv	information about action taken and investors/shareholders survey	1
iv	publishing of committee report	1
	Total	5

It is observed that all the sample companies have formed the committee and have sufficiently disclosed about point i to iii.

However, none of the sample companies have published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies.

Hence, all companies get the score of 3.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. The point was further equally divided into two points,

- (i) Formation of the Committee and
- (ii) Publishing of committee charter and report.

It is observed that none of the sample companies – except Larsen & Toubro Ltd. (L&T) have formed this committee.

However, none of the sample companies have published charter and report of this committee.

Hence, all companies except L&T get the ZERO score. L&T gets the score of 1.

e. Other Committees

The formation of other committees is assigned a weightage of 4. It is further classified as under.

*Table : 4.8 Criteria for determination of Points for Other Committees*

Sr. No.	Particulars	Points
I	Health, Safety and Environment Committee	1
ii	Ethics and Compliance Committee	1
Iii	Investment Committee	1
Iv	Share Transfer Committee	1
	<b>Total</b>	<b>4</b>

It is observed that following committees are not formed by any of the sample companies.

- i) Health Safety and Environment Committee,
- ii) Ethics and Compliance committee and
- iii) Investment Committee

However, Share Transfer Committee is formed by Bharat Heavy Electricals Ltd. (BHEL) and Suzlon Energy Ltd. (Suzlon).

Hence, all companies except BHEL and Suzlon gets ZERO score. The BHEL and Suzlon gets the score of 1.

## 12. Disclosure and Transparency

In the Corporate Governance score, the twelfth point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25 on a scale of 100. The classification of the point is as under.

*Table : 4.9 Determination of points for Disclosure and Transparency*

Sr. No.	Particulars	Points
I	Significant related party transactions having potential conflicts with the interest of the company	2
II	Non Compliance related to capital market matters during last three years	2
III	Accounting Treatment	2
IV	Board Disclosure - Risk Management	3
V	Management Discussion and Analysis	2
VI	Shareholders' Information	4
VII	Shareholder Rights	2
VIII	Audit Qualification	2
IX	Training of Board Members	2
X	Evaluation of Non-Executive Directors	2
XI	Whistle Blower Policy	2
	Total	25

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.
- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.

- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) None of the sample companies have published rights of the share holders as a part of their annual report.
- viii) All sample companies are clear from any audit qualification.
- ix) ABB Ltd and Bharat Electronics Ltd. have given information about the training to board members. However, it is not given by other sample companies.
- x) None of the sample companies have given information about the system of Evaluation of Non Executive Directors.
- xi) ABB Ltd and Bharat Electronics Ltd. (BEL) have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, all companies except ABB and BEL gets the score of 16. ABB and BEL gets the score of 20.

### 13. General Body Meetings

The Thirteenth score point was disclosure about the General Body Meetings thus the point was assigned a weightage of 3 on a scale of 100. This point is further equally divided into the disclosure regarding the following :

- i) Location and time of general meetings held in last three years
- ii) Details of Special Resolution passed in last three AGMs \ EGMs
- iii) Details of resolution passed last year through postal ballot including conducting official and voting process

All 8 companies have sufficiently disclosed about the above points in the annual report.

Hence, all 8 companies get the expected score of 3.



14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information. This point was assigned a weightage of 2 on a scale of 100.

All 8 companies have sufficiently disclosed about the point in the annual report.

Hence, all 8 companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO for the corporate governance. This point was assigned a weightage of 2 on a scale of 100.

It is observed that all 8 companies have certification from CEO \ CFO.

Hence, all 8 companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate. This point was assigned a weightage of 10 on a scale of 100. The companies who have clean certification can be assigned 10 points, whereas companies who do not have a clean certification are assigned 5 points. It is observed that all 8 companies have clean certificate from auditor. Hence, all 8 companies get the expected score of 10.

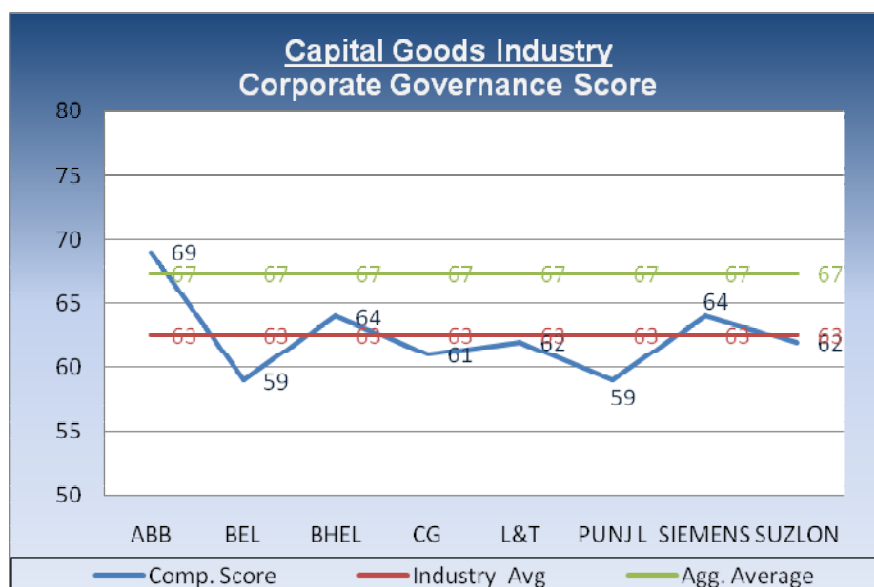
17. Disclosure of Stakeholders' interests :

The Seventeenth score point was about the disclosure of the stakeholders' interest. This point was assigned a weightage of 10 on a scale of 100. These points are divided equally to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. The disclosure about all items except Corporate Social Responsibility are not adequately provided in the report. The information regarding Corporate Social Responsibility is not adequately provided in the report of BEL, CG, L&T and PL. However, the information regarding CSR is adequately provided in the report of ABB, BHEL, Siemens and Suzlon. Hence, ABB, BHEL Siemens and Suzlon are getting a score of 2. However, BEL, CG, L&T and PL get ZERO score. The capital goods score of the all companies in the Capital Goods Industry can be summarized with the help of following graph as under.

**Graph : 4.1 : Corporate Governance score Capital Goods Industry**



Hence, ABB Ltd. gets highest score of 69 whereas Punj Lloyd gets the lowest score of 59 in the Capital Goods industry. It can be also been analyzed that that the Industry Average Score of Capital Goods Industry (63) is LOWER than the Aggregate Average Score of all Industries.

## Diversified Industry

The following companies represent the Diversified industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Diversified industry.

*Table : 4.10 : Sample Companies in Diversified Sector*

Sr. No.	Company	Abbreviation
1	Adani Enterprises Ltd.	AEL
2	Aditya Birla Nuvo Limited	ABNL
3	Century Textiles Ind ltd.	CTL
4	GMR Infrastructure Ltd.	GMR
5	Grasim Industries Ltd.	GIL
6	Tata Chemicals Ltd.	TCL

In the diversified sector / industry, there are 6 sample units, for calculating the corporate governance score.

As mentioned in earlier, the calculation of corporate governance score is based upon various parameters. The same parameters are applied for calculation of corporate governance score for all the sectors.

Hence the detailed explanation of various parameters and sub-points are same for all sectors.

The summary of calculation for the corporate governance score for the Diversified sector is as under.

Table : 4.11 Corporate Governance Score for Diversified Sector

Criterion for Evaluation of Governance Standard for			DIVERSIFIED - 06 COMPANIES					
			INDUSTRY AVG : 66, AGGREGATE AVG : 67					
No.	Governance Parameters	Points	Adani	AB Nuvo	Century	GMR Infra	Grasim	Tata Chem
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2	2
3	Chairman & CEO Duality	5	1	1	3	1	3	3
4	Disclosure of Tenure and Age limit of directors	2	2	2	2	2	2	2
5	Disclosure of :	3	0	0	0	0	0	0
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	0	0	0	0
7	Appointment of lead independent director	2	0	0	0	0	0	0
8	Disclosure of other provision as to the boards & committees	1	1	1	1	1	1	1
9	Disclosure of :	2	2	2	2	2	1	2
10	Code of Conduct	2	2	2	2	2	2	2
11	Board Committee	25	16	10	10	15	11	16
12	Disclosure and Transparency	25	22	18	18	20	18	20
13	General Body Meetings	3	3	3	3	3	3	3
14	Means of communication and General shareholder info	2	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	10	10	10
17	Disclosure of Stakeholders' interests :	10	4	0	2	4	6	4
	TOTAL	100	71	57	61	68	65	71
	COMPANY RANK →		1	5	4	2	3	1

**Diversified Industries - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the Diversified sector there are 6 sample units, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance. All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All 6 companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. No company among this sample is assigned a score of 5 as no company is having Non Executive Independent Chairman. However, Siemens and Century, Grasim and Tata Chemicals have Promoter Non Executive Chairman hence are assigned a score of 3. While Adani, Aditya Birla Nuvo and GMR Infra are assigned a score of 1 as they have Promoter Executive Chairman - Cum – Managing Director.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. All 6 companies get the expected score of 2. All companies have sufficiently disclosed the tenure and age limit of Directors.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. None of the companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director).

6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies. Hence, none of the sample companies could get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, none of the companies have formally appointed lead independent director. Hence, none of the sample companies could get any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees carries a weightage of 1. It is observed that all the companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. All companies (Except Grasim) have sufficiently disclosed about remuneration to directors and remuneration policy. However, Grasim has not sufficiently disclosed the remuneration policy in the annual report. Hence, all companies (except Grasim) get 2 points whereas Grasim is awarded 1 point.

10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

- (i) Information on Code of Conduct and
- (ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2.

#### 11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

<b>Sr. No.</b>	<b>Particulars</b>	<b>Points</b>
I	Audit Committee	8
Ii	Remuneration Committee	6
Iii	Shareholders' / Investors Grievance Committee	5
Iv	Nomination Committee	2
V	Other Committees	4
	Total	25

##### a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. However, none of among the sample companies, have published Audit Committee Report in the annual report Hence, All companies get expected score of 7.

##### b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6.

It is observed that three of the sample companies (Adani, GMR and Tata Chemicals) have formed the committee. They have also made sufficient disclosure. Whereas remaining companies have not formed the committee.

However, none of among the sample companies has published Remuneration Committee Report in the annual report.

It is observed that Aditya Birla Nuvo, Century and Grasim have not formed the Remuneration / Compensation Committee.

Hence, Adani, GMR and Tata Chemicals get the score of 5. However, remaining three sample companies get the ZERO score in this section.

c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, none of the sample companies have published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies. Hence, all companies except Century get the score of 3. In case of Century the information about number of committee meetings is not available it is awarded 2 points.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that none of the sample companies have formed this committee. Hence, all companies get the ZERO score.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier.

It is observed that following committees are not formed by any of the sample companies.

- ii) Ethics and Compliance committee and
- iii) Investment Committee

However, Share Transfer Committee is formed by Adani and Century. Health safety and environment committee is formed by Grasim. Hence, all companies except Adani, Century and Grasim gets ZERO score. The Adani, Century and Grasim gets the score of 1.

12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.



It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.
- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) None of the sample companies have published rights of the share holders as a part of their annual report.
- viii) All sample companies are clear from any audit qualification.
- ix) Adani have given information about the training to board members. However, it is not given by other sample companies.
- x) None of the sample companies have given information about the system of Evaluation of Non Executive Directors.
- xi) Adani, GMR and Tata Chemicals have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, all companies except Adani, GMR and Tata Chemicals gets the score of 16. Tata Chemicals and GMR gets the score of 20. Whereas Adani gets a score of 22.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies have clean certificate from auditor. Hence, all companies get the expected score of 10.

17. Disclosure of Stakeholders' interests :

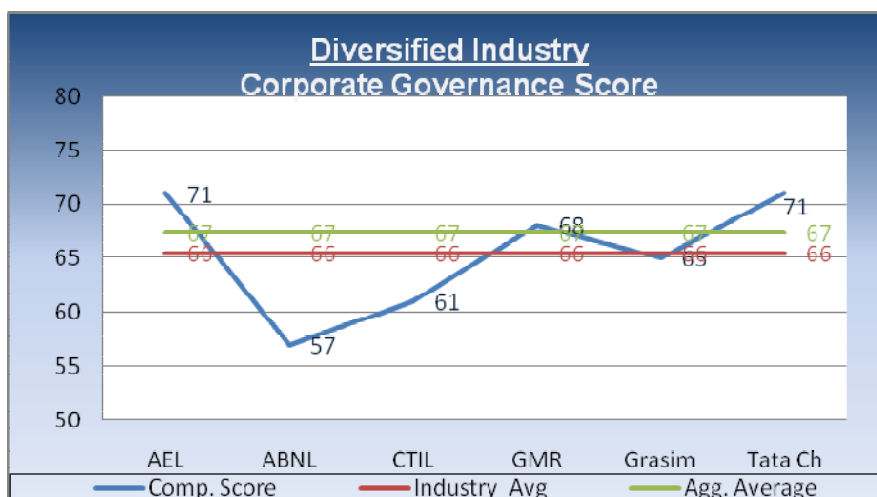
The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. These points are divided equally to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. The disclosure and employees health and safety is adequately provided in Grasim. The HRD related activities are adequately mentioned in all sample companies (except Aditya Birla Nuvo), The disclosure about Corporate Social Responsibility are adequately provided in the report of all sample companies (except Century and Aditya Birla Nuvo). The information regarding IR and HRS etc are not adequately provided in the report of all sample companies. Therefore , Adani, Grasim and Tata Chemicals get the score of 4 whereas Century gets a score of 2 and Aditya Birla Nuvo gets a ZERO score.

The score of the all companies in the Diversified Industry can be summarized with the help of following graph

*Graph : 4.2 : Corporate Governance score Diversified Industry*



Hence, Adani Enterprise Ltd and Tata Chemicals Ltd. gets highest score of 71 whereas Aditya Birla Nuvo Ltd. gets the lowest score of 57 in the Diversified industry. It can be also been analyzed that that the Industry Average Score of Diversified Industry (66) is LOWER than the Aggregate Average Score of all Industries.

## Finance Industry

The following companies represent the Finance industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Finance industry.

*Table : 4.12 : Sample Companies in Financial Services and Banking Sector*

Sr. No.	Company	Abbreviation
1	AXIS Bank Ltd.	AXIS
2	Bank of Baroda	BOB
3	Bank Of India	BOI
4	HDFC	HDFC
5	HDFC Bank Ltd.	HDFCB
6	ICICI Bank Ltd.	ICICI
7	Industrial Dev Bank of India	IDBI
8	Infrastructure Dev Fin. Co. Ltd.	IDFC
9	Kotak Mahindra Bank Ltd.	KMB
10	Power Finance Corporation Ltd	PFC
11	Punjab National Bank	PNB
12	Reliance Capital Ltd.	RCL
13	State Bank of India	SBI

The summary of calculation for the corporate governance score for the Finance Industry is as under.

Table : 4.13 Corporate Governance Score for Financial Services and Banking Sector

Criterion for Governance Standard			FINANCE AND RELATED - 13 COMPANIES												
			Industry Average : 70 :						Aggregate Average : 67						
No.	Governance Parameters	POINTS	AXIS	BOB	BOI	HDFC	HDFC B	ICICI	IDBI	IDFC	KMB	PFC	PNB	RCL	SBI
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2	2	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2	2	2	2	2	2	2	2	2
3	Chairman & CEO Duality	5	2	2	2	2	2	5	2	5	5	2	2	3	2
4	Disclosure of Tenure and Age limit of directors	2	2	2	2	2	2	2	2	2	2	2	2	2	2
5	Disclosure of :	3	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	0	0	2	0	0	0	0	0	0	0	0
7	Appointment of lead independent director	2	0	0	0	0	2	0	0	0	0	0	0	1	0
8	Disclosure of other provision as to the boards and committees	1	1	1	1	1	1	1	1	1	1	1	1	1	1
9	Disclosure of :	2	1	1	1	1	1	2	2	2	2	2	1	2	1
10	Code of Conduct	2	2	2	2	2	2	2	2	2	2	2	2	2	2
11	Board Committee	25	17	18	16	19	19	19	12	15	18	10	16	16	10
12	Disclosure and Transparency	25	22	22	16	18	24	24	18	18	24	20	16	22	20
13	General Body Meetings	3	3	3	3	3	3	3	3	3	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2	2	2	2	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2	2	2	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	10	10	10	10	10	10	10	10	10	10
17	Disclosure of Stakeholders' interests :	10	2	2	2	4	4	4	0	4	4	6	4	6	2
	TOTAL	100	70	71	63	70	80	80	60	70	79	66	65	76	61
	Company Rank	→	5	4	8	5	1	1	10	5	2	6	7	3	9

***Financial Services and Banking Industry- Analysis of Corporate Governance Score***

1. Statement of Company's philosophy on code of governance:

In the Financial Services sector there are 13 sample units, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance. All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. ICICI, IDFC and KMB are having Non Executive Independent Chairman therefore, they are assigned a score of 5. RCL is having a Promoter Non Executive Chairman hence it is assigned a score of 3. While remaining companies are assigned a score of 2 as they have Non Promoter Executive Chairman.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. All sample companies get the expected score of 2. All companies have sufficiently disclosed the tenure and age limit of Directors.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. None of the companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director). Therefore all companies are assigned ZERO in it.

6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies. Hence, none of the sample companies could get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, none of the companies (except HDFC Bank) have formally appointed lead independent director. Hence, only HDFC Bank can score 2 points and none of the other sample companies could get any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees carries a weightage of 1. It is observed that all the companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. ICICI, IDBI, IDFC, KMB, PFC and RCL have sufficiently disclosed about remuneration to directors and remuneration policy. However, remaining samples companies has not sufficiently disclosed the remuneration policy in the annual report. Hence, ICICI, IDBI, IDFC, KMB, PFC and RCL get 2 points whereas remaining samples companies are awarded 1 point.

10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

- (i) Information on Code of Conduct and
- (ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2.

#### 11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

<b>Sr. No.</b>	<b>Particulars</b>	<b>Points</b>
I	Audit Committee	8
Ii	Remuneration Committee	6
Iii	Shareholders' / Investors Grievance Committee	5
Iv	Nomination Committee	2
V	Other Committees	4
	Total	25

##### a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. However, none of among the sample companies, have published Audit Committee Report in the annual report Hence, All companies get expected score of 7.

##### b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6.

It is observed that all of the sample companies (except SBI & PFC) have formed the committee. BOI and IDBI have not sufficiently disclosed details about the committee. However, none of among the sample companies (except HDFC) has published Remuneration Committee Report in the annual report.

It is observed that PFC and SBI have not formed the Remuneration / Compensation Committee.

Hence, HDFC Bank get a score of 6. AXIS, BOB, HDFCB, ICICI, IDFC, KMB, PNB and RCL get the score of 5. BOI get a score of 3,



IDBI get a score of 1. However, PNB and SBI three sample companies get the ZERO score in this section.

c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, none of the sample companies have published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies (except HDFC).

Hence, all companies except HDFC get the score of 3. In case of HDFC the report about committee is available it is awarded 4 points.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that IDBI, IFC, PFC and SBI have not formed this committee. Hence, they get the ZERO score. Remaining sample companies have formed the committee but their charter and reports are not available, hence they get a score of 1.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier.

It is observed that following Health Safety and Environment committees are not formed by any of the sample companies.

Ethics and Compliance committee is formed by HDFCB and ICICI bank.

Investment Committee is formed by AXIS, BOB, BOI HDFCB, ICICI, IDBI and KMB. Share Transfer Committee is formed by BOB, BOI, HDFCB, ICICI and KMB. Hence, HDFC, IDFC, PFC, PNB, RCL and SBI gets ZERO score. HDFCB and ICICI gets a score of 3, BOB, BOI and KMB gets a score of 2 and IDBI and Axis gets a score of 1.

## 12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.
- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) HDFC, HDFCB, ICICI KMB, RCL and SBI have published rights of the share holders as a part of their annual report. Remaining sample companies have not published the same.
- viii) All sample companies are clear from any audit qualification.
- ix) Seven sample companies have given information about the training to board members. However, it is not given by remaining sample companies.
- x) AXIS, BOB, HDFCB, ICICI and KMB have given information about the system of Evaluation of Non Executive Directors. Remaining players have not provided the same information.
- xi) All companies except BOI, HDFC and PNB have given information about the Whistle Blower Policy.

Hence, HDFCB, ICICI and KMB gets a score of 24, AXIS, BOB and RCL gets a score of 22, PFC and SBI gets 20, HDFC IDBI and IFC gets 18 and PNB and BOI gets 16.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies have clean certificate from auditor. Hence, all companies get the expected score of 10.

17. Disclosure of Stakeholders' interests :

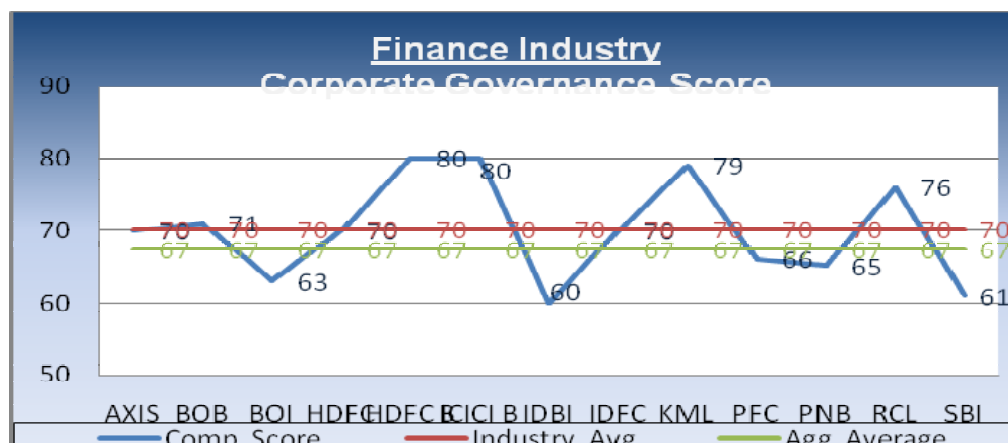
The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. These points are divided to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. The disclosure and employees health and safety is adequately provided in PFC and RCL. The HRD related activities are adequately mentioned in all sample companies (except IDBI), The disclosure about Corporate Social Responsibility are adequately provided in the report of all sample companies (except AXIS, BOB, BOI and IDBI). The information regarding IR and HRS etc are not adequately provided in the report of all sample companies. Therefore , PFC and RCL gets a score of 6, HDFC, HDFCB, ICICI, IDFC, KMB and PNB get the score of 4 whereas AXIS, BOB, BOI and SBI gets a score of 2 and IDBI gets a ZERO score.

The score of the all companies in the Banking and financial service industry can be summarized with the help of following graph

*Graph : 4.3 : Corporate Governance score Financial Services Industry*



Hence, HDFCB, ICICI, gets highest score of 80 whereas IDBI gets the lowest score of 60. The industry Average Score of Financial and Banking industry (70) is higher than the Aggregate Average Score of all Industries.

## FMCG Industry

The following companies represent the capital goods industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the FMCG (Fast Moving Consumer Goods) industry.

*Table : 4.14 Sample Companies in FMCG Sector*

Sr. No.	Company	Abbreviation
1	Hindustan Unilever Ltd.	HUL
2	ITC Ltd.	ITC
3	Nestle India Ltd.	NIL
4	Tata Tea Ltd.	TTL
5	United Spirits Ltd.	USL

The summary of calculation for the corporate governance score for the FMCG Industry is as under.

*Table : 4.15 Corporate Governance Score for FMCG Sector*

Criterion for Evaluation of Governance Standard		Points	Industry Avg: 71, Agg. Avg: 67				
No.	Governance Parameters		HUL	ITC	Nes	T TL	USL
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2
3	Chairman & CEO Duality	5	3	2	1	3	3
4	Disclosure of Tenure and Age limit of directors	2	2	2	0	0	0
5	Disclosure of Definitions of experts and directors	3	0	0	0	0	0
6	Post Board meeting follow up system and compliance of the board procedures	2	0	2	0	0	0
7	Appointment of lead independent director	2	0	0	0	0	0
8	Disclosure of other provision as to the boards and committees	1	0	0	0	0	0
9	Disclosure of :	2	2	2	2	2	2
10	Code of Conduct	2	2	2	2	2	2
11	Board Committee	25	15	15	10	19	16
12	Disclosure and Transparency	25	18	24	23	21	15
13	General Body Meetings	3	3	3	3	3	2
14	Means of communication and General shareholder information	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	10	10
17	Disclosure of Stakeholders' interests :	10	8	8	8	8	4
TOTAL		100	71	78	67	76	62
COMPANY RANK →			3	1	4	2	5

**FMCG Sector - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the FMCG sector there are 5 sample units, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance. All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. No company among this sample is assigned a score of 5 as no company is having Non Executive Independent Chairman. However, TTL, HUL and USL have Promoter Non Executive Chairman hence are assigned a score of 3. While ITC have promoter Executive Chairman and is assigned a score of 2. Whereas Nestle have Promoter Executive Chairman and is assigned a score of 1.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. HUL and ITC get the expected score of 2. The Remaining samples companies have not sufficiently disclosed the tenure and age limit of Directors hence, they get a ZERO in it.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. None of the companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director).

6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies (Except ITC). Hence, ITC gets a score of 2 where as other sample companies could get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, none of the companies have formally appointed lead independent director. Hence, none of the sample companies could get any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees carries a weightage of 1. It is observed that none of the companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies do not get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. All companies have sufficiently disclosed about remuneration to directors and remuneration policy. Hence, all companies get 2 points.

10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

- (i) Information on Code of Conduct and
- (ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2.

### 11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

<b>Sr. No.</b>	<b>Particulars</b>	<b>Points</b>
I	Audit Committee	8
ii	Remuneration Committee	6
iii	Shareholders' / Investors Grievance Committee	5
iv	Nomination Committee	2
V	Other Committees	4
	Total	25

#### a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. The TTL and USL have sufficiently disclosed committee charter and terms of reference. However, none of among the sample companies, have published Audit Committee Report in the annual report. Hence, TTL and USL get expected score of 7, the remaining sample companies get a score of 6.

#### b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6.

It is observed that four of the sample companies (HUL, ITC TTL and USL) have formed the committee. They have also made sufficient disclosure. Whereas NIL have not formed the committee.

However, none of among the sample companies has published Remuneration Committee Report in the annual report.

Hence, HUL, ITC TTL and USL get the score of 5. However, NIL get the ZERO score in this section.



c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, none of the sample companies have published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies.

Hence, all companies except Century get the score of 3.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that none of the sample companies (except TTL have formed this committee). Hence, all companies (except TTL) get the ZERO score. Whereas TTL gets a score of 2.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier.

It is observed that following committees are not formed by any of the sample companies.

i) Health , Safety and Environment and,

ii) Investment Committee

However, Share Transfer Committee is formed by all sample companies. Ethics and Compliance committee is formed by TTL.

Hence, all companies except TTL gets a score of 1 whereas TTL gets a score of 2.

12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.
- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) All the sample companies have published rights of the shareholders as a part of their annual report.
- viii) All sample companies (except HUL and USL) are clear from any audit qualification.
- ix) ITC and NIL have given information about the training to board members. However, it is not given by other sample companies.
- x) ITC and NIL have systematically informed about evaluation of Non Executive Director, HUL and TTL have partially disclosed about the system of Evaluation of Non Executive Directors. Whereas USL have not disclosed about it.
- xi) HUL, ITC, NIL and TTL have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, ITC gets a highest score of 24, NIL gets a score of 23, TTL gets a score of 21, HUL gets a score of 15 and USL gets a lowest score of 15.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies (except USL) have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, USL gets a score of 2, whereas remaining sample companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies have clean certificate from auditor. Hence, all companies get the expected score of 10.

17. Disclosure of Stakeholders' interests :

The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. These points are divided equally to the following.

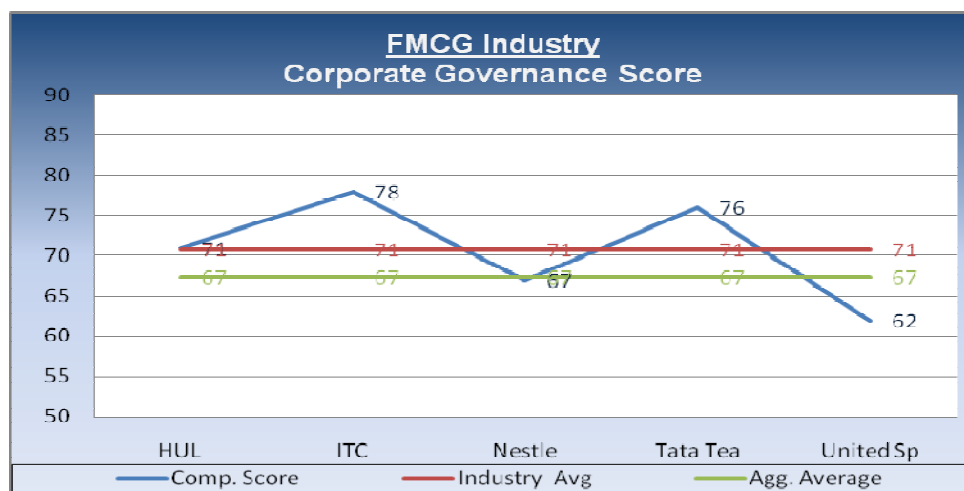
- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)

- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. EHS, HRD, CSR & IR policies are not disclosed adequately in the report of any sample companies. All sample companies (except USL) have sufficiently provided details about CSR and IR. Whereas EHS and HRD related activities are adequately mentioned in all sample companies. Therefore, HUL, ITC NIL and TTL gets the score of 8 whereas USL gets a score of 4.

The score of the all companies in the Diversified Industry can be summarized with the help of following graph

*Graph : 4.4 : Corporate Governance score FMCG Industry*



Hence, ITC gets highest score of 78 whereas USL gets the lowest score of 62. The Industry Average Score of FMCG Industry (71) is higher than the Aggregate Average Score of all Industries.

## Healthcare Industry

The following companies represent the Healthcare industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Healthcare industry.

*Table : 4.16 Sample Companies in Healthcare Sector*

Sr. No.	Company	Abbreviation
1	Cipla Ltd.	CIL
2	Divi's Laboratories Ltd.	DLL
3	Dr Reddy's Laboratories Ltd.	DRL
4	GlaxoSmithKline Pharmaceuticals Ltd.	GSK
5	Glenmark Pharmaceuticals Ltd.	GPL
6	Ranbaxy Laboratories Ltd.	RLL
7	Sun Pharmaceutical Inds Ltd.	SPL

The calculation of the corporate governance score for the Healthcare Industry is as under.

*Table : 4.17 Corporate Governance Score for Healthcare Sector*

No.	Criterion for Evaluation	Points	Industry Average :67, Aggregate Average : 67						
			Cipla	Divi	DRL	GSK	Glenmark	Ranbaxy	Sun Ph
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2	2	2
3	Chairman & CEO Duality	5	1	1	1	4	3	1	1
4	Disclosure of Tenure and Age limit of directors	2	2	2	2	2	2	2	2
5	Disclosure of :	3	0	0	1	1	0	0	0
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	2	2	0	0	2
7	Appointment of lead independent director	2	0	0	2	2	2	0	0
8	Disclosure of other provision as to the boards and committees	1	1	1	1	1	1	1	1
9	Disclosure of :	2	1	1	1	2	1	2	1
10	Code of Conduct	2	2	2	2	2	2	2	2
11	Board Committee	25	10	15	19	18	15	15	10
12	Disclosure and Transparency	25	16	18	24	21	16	22	18
13	General Body Meetings	3	3	3	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	10	10	10	10
17	Disclosure of Stakeholders' interests :	10	0	2	6	4	0	4	0
	TOTAL	100	54	63	82	80	63	70	58
	Rank →		6	4	1	2	4	3	5

**Healthcare Industry - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the Healthcare sector there are 7 sample units, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance. All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. No company among this sample is assigned a score of 5 as no company is having Non Executive Independent Chairman. GSK have Non Promoter Non Executive Chairman hence it is assigned a score of 4. GPL have Promoter Non Executive Chairman hence it is assigned a score of 3. However, remaining all sample companies are having Promoter Executive Chairman hence, they are assigned a score of 1.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. All sample companies get the expected score of 2.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. GSK and DRL have disclosed selection criteria for independent directors. However, none of the sample companies have disclosed definition of 'Financial Expert'

and selection criteria for board members (including independent director). Hence, GSK and DRL are assigned a score of 1 where as other sample companies get Zero.

6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies (Except DRL, GSK and SPL). Hence, this three sample companies get a score of 2 where as other sample companies could get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, three companies, DRL, GSK and GPL have formally appointed lead independent director. Hence, these three companies get expected score of 2 where as other sample companies could not get any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees carries a weightage of 1. It is observed that all of the companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. All companies have sufficiently disclosed about remuneration to directors. However, remuneration policy is sufficiently disclosed in GSK and RLL. Hence, these two companies get a score of 2. Other sample companies get an expected score of 1 point.



10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

- (i) Information on Code of Conduct and
- (ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2.

11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

Sr. No.	Particulars	Points
I	Audit Committee	8
ii	Remuneration Committee	6
iii	Shareholders' / Investors Grievance Committee	5
iv	Nomination Committee	2
V	Other Committees	4
	Total	25

a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. All sample companies have sufficiently disclosed committee charter and terms of reference. However, two companies, DRL and GSK, have published Audit Committee Report in the annual report. Hence, DRL and GSK get expected score of 7, the remaining sample companies get a score of 6.

b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6.

It is observed that all companies (except Cipla and Sun Pharma) the have formed the committee. They have also made sufficient disclosure.

DRL and GSK have published Remuneration Committee Report in the annual report.

Hence, DLL, GPL and RLL get the score of 5. However, DRL and GSK get the score of 7. Whereas Cipla and Sun Pharma gets Zero in this section.

c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies (except GSK) have formed the committee. However, none of the sample companies have published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies.

Hence, all companies except GSK get the score of 3.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that none of the sample companies (except GSK have formed this committee). Hence, all companies (except GSK) get the ZERO score. Whereas GSK gets a score of 2.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier.

It is observed that following committees are not formed by any of the sample companies.

i) Health , Safety and Environment and,

ii) Share Transfer Committee

However, Ethics and Compliance Committee and Investment Committee are formed by two sample companies, DRL and GSK. Hence, all companies except DRL and GSK gets a score of 2 whereas Zero to others.

## 12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.
- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company (Except GSK) has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) DRL RLL and SPL have published rights of the share holders as a part of their annual report whereas other players have not done it.
- viii) All sample companies are clear from any audit qualification.
- ix) DRL and GSK have given information about the training to board members. However, it is not given by other sample companies.
- x) DLL, DRL and RLL have systematically informed about evaluation of Non Executive Director, Whereas other companies have not disclosed about it.

- xi) DLL, DRL & RLL have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, DRL gets a highest score of 24, RLL gets a score of 22, GSK gets a score of 21, SPL and DLL gets a score of 18 and Cipla and Glenmark gets a lowest score of 16.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all sample companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies have clean certificate from auditor. Hence, all companies get the expected score of 10.

17. Disclosure of Stakeholders' interests :

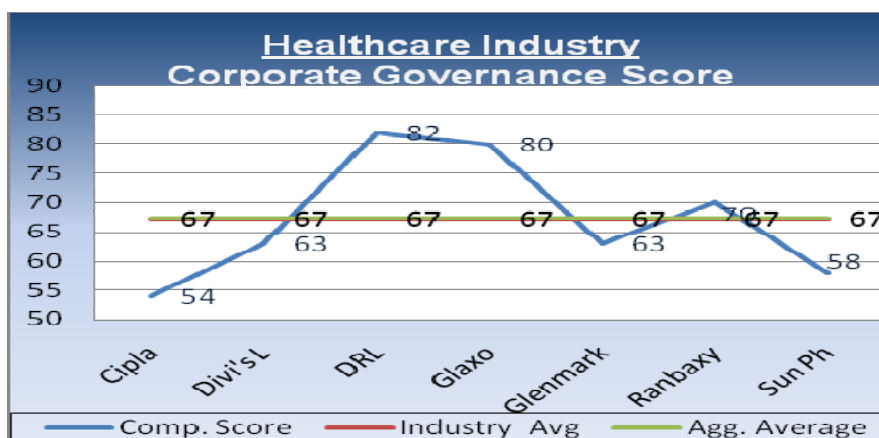
The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. These points are divided equally to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. IR policies are not sufficiently disclosed adequately in the report of any sample companies. RLL have sufficiently disclosed about EHS. HRD is sufficiently described in annual report of DRL, GSK and RLL. CSR is adequately described in DLL, DRL and GSK. Whereas, disclosure of policies on EHS, HRD, CSR & IR are adequately mentioned in annual report of DRL. Therefore, DRL gets the score of 6, GSK and RLL gets a score of 4, DLL gets a score of 2 and remaining sample companies get Zero in this section.

The score of the all companies in the Diversified Industry can be summarized with the help of following graph

Graph : 4.5 : Corporate Governance score Healthcare Industry



Hence, DRL gets highest score of 82 whereas Cipla gets the lowest score of 54. The Industry Average Score of Healthcare Industry (67) is equal to the Aggregate Average Score of all Industries.

## Housing Related Industry

The following companies represent the Housing Related industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Housing Related industry.

*Table : 4.18 Sample Companies in Housing Related Sector*

Sr. No.	Company	Abbreviation
1	ACC Ltd.	ACC
2	Ambuja Cements Ltd.	ACL
3	DLF Ltd.	DLF
4	India Cements Ltd.	ICL
5	IVRCL Infra & Projects Ltd.	IIL
6	Jaiprakash Associates Ltd.	JAL
7	Ultratech cement limited	UCL
8	Unitech Ltd.	UNL

The calculation of the corporate governance score for the Housing Related Industry is as under.

Table : 4.19 Corporate Governance Score for Housing Related Sector

Criterion for Evaluation of Governance Standard for			Industry Average : 66 , Aggregate Average : 67							
No.	Governance Parameters	Pts	ACC	Ambuja (ACL)	DLF	India Cm (IC)	IVRCL (IIL)	JP (JAL)	Ultra Tch (UCL)	Unitech (UNL)
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2	2	2	2
3	Chairman & CEO Duality	5	4	3	1	1	1	3	3	1
4	Disclosure of Tenure and Age limit of directors	2	2	2	2	2	2	2	2	2
5	Disclosure of :	3	0	0	0	0	0	0	1	0
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	0	0	0	0	0	0
7	Appointment of lead independent director	2	0	0	0	0	0	0	0	0
8	Disclosure of other provision as to the boards and committees	1	1	1	1	1	1	1	1	1
9	Disclosure of :	2	2	2	2	2	2	2	2	2
10	Code of Conduct	2	2	0	2	2	2	2	2	2
11	Board Committee	25	16	17	17	16	15	16	17	10
12	Disclosure and Transparency	25	18	18	21	18	16	18	16	24
13	General Body Meetings	3	3	3	3	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	10	10	10	10	10
17	Disclosure of Stakeholders' interests :	10	0	4	4	0	0	0	4	4
	TOTAL	100	66	68	71	63	60	65	69	67
	RANK		5	3	1	7	8	6	2	4

**Housing Related Industry - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the Housing related sector, there are 8 sample units, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. No company among this sample is assigned a score of 5 as no company is having Non Executive Independent Chairman. ACC have Non Promoter Non Executive Chairman hence it is assigned a score of 4. ACL, JAL and UPL have Promoter Non Executive Chairman hence it is assigned a score of 3. However, remaining all sample companies are having Promoter Executive Chairman hence, they are assigned a score of 1.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. All sample companies get the expected score of 2.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. UCL have defined the definition of independent directors. However, none of the sample companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director). Hence, UCL is assigned a score of 1 where as other sample companies get Zero.



6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies. Hence, no company could get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, no company has formally appointed lead independent director. Hence, none of the sample companies could not get any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees carries a weightage of 1. It is observed that all of the companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. All companies have sufficiently disclosed about remuneration to directors and remuneration policy. Hence, these sample companies get a score of 2.

10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

(i) Information on Code of Conduct and

(ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies (except ACL) have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2 whereas ACL gets Zero score.

11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

<b>Sr. No.</b>	<b>Particulars</b>	<b>Points</b>
I	Audit Committee	8
Ii	Remuneration Committee	6
Iii	Shareholders' / Investors Grievance Committee	5
iv	Nomination Committee	2
v	Other Committees	4
	Total	25

a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. All sample companies have sufficiently disclosed committee charter and terms of reference. However, none of the sample companies, have published Audit Committee Report in the annual report. Hence, they get expected score of 7.

b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6.

It is observed that all companies (except UNL) the have formed the committee. They have also made sufficient disclosure. None of the sample companies have published Remuneration Committee Report in the annual report.

Hence, all sample companies (except) UNL get the score of 5. However, UNL gets the Zero score in this section.

c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, none of the sample companies have

published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies.

Hence, all companies get the score of 3.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that none of the sample companies have formed this committee. Hence, all companies get the ZERO score.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier.

It is observed that following committees are not formed by any of the sample companies.

i) Health , Safety and Environment

However, Ethics - Compliance Committee is formed by three sample companies (ACC, ACL & DLF) and Investment Committee is formed by two sample companies, DLF and UCL. Share Transfer Committee is formed by ACL, ICL, JAL and UCL. Hence, ACL, DLF & UCL gets a score of 2, ACC, ICL and JAL gets a score of 1. IIL and UNL gets a Zero score.

12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.

- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company (Except DLF) has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) All sample companies (except IIL, JAL and UCL) have published rights of the share holders as a part of their annual report.
- viii) All sample companies are clear from any audit qualification.
- ix) JAL and UNL have given information about the training to board members. However, it is not given by other sample companies.
- x) UNL has systematically informed about evaluation of Non Executive Director, whereas other companies have not disclosed about it.
- xi) DLF & UNL have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, UNL gets a highest score of 24, DLF gets a score of 21, ACC, ACL, JAL & ICL gets a score of 18, and IIL and UCL gets a lowest score of 16.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all sample companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies have clean certificate from auditor. Hence, all companies get the expected score of 10.

17. Disclosure of Stakeholders' interests :

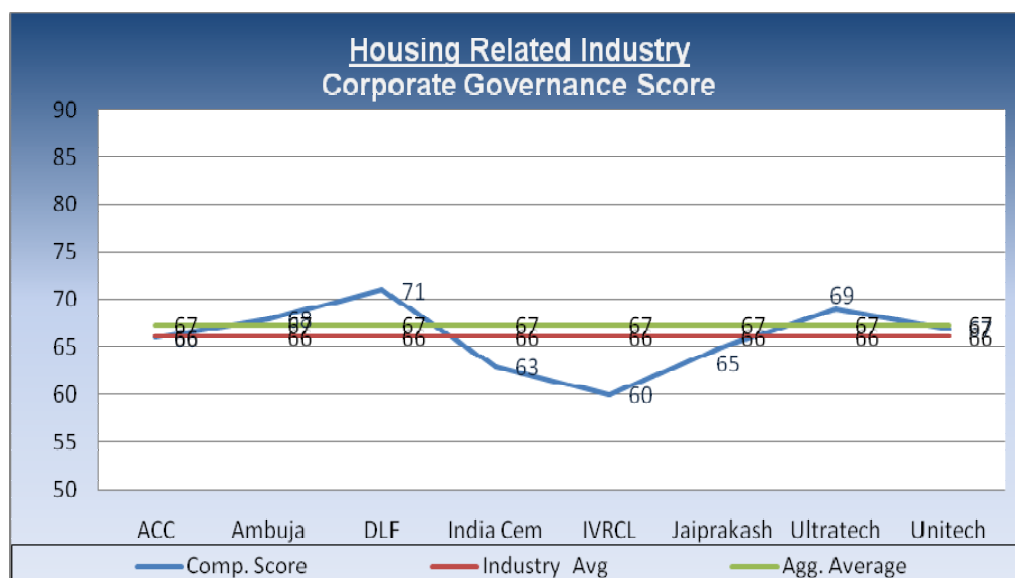
The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. This points are divided equally to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. EHS, HRD & IR related policies are not sufficiently disclosed adequately in the report of any sample companies. However, HRD and CSR are adequately described in the annual report of ACL, DLF, UCL and UNL. Therefore ACL, DLF, UCL and UNL gets a score of 4, remaining sample companies get Zero in this section.

The Housing Related Industry's score of the respected companies can be summarized with the help of following graph as under.

*Graph : 4.6 : Corporate Governance score Housing Related Industry*



Hence, DLF gets highest score of 71 whereas IVRCL gets the lowest score of 60. The Industry Average Score of Housing Related industry is very close to the Aggregate Average Score of all Industries.

## Information Technology Industry

The following companies represent the Information Technology industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Information Technology industry.

*Table : 4.20 Sample Companies in Information Technology Sector*

Sr. No.	Company	Abbreviation
1	Financial Technologies (India) Ltd	FTL
2	HCL Technologies Ltd.	HCL
3	Infosys Technologies Ltd.	ITL
4	Patni Computer Systems Ltd.	PCS
5	Tata Consultancy Services Limited	TCS
6	Tech Mahindra Ltd.	TML
7	Wipro Ltd.	WIL

The calculation of the corporate governance score for the Information Technology Industry is as under.

*Table : 4.21 Corporate Governance Score for Information Technology Sector*

		Industry Average : 71, Aggregate Average : 67							
Criterion for Evaluation of Governance Standard for		FTL	HCL	ITL	PCS	TCS	TML	WIL	
No.	Governance Parameters	POINTS	FTIL	HCL	Infosys	PCS	TCS	Tech Mah	Wipro
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2	2	2
3	Chairman & CEO Duality	5	1	1	3	1	3	3	1
4	Disclosure of Tenure and Age limit of directors	2	2	2	2	2	2	2	2
5	Disclosure of :	3	0	0	3	0	0	0	1
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	2	0	0	0	2
7	Appointment of lead independent director	2	0	0	2	0	0	0	0
8	Disclosure of other provision as to the boards and committees	1	1	1	1	1	1	1	1
9	Disclosure of :	2	2	2	2	1	2	1	2
10	Code of Conduct	2	2	2	2	2	2	2	2
11	Board Committee	25	16	15	20	10	18	16	16
12	Disclosure and Transparency	25	18	18	25	18	20	18	25
13	General Body Meetings	3	3	3	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	5	10	10	10
17	Disclosure of Stakeholders' interests :	10	4	0	8	4	6	4	4
TOTAL		100	67	62	91	55	75	68	77
Rank →			5	6	1	7	3	4	2



**Information Technology Industry - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the IT and ITES related sector, there are 7 sample units, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance. All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. No company among this sample is assigned a score of 5 as no company is having Non Executive Independent Chairman. ITL, TCS and TML have Promoter Non Executive Chairman hence it is assigned a score of 3. However, remaining all sample companies are having Promoter Executive Chairman hence, they are assigned a score of 1.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. All sample companies get the expected score of 2.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. ITL have defined both definitions and selection criteria for board of directors.. However, none of the other sample companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent

director). Hence, ITL is assigned a score of 3 where as other sample companies get Zero.

6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies (Except ITL and WIL). Hence, ITL and WIL get a score of 2 whereas no company could get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, two sample companies, ITL and WIL have formally appointed lead independent directors. Hence, ITL and WIL get a score of 2 , whereas other sample companies could not get any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees carries a weightage of 1. It is observed that all of the companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. All companies have sufficiently disclosed about remuneration to directors and remuneration policy. However, Remuneration policy is not sufficiently disclosed in PCS and TML. Hence, PCS and TML gets a score of 1, whereas other sample companies get a score of 2.

10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

- (i) Information on Code of Conduct and  
(ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2.

#### 11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

Sr. No.	Particulars	Points
I	Audit Committee	8
ii	Remuneration Committee	6
iii	Shareholders' / Investors Grievance Committee	5
iv	Nomination Committee	2
v	Other Committees	4
	Total	25

##### a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. All sample companies have sufficiently disclosed committee charter and terms of reference. However, none of the sample companies, have published Audit Committee Report in the annual report. Hence, they get expected score of 7.

##### b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6.

It is observed that all companies (except PCS) the have formed the committee. They have also made sufficient disclosure. None of the sample companies have published Remuneration Committee Report in the annual report.

Hence, all sample companies (except PCS) get the score of 5. However, PCS gets the Zero score in this section.

c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, none of the sample companies have published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies (except ITL). Hence, all companies (except ITL) get the score of 3, whereas ITL gets a score of 4.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that two of the sample companies ( ITL and TCS) have formed this committee, however other sample companies have not formed the committee. Hence, ITS and TCS gets a score of 2, whereas other companies get the ZERO score.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier.

It is observed that following committees are not formed by any of the sample companies.

- i) Health , Safety and Environment &
- ii) Investment Committee

However, Ethics - Compliance Committee is formed by two sample companies (TCS & WIL). Share Transfer Committee is formed by FTL, and TML. Hence, FTL & TML gets a score of 2, whereas other sample companies get a Zero score.

## 12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.
- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company (Except ITL & WIL) has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) All sample companies have published rights of the share holders as a part of their annual report.
- viii) All sample companies (Except PCS) are clear from any audit qualification.
- ix) ITL and WIL have given information about the training to board members. However, it is not given by other sample companies.
- x) ITL and WIL have systematically informed about evaluation of Non Executive Director, whereas other companies have not disclosed about it.

xi) ITL, PCS, TCS and WIL have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, ITL & WIL gets a highest score of 25, TCS gets a score of 20, and remaining sample companies gets a score of 18.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all sample companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies (except PCS) have clean certificate from auditor. Hence, all companies get the expected score of 10, however PCS gets a score of 5.

17. Disclosure of Stakeholders' interests :

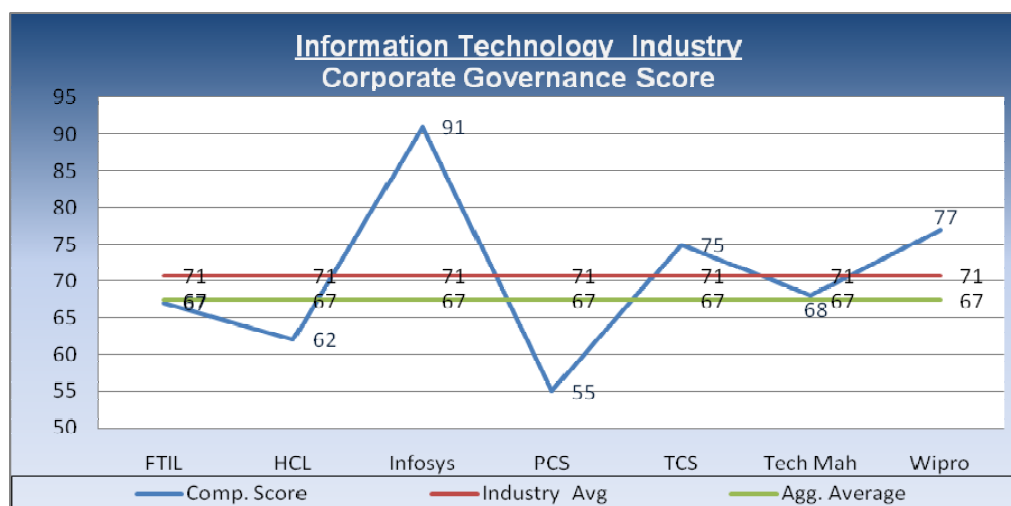
The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. This points are divided equally to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. EHS & IR related policies are not sufficiently disclosed adequately in the report of any sample companies. However, HRD and CSR are adequately described in the annual report of all sample companies (except HCL). Therefore, ITL gets a score of 8, TCS gets a score of 6, FTS PCS TML and WIL gets a score of 4 and HCL get Zero in this section.

The Information Technology Industry's score of the respected companies can be summarized with the help of following graph as under.

*Graph : 4.7 : Corporate Governance score IT & ITES Industry*



Hence, Infosys Technologies Ltd. gets highest score of 91 whereas PCS gets the lowest score of 60. The Industry Average Score of IT –ITES industry is higher than Aggregate Average Score of all Industries.

## Metal, Metal Products & Mining

The following companies represent the Metal, Metal Product and Mining industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Metal, Metal Product and Mining industry.

*Table : 4.22 Sample Companies in Metal, Metal Products and Mining Sector*

Sr. No.	Company	Abbreviation
1	Hindalco Industries Ltd.	HIL
2	Hindustan Zinc Ltd.	HZL
3	Jindal Steel & Power Ltd	JSPL
4	JSW Steel Ltd	JSW
5	Sesa Goa Ltd.	SGL
6	Steel Authority of India Ltd.	SAIL
7	Sterlite Industries Ltd.	SIL
8	Tata Steel Ltd.	TSL

The calculation of the corporate governance score for the Metal, Metal Product and Mining Industry is as under.



*Table : 4.23 Corporate Governance Score for Metal, Metal Products and Mining Sector*

No.	Criterion for Evaluation of Governance Standard for Governance Parameters	Pts	Industry Average :65 , Aggregate Average : 67							
			Hindalco	HZL	Jindal	JSW	Sesa	SAIL	Sterlite	Tata Steel
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2	2	2	2
3	Chairman & CEO Duality	5	3	3	3	3	5	2	3	3
4	Disclosure of Tenure and Age limit of directors	2	2	2	2	2	2	2	2	2
5	Disclosure of :	3	0	0	0	0	0	0	0	0
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	0	0	0	0	0	0
7	Appointment of lead independent director	2	0	0	0	0	0	0	0	0
8	Disclosure of other provision as to the boards and committees	1	1	1	1	1	1	1	1	1
9	Disclosure of :	2	1	1	1	1	2	1	1	2
10	Code of Conduct	2	2	2	2	2	2	2	2	2
11	Board Committee	25	10	10	15	16	16	16	15	18
12	Disclosure and Transparency	25	18	18	16	18	22	14	20	20
13	General Body Meetings	3	3	3	3	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	10	10	5	10	10
17	Disclosure of Stakeholders' interests :	10	2	4	0	2	0	0	6	6
	TOTAL	100	60	62	61	66	71	54	71	75
	COMPANY RANK →		6	4	5	3	2	7	2	1

**Metal, Metal Products & Mining Industry - Analysis of Corporate Governance**

**Score**

1. Statement of Company's philosophy on code of governance:

In the Metal, Metal Products & Mining related sector, there are 8 sample units, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance. All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. SGL gets a score of 5 as it is having a Non Executive Independent Chairman. HIL, HZL, JSPL, JSW, SIL & TSL have Promoter Non Executive Chairman hence it is assigned a score of 3. However, SAIL have a Non Promoter Executive Chairman hence, it is assigned a score of 1.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. All sample companies get the expected score of 2.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. None of the sample companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director). Hence, all companies get Zero.

6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies. Hence, no company could get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, none of the sample companies have formally appointed lead independent directors. Hence, none of the sample companies are assigned any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees carries a weightage of 1. It is observed that all of the companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. All companies have sufficiently disclosed about remuneration to directors. However, Remuneration policy is sufficiently disclosed in two of the sample companies, SGL and TSL. Hence, SGL and TSL gets a score of 2, whereas other sample companies get a score of 1.

10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

- (i) Information on Code of Conduct and
- (ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2.

### 11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

Sr. No.	Particulars	Points
I	Audit Committee	8
ii	Remuneration Committee	6
iii	Shareholders' / Investors Grievance Committee	5
iv	Nomination Committee	2
v	Other Committees	4
	Total	25

#### a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. All sample companies have sufficiently disclosed committee charter and terms of reference. However, none of the sample companies, have published Audit Committee Report in the annual report. Hence, they get expected score of 7.

#### b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6.

It is observed that all companies (except HIL & HZL) have formed the committee. They have also made sufficient disclosure. None of the sample companies have published Remuneration Committee Report in the annual report.

Hence, all sample companies (except HIL & HZL) get the score of 5.

However, HIL & HZL gets the Zero score in this section.

#### c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, none of the sample companies have

published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies. Hence, all companies get the score of 3.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that three of the sample companies (JSW, SAIL and TSL) have formed this committee, however other sample companies have not formed the committee. Hence, JSW, SAIL and TSL gets a score of 2, whereas other companies get the ZERO score.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier.

It is observed that following committees are not formed by any of the sample companies.

- i) Health , Safety and Environment &
- ii) Investment Committee

However, Ethics - Compliance Committee is formed by one sample companies (TSL). Share Transfer Committee is formed by SGL, and TSL. Hence, TSL gets a score of 2, SGL gets a score of 1, whereas other sample companies get a Zero score.

12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.

- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) SIL and TSL have published rights of the share holders as a part of their annual report. Whereas remaining companies have not done the same.
- viii) All sample companies (Except SAIL) are clear from any audit qualification.
- ix) HIL and SGL have given information about the training to board members. However, it is not given by other sample companies.
- x) None of the sample companies have systematically informed about evaluation of Non Executive Director.
- xi) HZL, SGL, SIL and TSL have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, SGL gets a highest score of 22, TSL and SIL gets a score of 20, HIL, HZL and JSW gets a score of a score of 18 whereas SAIL gets a score of 14.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all sample companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies (except SAIL) have clean certificate from auditor. Hence, all companies get the expected score of 10, however SAIL gets a score of 5.

17. Disclosure of Stakeholders' interests :

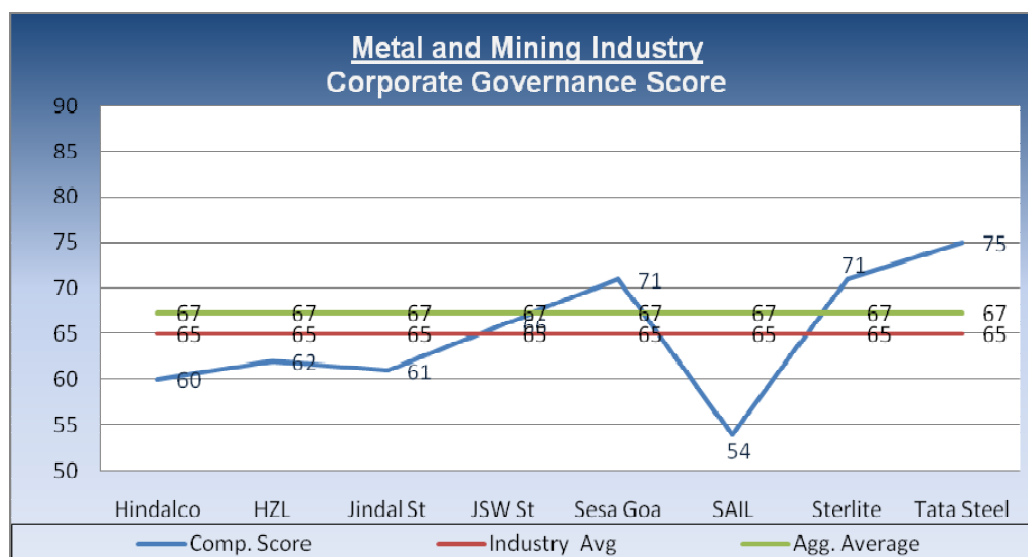
The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. This points are divided equally to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. EHS & IR related policies are not sufficiently disclosed adequately in the report of any sample companies. However, HRD and CSR are adequately described in the annual report of JSW, SIL and TSL. Therefore SIL and TSL gets a score of 6, HZL gets a score of 4, JSW and HIL gets a score of 2, and JSPL, SGL and SAIL gets Zero in this section.

The Metal, Metal Products and Mining Industry's score of the respected companies can be summarized with the help of following graph as under.

*Graph : 4.8 : Corporate Governance score Metal & Mining Industry*



Hence, Tata Steel Ltd. gets highest score of 75 whereas SAIL gets the lowest score of 54. The Industry Average Score of Metal and Mining related industry is marginally lower than aggregate score of all Industries.



## Oil & Gas Industry

The following companies represent the Oil and Gas industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Oil and Gas industry.

*Table : 4.24 Sample Companies in Oil and Gas Sector*

Sr. No.	Company	Abbreviation
1	Aban Offshore Ltd.	AOL
2	Bharat Petroleum Corpn Ltd.	BPCL
3	Cairn India Ltd.	CIL
4	Essar Oil Ltd.	EOL
5	Gail (India) Ltd.	GAIL
6	Hindustan Petroleum Corp Ltd.	HPCL
7	Indian Oil Corporation Ltd.	IOCL
8	ONGC Ltd.	ONGC
9	Reliance Industries Ltd.	RIL
10	Reliance Natural Resources Ltd.	RNRL
11	Reliance Petroleum Ltd.	RPL

The calculation of the corporate governance score for the Oil and Gas Industry is as under.

Table : 4.25 Corporate Governance Score for Oil and Gas Sector

No.	Criterion for Evaluation of Governance Standard for	Pnt	Industry Average : 68, Aggregate Average : 67										
			Aban off	B P	Cairn	Essar	Gail	HPCL	IOCL	ONGC	RIL	RNRL	RPL
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2	2	2	2	2	2	2
3	Chairman & CEO Duality	5	5	1	4	3	2	2	2	2	1	1	1
4	Disclosure of Tenure and Age limit of directors	2	0	0	0	0	0	0	0	2	2	2	2
5	Disclosure of :	3	0	0	0	0	0	0	0	0	0	0	1
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	0	0	0	2	0	2	2	0	2
7	Appointment of lead independent director	2	0	0	0	0	0	0	0	0	2	0	2
8	Disclosure of other provision as to the boards and committees	1	0	1	1	1	1	1	1	1	1	1	1
9	Disclosure of :	2	1	1	1	2	2	2	2	2	2	2	2
10	Code of Conduct	2	2	1	2	2	2	2	2	2	2	2	2
11	Board Committee	25	16	10	17	14	17	12	15	18	19	16	12
12	Disclosure and Transparency	25	19	18	20	18	20	16	20	22	24	22	22
13	General Body Meetings	3	3	3	3	3	3	3	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2	2	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	5	10	10	10	10	10	10	10	10	10
17	Disclosure of Stakeholders' interests :	10	4	4	6	0	4	2	2	4	4	4	0
	T O T A L	100	68	52	72	61	69	60	65	76	80	71	68
	Company Rank →		6	10	3	8	5	9	7	2	1	4	6

**Oil and Gas Industry - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the Oil and Gas sector, there are 11 sample units, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. No company among this sample is assigned a score of 5 AOL is having Non Executive Independent Chairman hence it is assigned a score of 5. CIL is having Non Promoter Non Executive Chairman hence it is assigned a score of 4. EOL have Promoter Non Executive Chairman hence it is assigned a score of 3. GAIL, HPCL IOCL and ONGC have Non promoter Executive Chairman cum Managing Director hence, they are assigned a score of 2.

However, RIL, RNRL and RPL are having Promoter Executive Chairman hence, they are assigned a score of 1.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. ONGC, RIL, RPL and RNRL have disclosed it and hence, they are assigned a score of 2, whereas other sample companies get Zero in it.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. RPL have defined the definition of independent directors. However, none of the sample

companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director). Hence, RPL is assigned a score of 1 where as other sample companies get Zero.

6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is sufficiently available in four annual reports, HPCL, ONGC, RIL and RNRL. Hence, they are assigned a score of 1 whereas other company could not get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, two sample companies (RIL and RPL) have formally appointed lead independent directors. Hence, they are assigned a score of 2, whereas other sample companies could not get any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees carries a weightage of 1. It is observed that all of the companies (except AOL) have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies (except AOL) get expected score of 1. Whereas, AOL gets a zero score.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. All companies (except BPCL) have sufficiently disclosed about remuneration. However, All companies (except AOL and CIL) have sufficiently disclosed about remuneration policy. Hence, Essar, GAIL, HPCL, IOCL, ONGC, RIL, RNRL, RPL companies get a score of 2. Whereas AOL, BPCL & CIL gets a score of 1.

10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

- (i) Information on Code of Conduct and
- (ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies (except BPCL) have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2 whereas ACL gets a score of 1.

11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

Sr. No.	Particulars	Points
I	Audit Committee	8
ii	Remuneration Committee	6
iii	Shareholders' / Investors Grievance Committee	5
iv	Nomination Committee	2
v	Other Committees	4
	Total	25

a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. All sample companies have sufficiently disclosed committee charter and terms of reference. However, none of the sample companies, have published Audit Committee Report in the annual report. Hence, they get expected score of 7.

b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6.

It is observed that all companies (except BPCL, HPCL & RPL) the have formed the committee. They have also made sufficient disclosure. None of the sample companies have published Remuneration Committee Report in the annual report.

Hence, all sample companies (except BPCL, HPCL & RPL) get the score of 5. However, BPCL, HPCL & RPL gets the Zero score in this section.

c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, three of the sample companies (AOL, RIL and RPL) have published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies.

Hence, all companies (except AOL, RIL and RPL) get the score of 3. Whereas, AOL, RIL and RPL gets a score of 4.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that three sample companies ( CIL, RPL and RNRL) have formed this committee. However the charter of the committee is published by CIL only. Hence, these three companies get a score of 1. Whereas, other sample companies get the ZERO score.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier. However, Environment committee is formed by HPCL, ONGC and RIL. Ethics - Compliance Committee is formed by two sample companies (ONGC & RIL) and Investment Committee is formed by three sample companies, GAIL, HPCL and RIL. Share Transfer Committee is formed by GAIL and

ONGC. Hence, ONGC and RIL gets a score of 3, HPCL and GAIL gets a score of 2. Whereas other sample companies get a Zero score.

## 12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.
- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company (Except DLF) has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) All sample companies (except IIL, JAL and UCL) have published rights of the share holders as a part of their annual report.
- viii) All sample companies are clear from any audit qualification.
- ix) JAL and UNL have given information about the training to board members. However, it is not given by other sample companies.

x) UNL has systematically informed about evaluation of Non Executive Director, whereas other companies have not disclosed about it.

xi) DLF & UNL have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, UNL gets a highest score of 24, DLF gets a score of 21, ACC, ACL, JAL & ICL gets a score of 18, and IIL and UCL gets a lowest score of 16.

### 13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all sample companies get the expected score of 3.

### 14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

### 15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

### 16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies have clean certificate from auditor. Hence, all companies get the expected score of 10.



17. Disclosure of Stakeholders' interests :

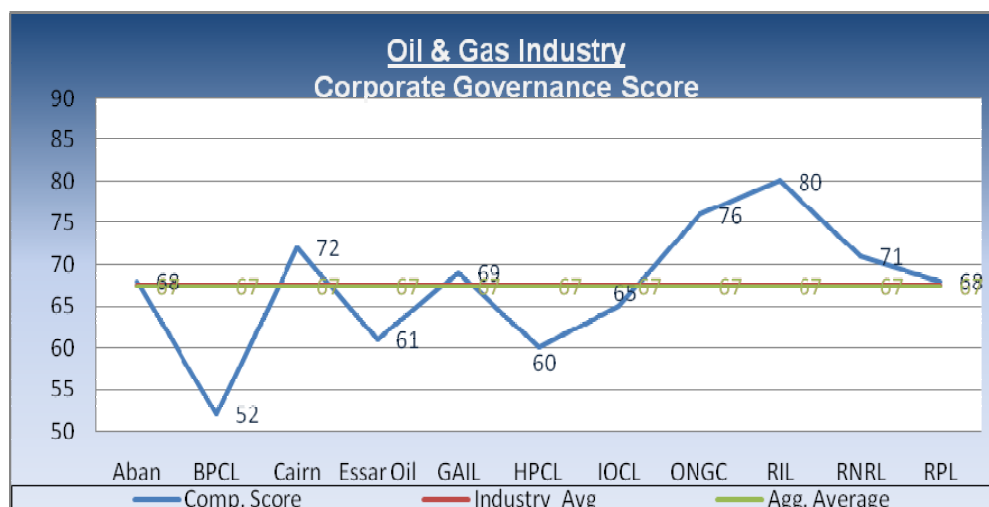
The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. This points are divided equally to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. EHS, HRD & IR related policies are not sufficiently disclosed adequately in the report of any sample companies. However, HRD and CSR are adequately described in the annual report of ACL, DLF, UCL and UNL. Therefore ACL, DLF, UCL and UNL gets a score of 4, remaining sample companies get Zero in this section.

The Oil and Gas Industry's score of the respected companies can be summarized with the help of following graph as under.

Graph : 4.9 : Corporate Governance score Oil and Gas Industry



Hence, RIL gets highest score of 80 whereas BPCL gets the lowest score of 52. The Industry Average Score of Oil and Gas industry is marginally lower than aggregate score of all Industries.

## Power Industry

The following companies represent the power industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Power industry.

*Table : 4.26 Sample Companies in Power Sector*

Sr. No.	Company	Abbreviation
1	NTPC Ltd.	NTPC
2	Power Grid Corporation of India Ltd.	PGC
3	Reliance Energy Ltd.	REL
4	Tata Power Co. Ltd.	TPC

The calculation of the corporate governance score for the Power Industry is as under.

*Table : 4.27 Corporate Governance Score for Power Sector*

No.	Criterion for Evaluation of Governance Standard for Governance Parameters	Points	Industry Average : 70 Aggregate Average : 67			
			NTPC	PGC	REL	TPL
1	Statement of Company's philosophy on code of governance	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2
3	Chairman & CEO Duality	5	2	2	4	3
4	Disclosure of Tenure and Age limit of directors	2	2	2	2	2
5	Disclosure of :	3	0	1	0	0
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	0	0
7	Appointment of lead independent director	2	0	0	2	0
8	Disclosure of other provision as to the boards and committees	1	1	1	1	1
9	Disclosure of :	2	0	0	1	2
10	Code of Conduct	2	0	2	2	2
11	Board Committee	25	10	9	16	18
12	Disclosure and Transparency	25	18	20	20	24
13	General Body Meetings	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	10
17	Disclosure of Stakeholders' interests :	10	8	6	6	6
TOTAL		100	62	64	75	79
COMPANY RANK →			4	3	2	1

**Power Industry - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the Power sector there are 4 sample companies, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. No company among this sample is assigned a score of 5 as no company is having Non Executive Independent Chairman. REL is having Non Promoter Non Executive Chairman therefore it is assigned a score of 4. TPL is have a Promoter Non Executive Chairman hence are assigned a score of 3. While NTPC and PGC are having non-promoter Executive Chairman and is assigned a score of 2.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. All companies have sufficiently provided the details of this section. Hence they get the expected score of 2.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. PGC have disclosed details about one of the definitions. However, None of the companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director). Therefore PGC is assigned a score of 1 whereas remaining companies get a Zero Score.

6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies. Hence, none of the sample companies could get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, REL has appointed lead independent director. Hence, REL gets a score of 2 whereas other sample companies could get any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees carries a weightage of 1. It is observed that all companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. TPL have sufficiently disclosed about remuneration to directors and remuneration policy. However, REL has provided only one part of it in detail, hence it is assigned a score of 1. However all other sample companies get a Zero score.

10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

- (i) Information on Code of Conduct and
- (ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies (except NTPC) have sufficiently disclosed about both the above points. Hence, all companies (except NTPC) get expected score of 2 whereas NTPC gets a Zero score.

#### 11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

<b>Sr. No.</b>	<b>Particulars</b>	<b>Points</b>
I	Audit Committee	8
ii	Remuneration Committee	6
iii	Shareholders' / Investors Grievance Committee	5
iv	Nomination Committee	2
V	Other Committees	4
	Total	25

##### a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. The PGC have not clarified about information about participation of head of finance, statutory auditor and chief internal auditor in the committee meeting. NTPC have not adequately disclosed about audit committee charter and terms of reference. Other sample companies have sufficiently disclosed committee charter and terms of reference. However, none of among the sample companies, have published Audit Committee Report in the annual report. Hence, REL and TPL get expected score of 7, NTPC get a score of 6, and PGC gets a score of 5.

b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6. It is observed that two of the sample companies (REL and TPL) have formed the committee. They have also made sufficient disclosure. NTPC and PGC have not formed the same committee. However, none of among the sample companies has published Remuneration Committee Report in the annual report. Hence, REL and TPL get the score of 5. However, NTPC and PGC get the ZERO score in this section.

c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, none of the sample companies (except TPL) have published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies. Hence, all companies except Century get the score of 3.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that none of the sample companies (except TPL) have formed this committee). Hence, all companies (except TPL) get the ZERO score. Whereas, TPL gets a score of 2.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier. Health Safety and Environment Committee is formed by REL. Ethics and compliance Committee is formed by TPL is formed by all sample companies. Investment committee is formed by NTPC. Share Transfer Committee is formed by PGC. Hence, all companies except gets a score of 1.

## 12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.
- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) All the sample companies have published rights of the share holders as a part of their annual report.
- viii) All sample companies are clear from any audit qualification.
- ix) PGC and TPL have given information about the training to board members. However, it is not given by other sample companies.
- x) TPL have systematically informed about evaluation of Non Executive Director. Whereas other companies have not disclosed about it.
- xi) REL & TPL have given information about the Whistle Blower Policy. However, it is not given by other sample companies.



Hence, TPL gets a highest score of 24, PGC and RIL gets a score of 20, and NTPC gets a lowest score of 18.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all sample companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies have clean certificate from auditor. Hence, all companies get the expected score of 10.

17. Disclosure of Stakeholders' interests :

The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. This point is divided equally to the following.

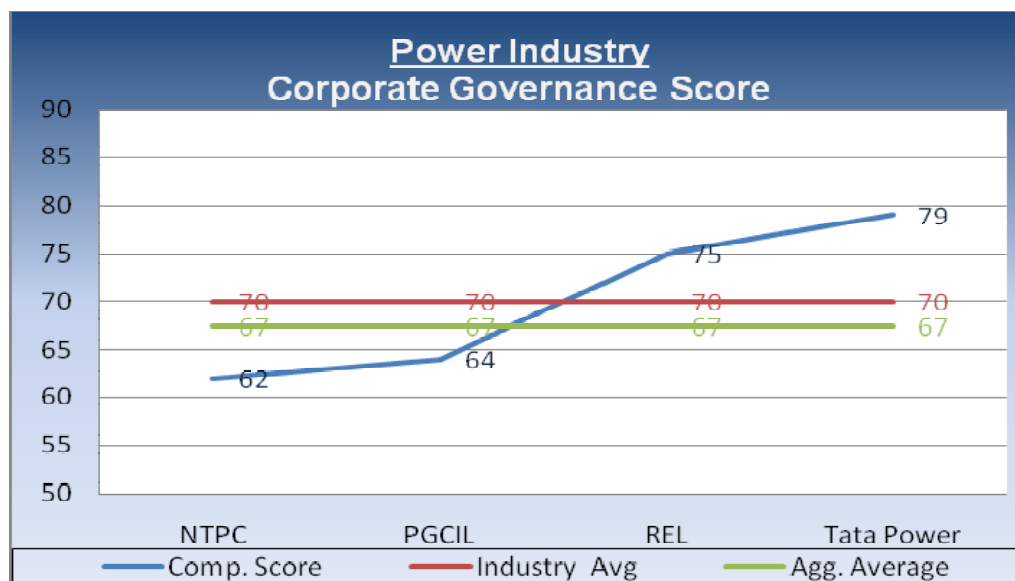
- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)

- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. EHS, HRD, CSR & IR policies are not disclosed adequately in the report of any sample companies. All sample companies have sufficiently provided details about CSR and IR. Whereas EHS and HRD related activities are adequately mentioned in all sample companies. Therefore, NTPC gets the score of 8 whereas PGC, REL and TPL gets a score of 6.

The Power Industry's score of the respected companies can be summarized with the help of following graph as under.

*Graph : 4.10 : Corporate Governance score Power Industry*



Hence, Tata Power Ltd gets highest score of 79 whereas NTPC gets the lowest score of 62. The Industry Average Score of Power industry is higher than aggregate score of all Industries.

## Telecom Industry

The following companies represent the telecom industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Power industry.

*Table : 4.28 Sample Companies in Telecom Sector*

Sr. No.	Company	Abbreviation
1	Bharti Airtel Ltd.	BAL
2	Idea Cellular Ltd	ICL
3	Mahanagar Telephone Nigam Ltd.	MTNL
4	Reliance Communications Ltd.	RCL
5	Tata Communications Ltd.	TCL

The calculation of the corporate governance score for the Telecom Industry is as under.

*Table: 4.29 Corporate Governance Score for Telecom Sector*

No.	Criterion for Evaluation of Governance Standard for Governance Parameters	No.	Industry Average : 66, Aggregate Average : 67				
			Bharti	Idea	MTNL	Rel	Tata
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2
3	Chairman & CEO Duality	5	1	3	2	3	5
4	Disclosure of Tenure and Age limit of directors	2	2	2	0	2	2
5	Disclosure of :	3	2	0	0	0	1
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	0	0	0
7	Appointment of lead independent director	2	2	0	0	0	0
8	Disclosure of other provision as to the boards and committees	1	2	2	2	2	2
9	Disclosure of :	2	2	2	2	2	2
10	Code of Conduct	2	2	2	2	2	2
11	Board Committee	25	17	15	8	16	15
12	Disclosure and Transparency	25	20	18	14	22	18
13	General Body Meetings	3	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	5	10	10
17	Disclosure of Stakeholders' interests :	10	4	2	2	2	2
	TOTAL	100	75	67	48	72	70
	RANK →		1	4	5	2	3

**Telecom Industry - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the Telecom sector there are 4 sample companies, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. TCL is assigned a score of 5 as it is having Non Executive Independent Chairman. REL and ICL are having a Promoter Non Executive Chairman hence they are assigned a score of 3. MTNL is having a Non promoter Executive Chairman cum MD, it is assigned a score of 2. BAL is having promoter Executive Chairman and is assigned a score of 1.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. All companies (except MTNL) have sufficiently provided the details of this section. Hence, they get the expected score of 2. MTNL gets Zero score in this section.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. BAL have disclosed details about one of the definitions, whereas TCL and BAL have disclosed has selection criteria for board members. Therefore BAL is assigned a score of 2 whereas TCL gets 1 and remaining companies get a zero score.

6. Post Board meeting follow up system and compliance of the board procedures

This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies. Hence, none of the sample companies could not get any point in this section.

7. Appointment of Lead Independent Director

This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, BAL has appointed lead independent director. Hence, BAL gets a score of 2 whereas other sample companies could get any point in this section.

8. Disclosure of other provision as to the boards and committees

The point about disclosure of other provision as to the boards and committees. It is observed that all companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get expected score.

9. Disclosure of Remuneration Policy & Remuneration of Directors

This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. All sample companies have sufficiently disclosed about remuneration to directors and remuneration policy. hence they are assigned a score of 2.

10. Code of Conduct

As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,

- (i) Information on Code of Conduct and
- (ii) Affirmation regarding compliance for code of conduct.

It is observed that all the companies have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2.

### 11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

Sr. No.	Particulars	Points
I	Audit Committee	8
ii	Remuneration Committee	6
iii	Shareholders' / Investors Grievance Committee	5
iv	Nomination Committee	2
V	Other Committees	4
	Total	25

#### a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies (except MTNL) have made sufficient disclosure about the audit committee. The MTNL have not complied with of minimum requirement of the number of independent directors in the committee. It had also not provided information about information about participation of head of finance, statutory auditor and chief internal auditor in the committee meeting. TCL have not adequately disclosed about audit committee charter and terms of reference. Other sample companies have sufficiently disclosed committee charter and terms of reference. However, none of among the sample companies (except BAL), have published Audit Committee Report in the annual report. Hence, BAL gets expected score of 8, ICL and RCL gets a score of 7, TCL gets a score of 6 and MTNL gets a score of 4.

#### b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6. It is observed that all sample companies (except MTNL) have formed the committee. They have also made sufficient disclosure. MTNL have not formed the same committee. However, none of among

the sample companies has published Remuneration Committee Report in the annual report. Hence, all sample companies (except MTNL) gets the score of 5. However, MTNL gets the ZERO score in this section.

c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, none of the sample companies have published information about the investors / shareholders' survey (if conducted). The Report of this committee is also not published by any of the sample companies. Hence, all companies except Century get the score of 3.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that none of the sample companies (except RCL) have formed this committee). Hence, all companies (except RCL) get the ZERO score. Whereas, RCL gets a score of 2.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier. Health Safety and Environment Committee is not formed by any of the sample companies. Ethics and compliance Committee is formed by TCL is formed by all sample companies. Investment committee is formed by BAL. Share Transfer Committee is formed by MTNL. Hence, all companies except RCL and ICL gets a score of 1.

12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that



- i) All sample companies have sufficiently disclosed about significant related party transactions.
- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies (except MTNL) have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) All the sample companies (except MTNL and TCL) have published rights of the share holders as a part of their annual report.
- viii) All sample companies are clear from any audit qualification.
- ix) RCL have given information about the training to board members. However, it is not given by other sample companies.
- x) None of the sample companies have systematically informed about evaluation of Non Executive Director. Whereas other companies have not disclosed about it.
- xi) BAL, RCL and TCL have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, BAL gets a highest score of 17, RCL gets a score of 16, ICL and TCL gets a score of 15. Whereas MTNL gets a lowest score of 8.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all sample companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample (except MTNL) companies have clean certificate from auditor. Hence, all companies get the expected score of 10. MTNL gets a score of 5.

17. Disclosure of Stakeholders' interests :

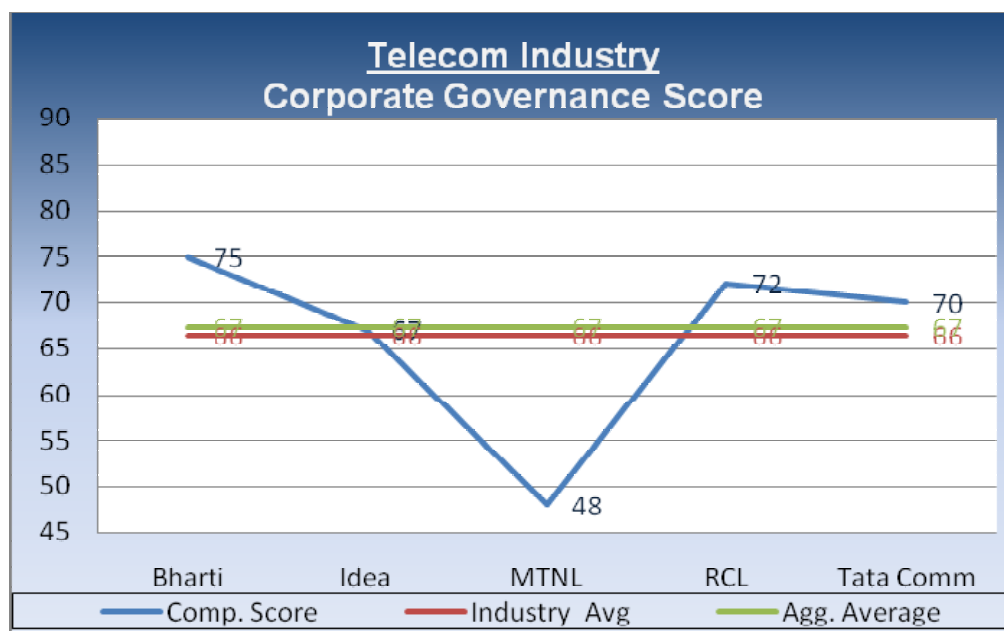
The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. This point is divided equally to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. EHS, HRD, CSR & IR policies are not disclosed adequately in the report of any sample companies. All sample companies have sufficiently provided details about HRD. Whereas CSR related activities are adequately mentioned in BAL balance sheet. Therefore, BAL gets the score of 4 whereas other sample companies get a score of 2.

The Telecom Industry's score of the respected companies can be summarized with the help of following graph as under.

*Graph : 4.11 : Corporate Governance score Telecom Industry*



Hence, Bharti Airtel Ltd. gets highest score of 75 whereas MTNL gets the lowest score of 48. The Industry Average Score of Power industry is marginally lower than aggregate score of all Industries.

## Transport Equipment Industry

The following companies represent the Transport Equipment industry in BSE 100 index. The researcher has covered these companies in order to study the corporate governance trends in the Transport Equipment industry.

*Table : 4.30 Sample Companies in Transport Equipment Sector*

Sr. No.	Company	Abbreviation
1	Ashok Leyland Ltd.	ALL
2	Bharat Forge Ltd.	BFL
3	Bosch Ltd.	BOL
4	Cummins India Ltd.	CIL
5	Hero Honda Motors Ltd.	HHML
6	Mahindra & Mahindra Ltd.	MML
7	Maruti Suzuki India Ltd.	MSIL
8	Tata Motors Ltd.	TML

The calculation of the corporate governance score for the Transport Equipment Industry is as under.

Table : 4.31 Corporate Governance Score for Transport Equipment Sector

No.	Criterion for Evaluation	Pts	Industry Average : 67, Aggregate Average : 67							
			Ashok L	BhFL	Bosch	Cum IL	Hero H	M&M	Maruti S	Tata Motors
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2	2	2
2	Structure and Strength of board	2	2	2	2	2	2	2	2	2
3	Chairman & CEO Duality	5	3	1	3	1	1	3	4	3
4	Disclosure of Tenure and Age limit of directors	2	2	2	2	2	2	2	2	2
5	Disclosure of :	3	0	0	0	0	0	0	0	0
6	Post Board meeting follow up system and compliance of the board procedures	2	0	0	0	0	0	2	0	0
7	Appointment of lead independent director	2	0	0	0	0	0	0	0	0
8	Disclosure of other provision as to the boards and committees	1	1	1	1	1	1	1	1	1
9	Disclosure of :	2	2	1	1	1	2	2	1	2
10	Code of Conduct	2	2	2	2	2	2	2	2	2
11	Board Committee	25	17	10	16	10	14	16	10	19
12	Disclosure and Transparency	25	18	16	18	16	18	18	18	24
13	General Body Meetings	3	3	3	3	3	3	3	3	3
14	Means of communication and General shareholder information	2	2	2	2	2	2	2	2	2
15	CEO / CFO Certification	2	2	2	2	2	2	2	2	2
16	Compliance of Corporate Governance and Auditors' Certificate	10	10	10	10	10	10	10	10	10
17	Disclosure of Stakeholders' interests :	10	2	4	8	4	4	4	4	8
	T O T A L	100	68	58	72	58	65	71	63	82
	COMPANY RANK		4	7	2	7	5	3	6	1

**Transport Equipment Industry - Analysis of Corporate Governance Score**

1. Statement of Company's philosophy on code of governance:

In the Transport sector there are 8 sample companies, as mentioned earlier, the first score point having a weightage of 2 was, statement of Company's philosophy on Corporate Governance All companies get the expected score of 2 as all companies have sufficient disclosure of the statement of Company's philosophy on code of governance.

2. Structure and Strength of board

In the Corporate Governance score, the second score point was about the Structure and Strength of the board having a weightage of 2. All companies get the expected score of 2. All companies have sufficiently disclosed the composition of the Board of Directors.

3. Chairman and CEO Duality

As mentioned earlier, this point carries a weightage of 5. None among sample companies is assigned a score of 5 as they do not have a Non Executive Independent Chairman. MSIL is assigned a score of 4 as it has Non Promoter Non Executive Chairman. ALL, BOL, MML and TML are having a Promoter Non Executive Chairman hence they are assigned a score of 3. BFL, CIL and HHML are having promoter Executive Chairman and is assigned a score of 1.

4. Disclosure of Tenure and Age limit of directors

As mentioned earlier, this point was assigned a weightage of 2. All companies have sufficiently provided the details of this section. Hence, they get the expected score of 2.

5. Disclosure of Definition and selection criteria for (Independent) Directors

As mentioned earlier, this point was assigned a weightage of 3. None of the sample companies have disclosed details about it hence all get a Zero score.

6. Post Board meeting follow up system and compliance of the board procedures  
This point was assigned a weightage of 2. The systematic disclosure about the Post Board meeting follow up system is not sufficiently available in any annual report of the sample companies (except MML). Hence, MML gets a score of 2, whereas other sample companies could not get any point in this section.
  
7. Appointment of Lead Independent Director  
This point is about appointment of lead independent director and carries a weightage of 2. Among the sample, none of the companies has appointed lead independent director. Hence, none of the sample companies could get any point in this section.
  
8. Disclosure of other provision as to the boards and committees  
The point about disclosure of other provision as to the boards and committees. It is observed that all companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get expected score.
  
9. Disclosure of Remuneration Policy & Remuneration of Directors  
This point is about the disclosure of Remuneration Policy & Remuneration of Directors and it carries a weightage of 2. All sample companies have sufficiently disclosed about remuneration to directors and remuneration policy. hence they are assigned a score of 2.
  
10. Code of Conduct  
As mentioned earlier, this point is about code of conduct and carries a weightage of 2. The point was further equally divided into two points,
  - (i) Information on Code of Conduct and
  - (ii) Affirmation regarding compliance for code of conduct.It is observed that all the companies have sufficiently disclosed about both the above points. Hence, all companies get expected score of 2.

### 11. Board Committees

In the Corporate Governance score, the eleventh point is about the various committees of the board. The point carries a weightage of 25 on a scale of 100. The sub classification of the point is as under.

Sr. No.	Particulars	Points
I	Audit Committee	8
ii	Remuneration Committee	6
iii	Shareholders' / Investors Grievance Committee	5
iv	Nomination Committee	2
V	Other Committees	4
	Total	25

#### a. Audit Committee

The Audit Committee is assigned a weightage of 8. It is observed that all companies have made sufficient disclosure about the audit committee. All sample companies have sufficiently disclosed committee charter and terms of reference. However, none of among the sample companies (except ALL), have published Audit Committee Report in the annual report. Hence, ALL gets expected score of 8, remaining sample companies gets a score of 7.

#### b. Remuneration / Compensation Committee

The Remuneration/Compensation Committee is assigned a weightage of 6. It is observed that all sample companies (except BFL, CIL, MSIL) have formed the committee. They have also made sufficient disclosure. BFL, CIL, MSIL have not formed the same committee. However, none of among the sample companies has published Remuneration Committee Report in the annual report. HHML have not disclosed about number of committee meetings. Hence, all sample companies (except BFL, CIL, MSIL) gets the score of 5. However, HHML gets the 4 score in this section. Remaining sample companies get a Zero score in it.



c. Shareholders' / Investors Grievance Committee

The Shareholders' / Investors Grievance Committee is assigned a weightage of 5. It is observed that all the sample companies have formed the committee. However, none of the sample companies (except ALL & TML) have published information about the investors / shareholders' survey (if conducted). ALL & TML have published survey of investors. The Report of this committee is also not published by any of the sample companies. Hence, all companies except ALL & TML get the score of 3. ALL and TML gets a score of 4.

d. Nomination Committee

The Nomination Committee was assigned a weightage of 2. It is observed that none of the sample companies (except TML) have formed this committee). Hence, all companies (except TML) get the ZERO score. Whereas, TML gets a score of 1.

e. Other Committees

The formation of other committees is assigned a weightage of 4. Its classification is already mentioned earlier. Health Safety and Environment Committee is formed by TML. Ethics and compliance Committee is also formed by TML. Investment committee is formed by HHML. Share Transfer Committee is formed by BOL and HHML. Hence, TML gets a score of 2. BOL, HHML and MML gets a score of 1. Remaining sample companies gets a zero score.

12. Disclosure and Transparency

This is the point is about the various disclosure and transparency shown by the company in the annual report. The point is assigned a weightage of 25. The classification of the point is already mentioned earlier.

It is observed that

- i) All sample companies have sufficiently disclosed about significant related party transactions.

- ii) All sample companies have adequately disclosed about Non Compliance related to capital market matters during last three years.
- iii) All sample companies have clearly mentioned about the accounting treatments and significant changes in their accounting policy.
- iv) All sample companies have given sufficient information about risk management and policies of the board.  
However, no sample company has published risk management report.
- v) All sample companies have published the Management Discussion and Analysis as a part of the annual report.
- vi) All sample companies have sufficiently disclosed the shareholders' information.
- vii) All the sample companies (except CIL and MSIL) have published rights of the share holders as a part of their annual report.
- viii) All sample companies (except ALL,BFL,BOL &CIL) are clear from any audit qualification.
- ix) TML have given information about the training to board members. However, it is not given by other sample companies.
- x) None of the sample companies (except TML) have systematically informed about evaluation of Non Executive Director. Whereas other companies have not disclosed about it.
- xi) ALL,BOL, CIL, MSIL and TML have given information about the Whistle Blower Policy. However, it is not given by other sample companies.

Hence, TML gets a highest score of 24, BFL and CIL gets a score of 16,. Whereas remaining sample companies gets a score of 18.

13. General Body Meetings

This point was about the General Body Meetings, carrying a weightage of 3. All companies have sufficiently disclosed about the various points related to General body meetings in the annual report. Hence, all sample companies get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth score point was disclosure about the means of communication and general shareholder information and carries weightage of 2. All sample companies have sufficiently disclosed about the point in the annual report. Hence, all companies get the expected score of 2.

15. CEO / CFO Certification

The Fifteenth score point was about the certification of CEO \ CFO, carrying a weightage of 2. It is observed that all companies have certification from CEO \ CFO. Hence, all companies get the expected score of 2.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth score point was about the compliance of Corporate Governance guidelines issued by SEBI and Auditor's Certificate, carrying a weightage of 10. It is observed that all sample companies have clean certificate from auditor. Hence, all companies get the expected score of 10.

17. Disclosure of Stakeholders' interests :

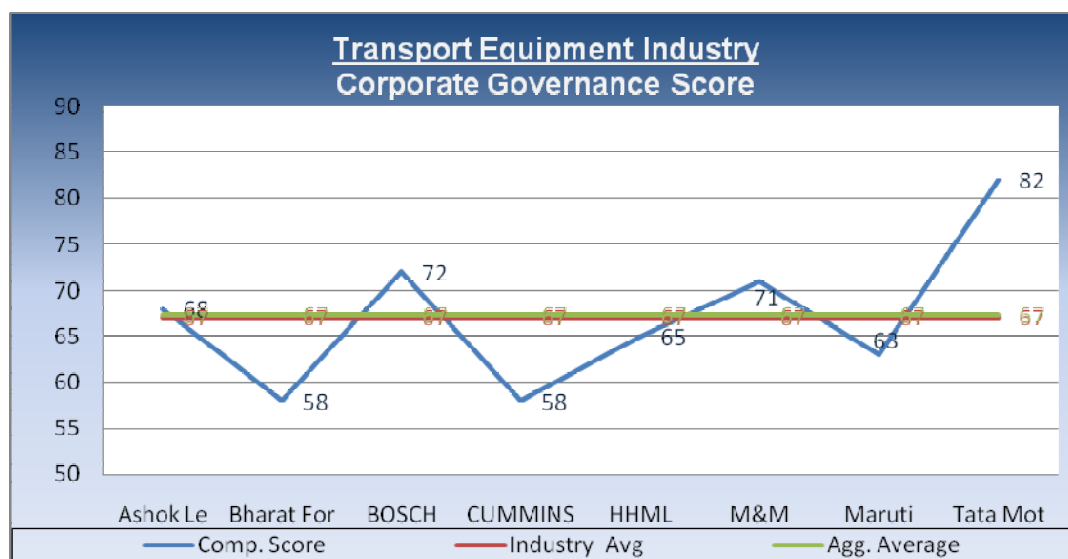
The Seventeenth score point was about the disclosure of the stakeholders' interest and was assigned a weightage of 10. This point is divided equally to the following.

- i) Environment, Health & Safety Measures (EHS)
- ii) Human Resource Development Initiative (HRD)
- iii) Corporate Social Responsibility (CSR)
- iv) Industrial Relation (IR)
- v) Disclosure of policies on EHS, HRD, CSR & IR

It is observed that most of the companies have provided information about above mentioned points in various forms. EHS, HRD, CSR & IR policies are not disclosed adequately in the report of any sample companies. Most of all sample companies have sufficiently provided details about HRD and CSR. Therefore, BOL and TML gets the score of 8 whereas ALL gets a score of 2, other sample companies get a score of 4.

The Transport Equipment Industry's score of the respected companies can be summarized with the help of following graph as under.

*Graph : 4.12 : Corporate Governance score Transport Equipment*



Hence, Tata Motors Ltd gets highest score of 82 whereas BFL and CIL gets the lowest score of 58. The Industry Average Score of Transport Equipment industry is similar to aggregate score of all Industries.

## Summary of Corporate Governance Score of Various Industries

The corporate governance score of various industry is summarized as under :

*Table : 4.32 Summary of Corporate Governance Score for various industries*

Sr. No.	Sector	No. of Companies	Average of Sector	Maximum Score	Minimum Score
1	Capital Goods	08	63	69	59
2	Diversified	06	66	71	57
3	Finance	13	70	80	60
4	FMCG	05	71	78	62
5	Healthcare	07	67	82	54
6	Housing Related	08	66	71	60
7	Information Technology	07	71	91	55
8	Mining, Metal Products	08	65	75	54
9	Oil and Gas	11	68	80	52
10	Power	04	70	79	62
11	Telecom	05	66	75	48
12	Transport Equipments	08	67	82	58
	<b>Total Companies</b>	<b>90</b>			
	<b>Aggregate Average</b>	<b>67</b>			

As indicated in above table, the sector of IT and FMCG sector are highest in corporate governance score (71) where as capital goods sector is lowest with 63 point score.

## Chapter: 5

### Analysis of Financial Performance of Companies

- Evaluation of the Financial Performance
  - Capital Goods Sector
  - Diversified Sector
  - Finance and Financial Services Sector
  - FMCG Sector
  - Healthcare related sector
  - Housing Related Sector
  - Information Technology related sector
  - Metal, Metallurgy and Mining related sector
  - Oil and Gas Related Sector
  - Power Sector
  - Telecom Sector
  - Transport Equipment Sector
  - Aggregate of all sectors
- Testing of Hypothesis

## Evaluation of the Financial Performance.

As mentioned in Chapter 2, there are several tools available for analyzing the financial performance of a company. However, the following parameters are used to analyze the financial performance for this research.

a) EBIT / SALES Ratio:

This ratio is used to analyze the operational efficiency of the company and the sector. This ratio also indicates the impact of sales on Earnings Before Interest and Taxes.

b) SALES / TOTAL ASSETS :

Assets are used to generate sales. Therefore, a firm is required to manage the assets with adequate efficiency to maximize sales. The relationship between Sales and Total Assets is known as Total Assets Turnover. A high ratio indicates better utilization of investments made in assets. However, it ultimately depends upon industry.

c) Earnings Per Share :

Earnings Per Share is net profit divided by number of equity shares. This indicates earnings earned by company per share during the year. A high EPS indicates better performance. However, one has to consider the face value of the share as it varies from Rs. 1 to Rs. 10.

d) Price Earnings Multiple :

This is one of the most popular among the financial analysts to value the firm's performance as expected by the shareholders. This can be calculated as under :

$$\text{P/E Ratio} = \text{Market Value Per Share} \backslash \text{EPS}$$

This ratio indicates investors' expectations about the firm's performance & It also reflects investors' expectations about the growth in the firm's earnings.

- Capital Goods Sector

As mentioned in the previous chapters, there are 8 sample companies in the capital goods sector. The financial performance is analyzed in terms of above mentioned parameters and is mentioned in the following table.

*Table 5.1 Financial Performance of Sample Companies in Capital Goods Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	ABB Ltd.	ABB	12%	3.28	25.83	15.49
2	Bharat Electronics Ltd.	BEL	29%	1.27	103.00	10.10
3	Bharat Heavy Elect Ltd.	BHEL	21%	1.97	58.41	30.22
4	Crompton Greaves Ltd.	CG	10%	4.01	8.56	27.70
5	Larsen & Toubro Limited	L&T	12%	1.91	75.59	34.60
6	Punj LLOYD Ltd	PUNJ L	8%	1.17	7.81	36.66
7	Siemens Ltd.	SIEMENS	11%	4.06	17.60	20.65
8	Suzlon Energy Ltd.	SUZLON	21%	0.70	8.47	26.09
Sector Average			15%	2.30	38.16	25.19
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- Average EBT/Sales ratio of the industry is 15 %. Where as aggregate of all companies is 20 %. The Bharat Electronics Ltd. is having highest ratio of 29% whereas Punj Lloyd is having lowest ratio of 8 % in the industry.
- Sales/ Total Assets ratio of the industry is 2.3 times. The aggregate of all companies is 1.24 times. The Siemens Ltd. carries highest ratio of 4.06 whereas Suzlon Energy Ltd. carries a ratio of 0.7 which is lowest in the industry.
- Earnings Per Share (EPS): The average EPS of the industry is Rs. 38.16 which is lower then the aggregate EPS of all sample companies (Rs. 45.46). The EPS of Bharat Electronics Ltd. is highest at Rs. 103 whereas that of Punj Lloyd is lowest at Rs.7.81.
- The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE is higher (at 25.19) than aggregate PE of 13.19. The PE of Punj Lloyd is highest at 36.66 while BEL is lowest at 10.10.



For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.2 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Capital Goods Sector*

	<i>DIR</i>	<i>BC</i>	<i>TD</i>	<i>GI</i>	<i>EBT / SALES</i>	<i>SALES/TA</i>	<i>EPS</i>	<i>P/E</i>
<i>DIR</i>	1.00							
<i>BC</i>	0.13	1.00						
<i>TD</i>	0.33	-0.70	1.00					
<i>GI</i>	0.38	0.40	0.00	1.00				
<i>EBT / SALES</i>	-0.30	-0.57	0.41	0.12	1.00			
<i>SALES/TA</i>	0.80	0.15	-0.01	0.17	-0.53	1.00		
<i>EPS</i>	0.03	-0.59	0.45	-0.31	0.65	-0.31	1.00	
<i>P/E</i>	-0.37	0.71	-0.83	-0.24	-0.52	-0.21	-0.32	1.00

As mentioned in the above table, the following can be analyzed.

- i) Directors related disclosure is negatively related with two of the financial parameters, one is EBT/Sales and the other is P/E multiple. The Directors related disclosure is positively related with all corporate governance related parameters.
- ii) Board Committees related disclosure is negatively related with two of the financial parameters, EBT/Sales and EPS. It is also negatively related with one of the corporate governance parameters i.e. Transparency Disclosure
- iii) Transparency Disclosure is negatively related with two of the financial performance related parameters one is Sales/TA and the other is P/E Multiple. It is also negatively related with one of the corporate governance related parameter i.e. Board Committee and is not related with disclosure of general information.
- iv) General Information related disclosure is positively related with all corporate governance parameters, however, it is negatively related two of the financial performance parameters, i.e. EPS and P/E.

• Diversified Sector

As mentioned in the previous chapters, there are 6 sample companies in the Diversified sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.3 Financial Performance of Sample Companies in Diversified Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	Adani Enterprises Ltd.	AEL	3%	2.63	12.66	38.70
2	Aditya Birla Nuvo Limited	ABNL	8%	0.59	26.05	44.19
3	Century Textiles Ind Ltd.	CTIL	11%	1.18	30.00	21.77
4	GMR Infrastructure Ltd.	GMR	58%	0.02	0.37	337.84
5	Grasim Industries Ltd.	Grasim	26%	0.97	223.32	11.44
6	Tata Chemicals Ltd.	Tata Ch	24%	0.78	42.82	6.07
Average of Sector			22%	1.03	55.87	76.67
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is 22 %. Where as aggregate of all companies is 21 %. The GMR Infrastructure Ltd. is having highest ratio of 58% whereas Adani Enterprise Ltd. is having lowest ratio of 3 % in the industry.
- ii. Sales/ Total Assets ratio of the industry is 1.03 times. The aggregate of all companies is 1.22 times. The Adani Enterprises Ltd. carries highest ratio of 2.63 whereas GMR Infrastructure Ltd. carries a ratio of 0.02 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is 55.87 which is significantly higher than the aggregate EPS of all sample companies. The EPS of Grasim Industries Ltd. is highest at Rs. 223 whereas that of GMR Infrastructure Ltd. is lowest at Rs.0.37.
- iv. The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE is significantly higher (at 76.67) than aggregate PE of 13.19. The PE of GMR Infrastructure Ltd. is highest at 337.84 while Tata Chemicals is lowest at 6.07.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.4 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Diversified Sector*

	<i>DIR</i>	<i>BC</i>	<i>TD</i>	<i>GI</i>	<i>EBT / SALES</i>	<i>SALES/TA</i>	<i>EPS</i>	<i>P/E</i>
<i>DIR</i>	1.00							
<i>BC</i>	-0.14	1.00						
<i>TD</i>	-0.33	0.91	1.00					
<i>GI</i>	0.13	0.46	0.32	1.00				
<i>EBT / SALES</i>	-0.13	0.30	0.02	0.41	1.00			
<i>SALES/TA</i>	-0.06	0.23	0.54	0.15	-0.71	1.00		
<i>EPS</i>	0.22	-0.36	-0.46	0.59	0.02	-0.03	1.00	
<i>P/E</i>	-0.50	0.31	0.22	0.08	0.84	-0.52	-0.38	1.00

The following facts can be revealed from above mentioned table.

- i) Director's related disclosure is positively related with all corporate governance parameters. It is positively related with three financial parameters, viz. EBT/Sales, EPS and P/E. It is negatively related with one financial parameter, Sales/TA.
- ii) Board Committees related disclosure is positively related with all Corporate Governance parameters, it is negatively related with two financial parameters (Sales/TA and P/E). It is positively associated with remaining one financial parameter EPS. It is neutral with one financial parameter, EBT/Sales.
- iii) Transparency Disclosure is positively related with all Corporate Governance related parameters. It positively related three financial performance related parameters, (EBT/Sales, EPS and P/E). It is negatively related with one parameter, Sales/TA.
- iv) General Information related disclosure is positively related with all Corporate Governance related parameters. It is also positively related with all financial performance related parameters.

• Financial Services & Banking Sector

As mentioned in the previous chapters, there are 13 sample companies in the banking and financial services related sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.5 Financial Performance of Sample Companies in Financial Services Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	AXIS Bank Ltd.	AXIS	19%	0.08	31.31	22.76
2	Bank of Baroda	BOB	16%	0.08	39.41	6.63
3	Bank Of India	BOI	18%	0.08	40.83	5.66
4	HDFC	HDFC	41%	0.10	85.28	24.98
5	HDFC Bank Ltd.	HDFC B	18%	0.09	45.59	24.13
6	ICICI Bank Ltd.	ICICI B	13%	0.10	39.15	19.35
7	Industrial Dev Bank of India	IDBI	9%	0.07	10.10	8.07
8	Infrastructure Dev Fin. Co. Ltd.	IDFC	34%	0.09	5.36	14.37
9	Kotak Mahindra Bank Ltd.	KML	18%	0.27	29.18	18.39
10	Power Finance Corp. Ltd	PFC	35%	0.10	10.51	13.13
11	Punjab National Bank	PNB	20%	0.08	69.87	6.54
12	Reliance Capital Ltd.	RCL	56%	0.14	41.75	25.06
13	State Bank of India	SBI	2%	0.08	126.50	12.51
Average of Sector			23%	0.10	44.22	15.50
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is 23 %. Where as aggregate of all companies is 20 %. The Reliance Capital Ltd. is having highest ratio of 56% whereas State Bank of India is having lowest ratio of 2 % in the industry.
- ii. Sales/ Total Assets ratio of the industry is 0.10 times. The aggregate of all companies is 1.22 times. Kotak Mahindra Bank Ltd. carries highest ratio of 0.27 whereas Industrial Development Bank of India carries ratio of 0.07 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is 44.22 which is very close to the aggregate EPS of all sample companies. The EPS of State

Bank of India is highest at Rs. 126.50 whereas that of IDFC Ltd. is lowest at Rs. 5.36

- iv. The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE is higher (at 15.50) than aggregate PE of 13.19. The PE of Reliance Capital Ltd. is highest at 25.06 while Bank of India is lowest at 5.66.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.6 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Financial Services & Banking Sector*

	DIR	BC	TD	GI	EBT / SALES	SALES/TA	EPS	P/E
DIR	1							
BC	0.32	1.00						
TD	0.58	0.38	1.00					
GI	0.45	0.12	0.24	1.00				
EBT / SALES	0.19	0.14	-0.07	0.74	1.00			
SALES/TA	0.51	0.27	0.46	0.35	0.16	1.00		
EPS	-0.41	-0.04	-0.12	-0.08	-0.22	-0.13	1.00	
P/E	0.46	0.43	0.58	0.48	0.48	0.32	0.07	1.00

As mentioned in the above table, the following can be analyzed.

The following facts can be revealed from above mentioned table.

- i) Director's related disclosure is positively related with all corporate governance parameters. It is negatively related with one financial performance parameter, EPS.
- ii) Board Committees related disclosure is positively related with all Corporate Governance parameters, it is negatively related with one parameter, EPS.
- iii) Transparency Disclosure is positively related with all Corporate Governance related parameters. It negatively related two financial performance related parameters, (EBT/Sales and EPS)..
- iv) General Information related disclosure is positively related with all Corporate Governance related parameters. It is negatively related with EPS.

- FMCG Sector.

As mentioned in the previous chapters, there are 5 sample companies in the Fast Moving Consumer Goods (FMCG) related sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.7 Financial Performance of Sample Companies in FMCG Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	Hindustan Unilever Ltd.	HUL	15%	8.38	11.46	18.39
2	ITC Ltd.	ITC	21%	1.71	8.29	21.76
3	Nestle India Ltd.	Nestle	18%	9.68	55.39	24.10
4	Tata Tea Ltd.	Tata Tea	34%	0.44	50.79	14.79
5	United Spirits Ltd.	United Sp	15%	1.02	31.84	43.97
Average of Sector			20%	4.25	31.55	24.60
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- Average EBT/Sales ratio of the industry is 20 %. Where as aggregate of all companies is 21 %. The Tata Tea Ltd. is having highest ratio of 34% whereas Hindustan Unilever Ltd. and United Spirits Ltd. are having lowest ratio of 15 % in the industry.
- Sales/ Total Assets ratio of the industry is 4.25 times, which is significantly higher than aggregate of all companies, which is 1.22 times. Nestle India Ltd. carries highest ratio of 9.68 whereas Tata Tea Ltd. carries ratio of 0.44 which is lowest in the industry.
- Earnings Per Share (EPS): The average EPS of the industry is Rs. 31.55 which is lower then the aggregate EPS of all sample companies which is Rs. 45.46 . The EPS of Nestle India Ltd. is highest at Rs. 55.39 whereas that of ITC Ltd. is lowest at Rs. 8.29.
- The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE is higher (at 24.60) than aggregate PE of 13.19. The PE of United Spirits Ltd is highest at 43.97 while Tata Tea Ltd is lowest at 14.79.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.8 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in FMCG Sector*

	DIR	BC	TD	GI	EBT / SALES	SALES/TA	EPS	P/E
DIR	1.00							
BC	0.40	1.00						
TD	0.05	-0.33	1.00					
GI	0.17	-0.17	0.79	1.00				
EBT / SALES	-0.08	0.60	0.39	0.38	1.00			
SALES/TA	-0.30	-0.80	0.16	0.41	-0.53	1.00		
EPS	-0.93	-0.15	0.11	-0.01	0.44	0.08	1.00	
P/E	-0.22	-0.12	-0.64	-0.95	-0.55	-0.23	0.00	1.00

As mentioned in the above table, the following can be analyzed.

- i) Directors' related disclosure is positively related with all corporate governance parameters whereas it is negatively related with all four financial parameters viz. EBT/Sales, Sales / TA, EPS & P/E
- ii) Board Committees related disclosure is negatively related with two Corporate Governance related parameters, TD and GI. It is also negatively related with financial parameters of Sales/TA, EPS and P/E.
- iii) TD disclosure is negatively related only with EPS.
- iv) GI is positively related with all Corporate Governance related parameters whereas it is negatively associated with two financial parameters, EPS and P/E.
- v) PE is negatively related with all GC related parameters and EBT/Sales and Sales/TA as well.

• Healthcare Sector

As mentioned in the previous chapters, there are 7 sample companies in the Healthcare and Pharmaceuticals related sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.9 Financial Performance of Sample Companies in Healthcare Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	Cipla Ltd.	Cipla	21%	0.91	9.02	21.07
2	Divi's Laboratories Ltd.	Divi's L	37%	1.06	54.77	20.08
3	Dr Reddy's Laboratories Ltd.	DRL	17%	0.63	28.27	17.90
4	Glaxo SmithKline Pharma.Ltd.	Glaxo	38%	1.15	52.93	20.78
5	Glenmark Pharma Ltd.	Glenmark	30%	0.74	15.90	26.35
6	Ranbaxy Laboratories Ltd.	Ranbaxy	-37%	0.37	-27.00	-7.11
7	Sun Pharmaceutical Inds Ltd.	Sun Ph	32%	0.74	50.90	23.20
Average of Sector			20%	0.80	26.40	17.47
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is 20 %. Where as aggregate of all companies is 21 %. The Glaxo Smithkline Pharmaceuticals Ltd. is having highest ratio of 38% whereas Ranbaxy Laboratories Ltd is having lowest ratio of (Negative) - 37% in the industry.
- ii. Sales/ Total Assets ratio of the industry is 0.80 times, which is significantly lower than aggregate of all companies, which is 1.22 times. Glaxo Smithkline Pharmaceuticals Ltd.. carries highest ratio of 1.15 whereas Ranbaxy Laboratories Ltd. carries ratio of 0.37 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is Rs. 26.40 which is lower then the aggregate EPS of all sample companies which is Rs. 45.46 . The EPS of Divi's Laboratories Ltd. is highest at Rs. 54.77 whereas that of Ranbaxy Laboratories Ltd.. is lowest at (Negative) Rs. - 27.
- iv. The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE is higher (at 17.47) than aggregate PE of 13.19. The PE of Glenmark Pharmaceuticals Ltd. is highest at 26.35 while Ranbaxy Laboratories Ltd. is lowest at (Negative) - 7.11.



For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.10 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Healthcare Sector*

	<i>DIR</i>	<i>BC</i>	<i>TD</i>	<i>GI</i>	<i>EBT / SALES</i>	<i>SALES/TA</i>	<i>EPS</i>	<i>P/E</i>
<i>DIR</i>	1.00							
<i>BC</i>	0.67	1.00						
<i>TD</i>	0.43	0.72	1.00					
<i>GI</i>	0.46	0.84	0.96	1.00				
<i>EBT / SALES</i>	0.32	-0.04	-0.43	-0.35	1.00			
<i>SALES/TA</i>	0.29	0.02	-0.36	-0.21	0.82	1.00		
<i>EPS</i>	0.34	0.08	-0.12	-0.09	0.89	0.77	1.00	
<i>P/E</i>	0.25	-0.15	-0.53	-0.47	0.95	0.67	0.73	1.00

As mentioned in the above table, the following can be analyzed.

- i) Director's related disclosure is positively related with all corporate governance parameters as well as financial performance parameters.
- ii) Board Committees related disclosure is positively related with all Corporate Governance parameters. However, it is negatively associated with two financial parameters of EBT/Sales and P/E
- iii) TD disclosure is positively related with all Corporate Governance related parameters. However it is negatively related only all financial performance parameters.
- iv) GI is positively related with all Corporate Governance related parameters whereas it is negatively associated with two financial parameters, EPS and P/E
- v) PE is negatively related with all GC related parameters and EBT/Sales and Sales/TA as well.

• Housing Related Sector

As mentioned in the previous chapters, there are 8 sample companies in the Housing related sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.11 Financial Performance of Sample Companies in Housing Related Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	ACC Ltd.	ACC	20%	1.50	64.63	5.71
2	Ambuja Cements Ltd.	Ambuja	32%	0.98	9.21	5.45
3	DLF Ltd.	DLF	51%	0.31	15.48	37.48
4	India Cements Ltd.	India Cem.	24%	0.66	23.97	6.74
5	IVRCL Infra & Projects Ltd.	IVRCL	8%	1.37	16.08	20.68
6	Jaiprakash Associates Ltd.	Jaiprakash	20%	0.32	5.42	34.87
7	Ultratech cement limited	Ultratech	24%	1.26	80.94	9.27
8	Unitech Ltd.	Unitech	46%	0.29	6.35	38.61
Average of Sector			28%	0.84	27.76	19.85
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is 28 %. Where as aggregate of all companies is 21 %. The DLF Ltd. is having highest ratio of 51% whereas IVRCL Infra and Projects Ltd is having lowest ratio of 8 % in the industry.
- ii. Sales/ Total Assets ratio of the industry is 0.84 times, which is significantly lower than aggregate of all companies, which is 1.22 times. ACC Limited carries highest ratio of 1.50 whereas Jaiprakash Associates Ltd. carries ratio of 0.32 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is Rs. 27.76 which is lower then the aggregate EPS of all sample companies which is Rs. 45.46 . The EPS of Ultratech Cement Ltd. is highest at Rs. 80.94 whereas that of Jaiprakash Associates Ltd. is lowest at Rs. 5.42.
- iv. The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE is higher (at 19.45) than aggregate PE of 13.19. The PE of Unitech Ltd. is highest at 38.61 while Ambuja Cements Ltd. is lowest at 5.45.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.12 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Housing Related Sector*

	<i>DIR</i>	<i>BC</i>	<i>TD</i>	<i>GI</i>	<i>EBT / SALES</i>	<i>SALES/TA</i>	<i>EPS</i>	<i>P/E</i>
<i>DIR</i>	1.00							
<i>BC</i>	0.30	1.00						
<i>TD</i>	-0.42	-0.70	1.00					
<i>GI</i>	-0.19	-0.11	0.45	1.00				
<i>EBT / SALES</i>	-0.37	-0.27	0.84	0.75	1.00			
<i>SALES/TA</i>	0.44	0.34	-0.72	-0.26	-0.67	1.00		
<i>EPS</i>	0.79	0.35	-0.46	0.01	-0.28	0.67	1.00	
<i>P/E</i>	-0.30	-0.49	0.66	0.20	0.51	-0.76	-0.57	1.00

As mentioned in the above table, the following can be analyzed.

- i) Director's related disclosure is negatively related with two corporate governance parameters viz. TD and General Information. It is also negatively associated with two financial performance parameters EBT/Sales and P/E.
- ii) Board Committees related disclosure is positively related with two Corporate Governance parameters, it is also negatively associated with two parameters (TD and GI). However, it is negatively associated with two financial parameters of EBT/Sales and P/E.
- iii) TD disclosure is negatively related with two Corporate Governance related parameters viz. Director related disclosure and Board Committee. It is also negatively related with two financial performance parameters i.e. Sales/TA and EPS.
- iv) GI is negatively related with two Corporate Governance related parameters, it is also negatively associated with one financial parameters, Sales/TA
- v) PE is negatively related with two GC related parameters, apart from two financial parameters Sales/TA and EPS.

• Information Technology Sector

As mentioned in the previous chapters, there are 7 sample companies in the Housing related sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.13 Financial Performance of Sample Companies in Info. Tech. Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	Financial Technologies (I) Ltd	FTIL	92%	0.72	214.00	6.31
2	HCL Technologies Ltd.	HCL	18%	1.48	11.71	20.56
3	Infosys Technologies Ltd.	Infosys	31%	1.21	78.24	16.78
4	Patni Computer Systems Ltd.	PCS	25%	0.65	28.70	4.36
5	Tata Cons. Services Limited	TCS	26%	1.70	46.67	16.07
6	Tech Mahindra Ltd.	Tech Mah	23%	2.80	64.49	9.38
7	Wipro Ltd.	Wipro	19%	1.15	21.11	16.49
Average of Sector			34%	1.39	66.42	12.85
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is 34%. It is significantly higher compared to aggregate of all companies, which is 21%. The Financial Technologies India Ltd. is having highest ratio of 92 % whereas Wipro Ltd. is having lowest ratio of 19 % in the industry.
- ii. Sales/ Total Assets ratio of the industry is 1.39 times, which is significantly higher than aggregate of all companies, which is 1.22 times. Tech Mahindra Limited carries highest ratio of 2.80 whereas Patni Computer Systems Ltd. carries ratio of 0.65 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is Rs. 66.42 which is significantly higher than the aggregate EPS of all sample companies which is Rs. 45.46 . The EPS of Financial Technologies (I) Ltd. is highest at Rs. 214 whereas that of HCL Technologies Ltd. is lowest at Rs. 11.71.
- iv. The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE is at equal (12.85), which is lower than aggregate PE of 13.19. The PE of HCL Ltd. is highest at 20.56 while Patni Computer Systems is lowest at 4.36.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.14: Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Info Tech Sector*

	<i>DIR</i>	<i>BC</i>	<i>TD</i>	<i>GI</i>	<i>EBT / SALES</i>	<i>SALES/TA</i>	<i>EPS</i>	<i>P/E</i>
DIR	1.00							
BC	0.77	1.00						
TD	0.84	0.56	1.00					
GI	0.80	0.92	0.62	1.00				
EBT / SALES	-0.15	0.09	-0.25	0.16	1.00			
SALES/TA	0.03	0.32	-0.16	0.24	-0.42	1.00		
EPS	-0.02	0.23	-0.20	0.32	0.97	-0.25	1.00	
P/E	0.47	0.58	0.49	0.29	-0.49	0.22	-0.49	1.00

- i) Director's related disclosure is positively related with all corporate governance parameters. It is negatively associated with two financial performance parameters EBT/Sales and EPS.
- ii) Board Committees related disclosure is positively related with all Corporate Governance parameters, and it is also positively associated all financial parameters.
- iii) Transparency Disclosure is positively related with all Corporate Governance related parameters. However it is negatively related three financial performance parameters viz. EBT/Sales, Sales/TA and EPS.
- iv) General Information related disclosure is positively related with all Corporate Governance related parameters. It is positively related with all financial performance parameters as well.
- v) PE is positively related with all GC related parameters; however it is negatively related with two financial parameters of EBT/Sales and EPS.

• Metal, Metal Products and Mining Related Sector

As mentioned in the previous chapters, there are 8 sample companies in the Metal, Metal Products and Mining related sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.15 Financial Performance of Sample Companies in Metal & Mining Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	Hindalco Industries Ltd.	Hindalco	15%	0.73	24.51	6.01
2	Hindustan Zinc Ltd.	HZL	69%	0.71	104.04	4.87
3	Jindal Steel & Power Ltd	Jindal St	28%	0.67	80.34	21.49
4	JSW Steel Ltd	JSW St	19%	0.78	95.26	7.75
5	Sesa Goa Ltd.	Sesa Goa	61%	1.29	379.06	7.39
6	Steel Authority of India Ltd.	SAIL	27%	1.66	18.25	9.95
7	Sterlite Industries Ltd.	Sterlite	8%	0.80	14.10	46.60
8	Tata Steel Ltd.	Tata Steel	35%	0.43	67.17	8.82
Average of Sector			33%	0.88	97.84	14.11
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is 33%. It is significantly higher compared to aggregate of all companies, which is 21%. The Hindustan Zinc Ltd. is having highest ratio of 69 % whereas Sterlite Industries Ltd. is having lowest ratio of 8 % in the industry.
- ii. Sales/ Total Assets ratio of the industry is 0.88 times, which is lower than aggregate of all companies, which is 1.22 times. Steel Authority of India Limited carries highest ratio of 1.66 whereas Tata Steel Ltd. carries ratio of 0.43 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is Rs. 97.84 which is significantly higher then the aggregate EPS of all sample companies which is Rs. 45.46 . The EPS of Sesa Goa Ltd. is highest at Rs. 379.06 whereas that of Sterlite Industries Ltd. is lowest at Rs. 14.10.
- iv. The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE is marginally lower (12.88) with aggregate PE of 13.19. The PE of Sterlite Industries Ltd. is highest at 46.60 while Hindustan Zinc Ltd. is lowest at 4.87.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.16 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Metal & Mining Sector*

	DIR	BC	TD	GI	EBT / SALES	SALES/TA	EPS	P/E
DIR	1.00							
BC	0.27	1.00						
TD	0.83	0.14	1.00					
GI	0.18	-0.10	0.63	1.00				
EBT / SALES	0.52	-0.17	0.27	-0.04	1.00			
SALES/TA	0.00	0.17	-0.31	-0.83	0.12	1.00		
EPS	0.90	0.18	0.60	-0.14	0.67	0.27	1.00	
P/E	-0.18	0.19	0.12	0.33	-0.53	-0.11	-0.31	1.00

- i) Director's related disclosure is positively related with all corporate governance parameters. It is negatively associated with one financial performance parameter i.e. P/E.
- ii) Board Committees related disclosure is positively related with three Corporate Governance parameters, it is also negatively related with one financial parameter i.e. Sales/TA.
- iii) Transparency Disclosure is positively related with three Corporate Governance related parameters, it is negatively related with one Corporate Governance parameter i.e. General Information. It negatively related one financial parameters i.e. Sales/TA
- iv) General Information related disclosure is negatively related with one Corporate Governance related parameters i.e. Board Committees. It is negatively related with three financial performance parameters viz. EBT/Sales, Sales/TA and EPS.
- v) PE is negatively related with three GC related parameters; however it is negatively related with three financial parameters of EBT/Sales, Sales/TA and EPS.

• Oil & Gas Sector

As mentioned in the previous chapters, there are 11 sample companies in the Oil and Gas related sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.17 Financial Performance of Sample Companies in Oil and Gas Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	Aban Offshore Ltd.	Aban	38%	0.26	34.54	74.75
2	Bharat Petroleum Corp Ltd.	BPCL	2%	4.37	43.72	8.62
3	Cairn India Ltd.	Cairn	-138%	0.00	-0.44	-459.66
4	Essar Oil Ltd.	Essar Oil	-8%	0.04	-0.36	-521.11
5	Gail (India) Ltd.	GAIL	21%	1.19	30.76	12.19
6	Hindustan Petroleum Corp Ltd.	HPCL	1%	3.59	33.48	7.47
7	Indian Oil Corporation Ltd.	IOCL	4%	2.74	58.39	7.19
8	ONGC Ltd.	ONGC	39%	0.72	78.09	12.23
9	Reliance Industries Ltd.	RIL	17%	0.93	133.86	15.84
10	Reliance Natural Res.Ltd.	RNRL	23%	0.13	0.44	211.02
11	Reliance Petroleum Ltd.	RPL	0%	0.00	0.00	0.00
Average of Sector			0%	1.55	45.83	-70.16
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is almost 0 %. Mainly because of negative EBT / sales ratio of Cairn India Ltd. The average EBT/Sales ratio is significantly lower compared to aggregate of all companies, which is 21%. The ONGC Ltd. is having highest ratio of 39 % whereas Cairn India Ltd. is having lowest ratio of (Negative) – 138%.
- ii. Sales/ Total Assets ratio of the industry is 1.55 times, which is higher than aggregate of all companies, which is 1.22 times. Bharat Petroleum Corporation Limited carries highest ratio of 4.37 whereas Cairn India Ltd. carries ratio of 0.00 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is Rs.45.83 which is almost equal to the aggregate EPS of all sample companies which is Rs. 45.46 . The EPS of Reliance Industries Ltd. is highest at Rs. 133.86 whereas that of Cairn India Ltd. is lowest at (Negative) Rs. -0.44.
- iv. The Price Earning Multiple is also a significant indicator for potential investor.



As mentioned in the above table, the Industry's average PE is negative (because of Cairn India Ltd. & Essar Oil Ltd) at -70.16 while aggregate of PE of 13.19. The PE of Reliance Natural Resources Ltd. is highest at 211.02 while Essar Oil Ltd. is lowest at Negative (-) 521.11.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.18 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Oil and Gas Sector*

	DIR	BC	TD	GI	EBT / SALES	SALES/TA	EPS	P/E
DIR	1.00							
BC	0.34	1.00						
TD	0.61	0.63	1.00					
GI	0.17	0.85	0.38	1.00				
EBT / SALES	0.12	0.00	0.14	-0.25	1.00			
SALES/TA	-0.52	-0.57	-0.53	-0.45	0.14	1.00		
EPS	0.26	0.44	0.42	0.18	0.38	0.27	1.00	
P/E	0.08	0.00	0.29	0.05	0.71	0.27	0.34	1.00

- i) Director's related disclosure is positively related with all corporate governance parameters. It is negatively associated with one financial performance parameter i.e. Sales/TA.
- ii) Board Committees related disclosure is positively related with all Corporate Governance parameters, it is also negatively related with one financial parameter i.e. Sales/TA.
- iii) Transparency Disclosure is positively related with all Corporate Governance related parameters. It negatively related one financial parameters i.e. Sales/TA
- iv) General Information related disclosure is positively related with two Corporate Governance related parameters and is also negatively related with two Corporate Governance parameters. It is negatively related with two financial performance parameters viz. EBT/Sales and Sales/TA.
- v) PE is positively related with all Corporate Governance and Financial related parameters.

• Power Sector

As mentioned in the previous chapters, there are 4 sample companies in the Power sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.19 Financial Performance of Sample Companies in Power Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	NTPC Ltd.	NTPC	26%	0.49	9.00	17.92
2	Power Grid Corp. of India Ltd.	PGCIL	37%	0.12	3.60	24.17
3	Reliance Energy Ltd.	REL	15%	0.44	47.00	23.43
4	Tata Power Co. Ltd.	Tata Power	15%	0.57	41.43	25.40
Industry Average			24%	0.41	25.26	22.73
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is almost 24 % the average EBT/Sales ratio is higher compared to aggregate of all companies, which is 21%. The Power Grid Corporation of India Ltd. is having highest ratio of 37 % whereas Reliance Energy Ltd and Tata Power Company Ltd. is having lowest ratio of 15 %.
- ii. Sales/ Total Assets ratio of the industry is 0.41 times, which is lower than aggregate of all companies, which is 1.22 times. Tata Power Ltd. carries highest ratio of 0.57 whereas Power Grid Corporation of India Ltd. carries ratio of 0.12 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is Rs.25.26 which is lower than aggregate of all sample companies which is Rs. 45.46 . The EPS of Reliance Energy Ltd. is highest at Rs. 47.00 whereas that of Power Grid Corporation of India Ltd. lowest at Rs. 3.60.
- iv. The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE at 22.73 while aggregate of PE of 13.19. The PE of Tata Power Co. Ltd. is highest at 25.40 while NTPC Ltd. is lowest at Negative 17.92.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.20 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Power Sector*

	<i>DIR</i>	<i>BC</i>	<i>TD</i>	<i>GI</i>	<i>EBT / SALES</i>	<i>SALES/TA</i>	<i>EPS</i>	<i>P/E</i>
<i>DIR</i>	1.00							
<i>BC</i>	0.76	1.00						
<i>TD</i>	0.55	0.76	1.00					
<i>GI</i>	-0.84	-0.49	-0.66	1.00				
<i>EBT / SALES</i>	-0.61	-0.92	-0.49	0.17	1.00			
<i>SALES/TA</i>	0.12	0.69	0.33	0.28	-0.86	1.00		
<i>EPS</i>	0.85	0.96	0.58	-0.49	-0.94	0.63	1.00	
<i>P/E</i>	0.76	0.55	0.81	-0.97	-0.20	-0.18	0.48	1.00

The following facts can be revealed from above mentioned table.

- i) Director's related disclosure is positively related with three corporate governance parameters. It is negatively associated with one financial performance parameter i.e. EBT/Sales.
- ii) Board Committees related disclosure is positively related with three Corporate Governance parameters, it is also negatively related with one financial parameter i.e. EBT/Sales.
- iii) Transparency Disclosure is positively related with three Corporate Governance related parameters. It negatively related one financial parameters i.e. EBT/Sales.
- iv) General Information related disclosure is negatively related with all three Corporate Governance related parameters. It is negatively related with two financial performance parameters viz. EPS and P/E.
- v) EBT/Sales is negatively related with all other three financial parameters i.e. Sales/TA, EPS and P/E.
- vi) EPS is significantly positively related with Board Composition parameters.

• Telecom Sector

As mentioned in the previous chapters, there are 4 sample companies in the Power sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.21 Financial Performance of Sample Companies in Telecom Sector*

<i>SR</i>	<i>Name</i>	<i>Company</i>	<i>EBT / SALES</i>	<i>SALES/TA</i>	<i>EPS</i>	<i>P/E</i>
1	Bharti Airtel Ltd.	Bharti	27%	0.95	32.91	21.46
2	Idea Cellular Ltd	Idea	17%	0.58	3.96	22.47
3	Mahanagar Tele.Nigam Ltd.	MTNL	12%	0.43	9.32	9.95
4	Reliance Communications Ltd.	RCL	19%	0.30	12.60	37.78
5	Tata Communications Ltd.	Tata Com.	13%	0.47	10.68	41.20
Industry Average			<b>18%</b>	<b>0.55</b>	<b>13.89</b>	<b>26.57</b>
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is almost 18 % the average EBT/Sales ratio is lower than compared to aggregate of all companies, which is 21%. The Bharti Airtel Ltd. is having highest ratio of 27 % whereas MTNL is having lowest ratio of 15 %.
- ii. Sales/ Total Assets ratio of the industry is 0.55 times, which is lower than aggregate of all companies, which is 1.22 times. Bharti Airtel Ltd. carries highest ratio of 0.95 whereas Reliance Communications Ltd. carries ratio of 0.30 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is Rs.13.89 which is lower than aggregate of all sample companies which is Rs. 45.46. The EPS of Bharti Airtel Ltd. is highest at Rs. 32.91 whereas that of Idea Cellular Ltd. is lowest at Rs. 3.96.
- iv. The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE at 26.57 while aggregate of PE of 13.19. The PE of Tata Communications Ltd. is highest at 41.20 while MTNL Ltd. is lowest at 9.95.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.22 : Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Telecom Sector*

	DIR	BC	TD	GI	EBT / SALES	SALES/TA	EPS	P/E
DIR	1.00							
BC	0.81	1.00						
TD	0.56	0.89	1.00					
GI	0.84	0.98	0.81	1.00				
EBT / SALES	0.40	0.70	0.68	0.75	1.00			
SALES/TA	0.40	0.39	0.10	0.54	0.73	1.00		
EPS	0.41	0.43	0.39	0.53	0.85	0.77	1.00	
P/E	0.71	0.64	0.66	0.54	0.01	-0.33	-0.07	1.00

The following facts can be revealed from above mentioned table.

- i) Director's related disclosure is positively related with all corporate governance parameters. It is also positively associated with all financial performance parameter. Its relation with P/E is more significant.
- ii) Board Committees related disclosure is positively related with all Corporate Governance parameters, it is also negatively related with all financial parameter. It is significantly associated with EBT/Sales.
- iii) Transparency Disclosure is positively related with all Corporate Governance related parameters. It also negatively related all financial performance related parameter. It is also significantly related with EBT/Sales and P/E.
- iv) General Information related disclosure is positively related with all Corporate Governance related parameters. It is also positively related with all financial performance related parameter, more particularly, EBT/Sales.
- v) P/E is negatively related with all two financial parameters i.e. Sales/TA and EPS.
- vi) EBT/Sales is significantly positively related with two corporate governance parameters Board Composition parameters (Board Composition and General Information disclosure).

• Transport Equipment Sector

As mentioned in the previous chapters, there are 6 sample companies in the Power sector. The financial performance is analyzed in terms of initially mentioned parameters and is mentioned in the following table.

*Table 5.23 Financial Performance of Sample Companies in Transport Equipment Sector*

SR	Name	Company	EBT / SALES	SALES/TA	EPS	P/E
1	Ashok Leyland Ltd.	Ashok Le	8%	2.37	3.53	8.67
2	Bharat Forge Ltd.	Bharat Forge	17%	0.80	12.25	20.00
3	Bosch Ltd.	BOSCH	17%	1.50	198.00	13.64
4	Cummins India Ltd.	CUMMINS	16%	2.16	14.18	17.98
5	Hero Honda Motors Ltd.	HHML	13%	3.40	48.47	13.03
6	Mahindra & Mahindra Ltd.	M&M	10%	1.93	46.24	13.24
7	Maruti Suzuki India Ltd.	Maruti	14%	1.88	59.91	13.27
8	Tata Motors Ltd.	Tata Mot	8%	2.22	52.64	11.52
Industry Average			<b>13%</b>	<b>2.03</b>	<b>54.40</b>	<b>13.92</b>
Aggregate Average of All Sample Cos.			20%	1.24	45.46	13.19

The following facts can be revealed from above mentioned table.

- i. Average EBT/Sales ratio of the industry is almost 20 % while the average EBT/Sales of all companies is 21%. The Bharat Forge Ltd. is having highest ratio of 17 % whereas Ashok Leyland and Tata Motors is having lowest ratio of 8%.
- ii. Sales/ Total Assets ratio of the industry is 2.03 times, which is higher than aggregate of all companies, which is 1.22 times. Ashok Leyland Ltd. carries highest ratio of 2.37 whereas Bharat Forge Ltd. carries ratio of 0.80 which is lowest in the industry.
- iii. Earnings Per Share (EPS): The average EPS of the industry is Rs.54.40 which is higher than aggregate of all sample companies which is Rs. 45.46. The EPS of Bosch Ltd. is highest at Rs. 198.00 whereas that of Ashok Leyland Ltd. is lowest at Rs. 3.53.
- iv. The Price Earning Multiple is also a significant indicator for potential investor. As mentioned in the above table, the Industry's average PE at 13.92 while aggregate of PE of 13.19. The PE of Bharat Forge Ltd. is highest at 20 while Ashok Leyland Ltd. is lowest at 8.67.

For further analysis a correlation is also calculated for further calculation in context of Corporate Governance Score.

*Table 5.24: Table indicating Correlation between Financial Performance and Corporate Governance for the sample companies in Transport Equipment Sector*

	<i>DIR</i>	<i>BC</i>	<i>TD</i>	<i>GI</i>	<i>EBT / SALES</i>	<i>SALES/TA</i>	<i>EPS</i>	<i>P/E</i>
<i>DIR</i>	1.00							
<i>BC</i>	0.60	1.00						
<i>TD</i>	0.46	0.74	1.00					
<i>GI</i>	0.05	0.41	0.61	1.00				
<i>EBT / SALES</i>	-0.69	-0.75	-0.70	0.08	1.00			
<i>SALES/TA</i>	0.10	0.31	0.26	-0.18	-0.45	1.00		
<i>EPS</i>	0.13	0.27	0.14	0.73	0.33	-0.17	1.00	
<i>P/E</i>	-0.69	-0.76	-0.56	0.00	0.80	-0.55	-0.12	1.00

The following facts can be revealed from above mentioned table.

- v) Director's related disclosure is positively related with all corporate governance parameters. It is positively related with two financial performance parameter viz. Sales / TA and EPS. It is negatively related with remaining two financial performance parameters (EBT/Sales and P/E).
- vi) Board Committees related disclosure is positively related with all Corporate Governance parameters, it is negatively related with two financial parameters (EBT/Sales and P/E). It is positively associated with remaining two financial parameters, Sales/TA and EPS.
- vii) Transparency Disclosure is positively related with all Corporate Governance related parameters. It negatively related two financial performance related parameters, (EBT/Sales and P/E). It is also positively related with remaining two parameters, Sales/TA and EPS.
- viii) General Information related disclosure is positively related with all Corporate Governance related parameters. It is also positively related with two financial performance related parameter, EBT/Sales & EPS. However, there is no relation of GI score with P/E.
- ix) PE is negatively related with three of corporate governance parameters, viz Directors related Disclosure, Board Composition and Transparency related disclosures.

- All Sample Industries

*Table 5.25: Table indicating Correlation between Financial Performance and Corporate Governance for the all Sample Companies*

	<i>DIR</i>	<i>BC</i>	<i>TD</i>	<i>GI</i>	<i>EBT / SALES</i>	<i>SALES/TA</i>	<i>EPS</i>	<i>P/E</i>
<i>DIR</i>	1.00							
<i>BC</i>	0.44	1.00						
<i>TD</i>	0.38	0.36	1.00					
<i>GI</i>	0.15	0.27	0.51	1.00				
<i>EBT / SALES</i>	0.09	0.00	0.03	0.04	1.00			
<i>SALES/TA</i>	-0.19	-0.13	-0.09	0.13	-0.09	1.00		
<i>EPS</i>	0.13	0.09	0.07	0.08	0.35	0.02	1.00	
<i>P/E</i>	0.04	-0.01	0.05	0.04	0.57	0.05	0.02	1.00

The following facts can be revealed from above mentioned table.

- i) Director's related disclosure is positively related with all corporate governance parameters. It is positively related with three financial parameters, viz. EBT/Sales, EPS and P/E. It is negatively related with one financial parameter, Sales/TA.
- ii) Board Committees related disclosure is positively related with all Corporate Governance parameters, it is negatively related with two financial parameters (Sales/TA and P/E). It is positively associated with remaining one financial parameter EPS. It is neutral with one financial parameter, EBT/Sales.
- iii) Transparency Disclosure is positively related with all Corporate Governance related parameters. It positively related three financial performance related parameters, (EBT/Sales, EPS and P/E). It is negatively related with one parameter, Sales/TA.
- iv) General Information related disclosure is positively related with all Corporate Governance related parameters. It is also positively related with all financial performance related parameters.



- Testing of Hypothesis :  $H_{01}$

Null Hypothesis

$H_{01}$  There is no significant difference in the actual Corporate Governance Score and expected score of selected Indian Companies.

Alternate Hypothesis

$H_{01}$  There is significant difference in the actual Corporate Governance Score and expected score of selected Indian Companies.

To test this hypothesis, a t–test is run considering the corporate governance score of all sample companies.

Z-Test

	<i>Variable 1</i>
Mean	67.36
Observations	90
Standard Deviation	7.62
Z Calculated	0.49
Z Critical	1.96
Level of Significance	5 %

As indicated above, the calculated value (0.49) is lower than the critical value (1.96), the null hypothesis can not be rejected

Therefore, the hypothesis is not rejected. Hence, it is observed that there is no significant difference between the expected and actual corporate governance score of sample companies.

- $H_{02}$

Null Hypothesis

$H_{02}$  There is no significant difference in the Corporate Governance Score among various sectors of the Indian companies.

Alternate Hypothesis

$H_{02}$  There is significant difference in the Corporate Governance Score among various sectors of the Indian companies.

The hypothesis is tested with the help of the following table.

t-Test

	<i>Variable 1</i>
Mean	67.5
Observations	12
Level of significance	5 %
Standard Deviation	2.54
T Calculated Value	0.50
T Critical Value	2.20

As indicated above the calculated value (0.50) is lower than the critical value (2.20). Therefore, the null hypothesis can not be rejected. Hence, it is observed that there is no significant difference among the various sectors of Indian companies for corporate governance score.

H<sub>03</sub>

Null Hypothesis

H03: There is a positive impact of Corporate Governance on the financial performance of the selected Indian companies

Alternate Hypothesis

H03: There is no positive impact of Corporate Governance on the financial performance of the selected Indian companies

To test this hypothesis, a correlation is run between following two key performance variables.

- i) EBT /Sales Ratio ( of all sectors and all industries)
- ii) Corporate Governance Score ( of all sectors and all industries).

The correlation test is executed to observe the above mentioned correlation. The result is Positive 0.02.

Hence, it is observed that the EBT / Sales ratio which is indicative of firm's financial performance is positively related with Corporate Governance Score.

Therefore, The H03 is accepted.

# Chapter: 6

## Summary and Conclusion

- Summary
- Findings on the basis of Hypothesis Testing
- Conclusion
  
- Bibliography
  - Books
  - Reports on Corporate Governance
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  - Useful Websites on Corporate Governance

## Summary

India, the government has proactively strengthened the corporate governance guidelines, mainly through the introduction of the amended Clause 49. There are provisions aimed at vesting shareholders with greater powers, implementing stricter measures for investor protection, creating independent director requirements and improving the quality and depth of disclosures provided in the financial statements.

The fundamental objective of good corporate governance and ethics” is to ensure the commitment of an organization in managing the company in a legal and transparent manner in order to maximize the long-term value of the company for its shareholders, customers, competitors, employees and all other partners.

It is important to understand that effective and efficient governance by the board is just one component of governance and ethics. Robust governance practices and ethical behavior leading to a world class company not only hinges on the functioning of the board, but is also dependent on how various interconnected building blocks of the ecosystem work together.<sup>1</sup>

Good corporate governance helps to prevent corporate scandals, fraud, and potential civil and criminal liability of the organization. It is also good business. A good corporate governance image enhances the reputation of the organization.<sup>2</sup>

There are several developments in corporate sector at national and international level which indicate that a detailed study is required in corporate governance area. If we look into history, there are several attempts made by Government and various trade associations for systematic development of Corporate Governance.

Even recently, in December 2009, the Ministry of Corporate Affairs (MCA) published a new set of “Corporate Governance Voluntary Guidelines 2009”, designed to encourage companies to adopt better practices. This indicates that there is a need to examine the prevailing corporate practices in Indian context.

**The First chapter** deals with an overview. In the first chapter researcher has focused on corporate governance meaning, history and landmark developments in this sector at international as well as national level.

It is rightly described that in a narrow sense, corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. While in a broader sense, good corporate governance may extend to - which companies are run in an open and honest manner - is important for overall market confidence, the efficiency of capital allocation, the growth and development of countries' industrial bases, and ultimately the nations' overall wealth and welfare.

There were several frauds and scams in the corporate history of the world. It was felt that the system for regulation is not satisfactory and it was felt that it needed substantial external regulations. These regulations should penalize the wrong doers while those who abide by rules and regulations, should be rewarded by the market forces. In this context there were several developments in countries like USA, UK etc. In USA, the development of the Foreign and Corrupt Practices Act of 1977 and in 1979 proposal by Securities and Exchange Commission's for mandatory reporting on internal financial controls were major developments. However, the latest and the most impactful development is introduction of Sarbanes Oxley Act – 2002 was another landmark development for corporate governance. In UK, the seeds of modern corporate governance were sown by the Bank of Credit and Commerce International (BCCI) and the Barings Bank scandal, as a result the Committee of Sponsoring Organizations (COSO) was formed, which produced report in 1992 framework and was endorsed and refined in four subsequent UK reports : Cadbury, Ruthman, Hampel and Turnbull.

There were several committees formed at international level in the area of corporate governance like, Cadbury committee on Corporate Governance – 1992, The Paul Ruthman Committee, The Greenbury Committee, The Hampel Committee, The Turnbull Committee,

Organization for Economic Co-operation and Development (OECD) was also one of the earliest non-governmental organizations to work on and spell out principles and practices that should govern corporate in their goal to attain long-term shareholder value. The OECD were trend setters as the Code of Best practices are associated with Cadbury report. The following points were included in the OECD principles, The rights of shareholders, Equitable treatment of shareholders, Role of stakeholders in corporate governance, Disclosure and Transparency and Responsibilities of the board

There have been several major corporate governance initiatives launched in India since the mid-1990s. The first was by the Confederation of Indian Industry (CII), India's largest industry and business association, which came up with the first voluntary code of corporate governance in 1998. The second was by the SEBI, now enshrined as Clause 49 of the listing agreement. The third was the Naresh Chandra Committee, which submitted its report in 2002. The fourth was again by SEBI — the Narayana Murthy Committee, which also submitted its report in 2002. Based on some of the recommendation of this committee, SEBI revised Clause 49 of the listing agreement in August 2003.

Subsequently, SEBI withdrew the revised Clause 49 in December 2003, and currently, the original Clause 49 is in force. More recently, in December 2009, the Ministry of Corporate Affairs (MCA) published a new set of “Corporate Governance Voluntary Guidelines 2009”, designed to encourage companies to adopt better practices in the running of boards and board committees, the appointment and rotation of external auditors, and creating a whistle blowing mechanism.

Despite these wide-ranging developments in regulation and policy, what becomes increasingly apparent in India is that the reform process has not addressed, or effectively addressed, a key challenge at the heart of the governance problem, namely the accountability of promoters to other shareholders.

**The Second chapter** deals with financial performance. The financial performance is useful to several stake holders, like creditors, suppliers of long term debt, investors, management etc.

As indicated in the second chapter, the performance of the firm can be measured by its financial results i.e, by its size of earnings Riskiness and profitability are two major factors which jointly determine the value of the concern. Financial decisions which increase risks will decrease the value of the firm and on the other hand, financial decisions which increase the profitability will increase value of the firm. Risk and profitability are two essential ingredients of a business concern.

A company's financial performance, therefore is normally judged by the following ways i) ratio analysis, ii) DuPont Analysis, iii) Comparative Statement Analysis and iv) Time Series analysis / Trend Analysis and v) Inter-firm Analysis.

Ratio analysis is Ratios are calculated based on the financial and related statement like. Profit & Loss account, Balance Sheet etc. The ratios are normally classified as under: a)Liquidity Ratios, b) Leverage Ratios, c) Activity Ratios and d) Profitability Ratios

For the purpose of this project, the researcher has taken the following three ratios

- a) Return on Equity,
- b) Earnings Per Share and
- c) Price Earnings Ratio.

All three parameters are discussed in detailed along with various other ratios in the second chapter. However, it is to be noted that fundamentally, the balance sheet indicates the financial position of the company as on that point of time. However, profit and loss account is a statement, which is prepared for a particular financial year. In Indian context, where an analyst has to rely upon the audited financial statement for a particular company, the performance is to be judged from the financial statement only.



The **Third chapter** is about research methodology. There are several developments in corporate sector at national and international level which indicate that a detailed study is required in corporate governance area. More recently, in December 2009, the Ministry of Corporate Affairs (MCA) published a new set of “Corporate Governance Voluntary Guidelines 2009”, designed to encourage companies to adopt better practices in the running of boards and board committees, the appointment and rotation of external auditors, and creating a whistle blowing mechanism.

This indicates that there is a need to examine the prevailing corporate practices in Indian context. In this context this research is taken up.

The broader objective of this research is to understand the Corporate Governance processes of Indian Companies and to see the impact of Corporate Governance on the Financial Performance.

This objectives can be summarized as under;

- To understand the concept of corporate governance practices in true sense and in Indian context.
- To study the acceptance and implementation of corporate governance in Indian corporate.
- To study the corporate governance practices and measure in terms of corporate governance score
- To understand firm financial performance and corporate governance.
- To know the impact of corporate governance on financial performance.

The formulation of the study has been framed out from two perspectives :

- To evaluate the implementation of Corporate Governance Code by assessing corporate governance score
- To evaluate the financial performance of the sample company using various financial ratios.

The broader assumptions in the study are as under:

- H01 There is no significant difference in the expected and actual Corporate Governance Score of selected Indian Companies.
- H02 There is no significant difference in the Corporate Governance Score among various sectors of the Indian companies.
- H03 There is a positive impact of Corporate Governance on the financial performance of the selected Indian companies.

The following methodology is followed for the project.

First of all calculation of financial ratios (For measuring the Financial Performance). The researcher have considered the following ratios as key financial performance indicator. The focus of the research is on Corporate Governance, the following financial parameters are considered. i) EBT / Sales, ii) Sales / Total Assets, iii) Earning Per Share, iv) P/E Multiple.

#### Evaluation of Governance Standard

After analysis of governance structure, process and disclosures made on corporate governance, the question comes to mind is what is the standard and quality of governance that has been achieved by various companies. To arrive at a corporate governance score, (out of 100) several parameters are considered and they are divided into four key areas (Directors Information, Board Committee, Transparency and Disclosure and General Information), each carrying a weightage of 25 points each.

After analysis of governance structure, process and disclosures made on corporate governance, the question comes to mind is what is the standard and quality of governance that has been achieved by various companies?

Score Range	Rank
86 – 100	Excellent
71 – 85	Very Good
56 – 70	Good
41 – 55	Average
Below 41	Poor

The above score indicate the category of the company on the corporate governance score card.

**In the Forth chapter** the corporate governance score is calculated.

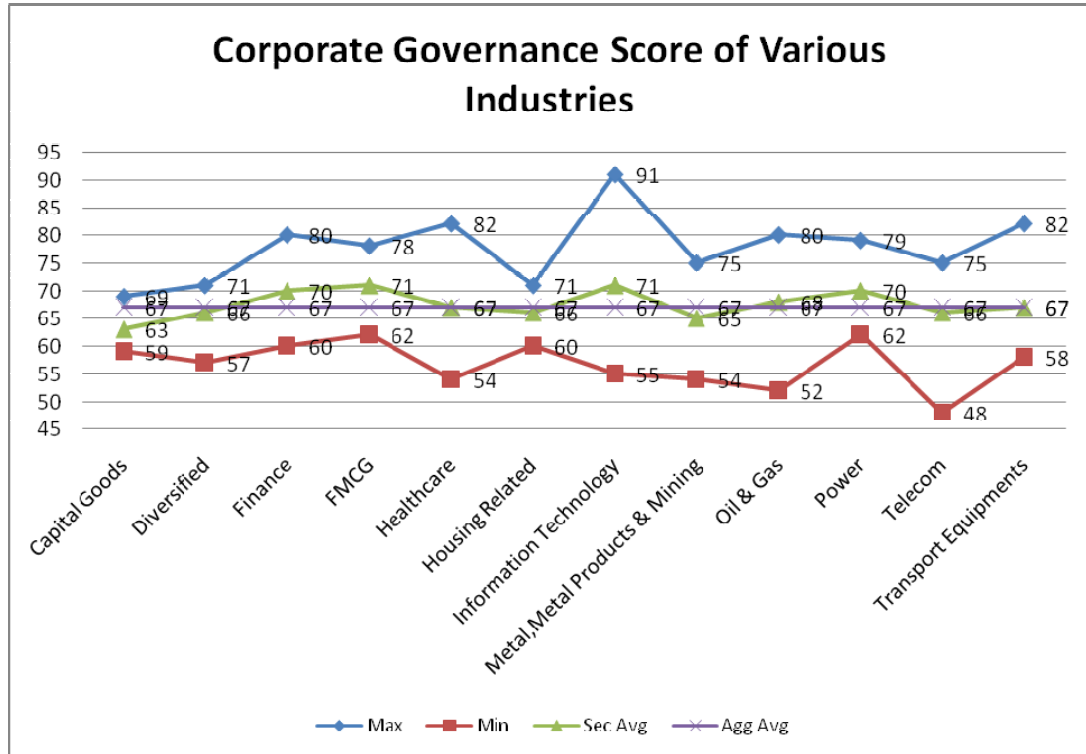
As the study aims to focus on all companies which are part listed in BSE and are part of BSE 100 index as on 1<sup>st</sup> April, 2008 as the work was started in the year 2008.

Out of BSE 100 companies, there are following 10 companies which are not considered as a part of this sample because of various reasons like merger / take over, non availability of complete report etc. Therefore the sample size of the study includes 90 companies as they fulfill the required criteria.

The sample for this study comprises 90 renowned corporate houses representing various sectors. The performance on corporate governance score is as under :

<b>Sr. No.</b>	<b>Sector</b>	<b>No. of Companies</b>	<b>Average of Sector</b>	<b>Maximum Score</b>	<b>Minimum Score</b>
1	Capital Goods	08	63	69	59
2	Diversified	06	66	71	57
3	Finance	13	70	80	60
4	FMCG	05	71	78	62
5	Healthcare	07	67	82	54
6	Housing Related	08	66	71	60
7	Information Technology	07	71	91	55
8	Mining, Metal Products	08	65	75	54
9	Oil and Gas	11	68	80	52
10	Power	04	70	79	62
11	Telecom	05	66	75	48
12	Transport Equipments	08	67	82	58
	<b>Total Companies</b>	<b>90</b>			
	<b>Aggregate Average</b>	<b>67</b>			

As indicated in above table, the sector of IT and FMCG sector are highest in corporate governance score (71) where as capital goods sector is lowest with 63 point score.



**Sector wise summary : Corporate Governance Score**  
**CG Score - - >**

Sector	up to 40	41-55	56-70	71-85	86-100
Capital G.	0	0	8	0	0
Diversified	0	0	4	2	0
Banking	0	0	8	5	0
FMCG	0	0	2	3	0
Healthcare	0	1	3	3	0
Housing	0	0	7	1	0
IT&ITES	0	1	3	2	1
Metal Min	0	1	4	3	0
PetroChem	0	1	6	4	0
Power	0	0	2	2	0
Telecom	0	1	2	2	0
Capital Eq	0	0	5	3	0
<b>OVER ALL</b>	<b>0</b>	<b>5</b>	<b>54</b>	<b>30</b>	<b>1</b>

**In the Fifth chapter**, the financial performance of the sample companies is calculated.

As mentioned in Chapter 2, there are several tools available for analyzing the financial performance of a company. However, the following parameters are used to analyze the financial performance for this research.

- a) EBIT / Sales Ratio (ES)    b) Sales/ Total Assets (SA)    c) Earnings Per Share (EPS)    d) P/E Multiple (PE)

The summary of above ratios is mentioned as under:

SN	Sector	No. Co.s	ES (%)			SA			EPS			PE		
			H	L	A	H	L	A	H	L	A	H	L	A
1	Capital Goods	08	29	8	15	4.06	0.70	2.30	103.00	7.81	38.16	36.66	10.10	25.19
2	Diversified	06	58	3	22	2.63	0.02	1.03	223.00	0.37	55.87	337.84	6.07	76.67
3	Finance/ Banks	13	56	2	23	0.27	0.07	0.10	126.50	5.36	44.22	25.06	5.66	15.50
4	FMCG	05	34	15	20	9.68	0.44	4.25	55.39	8.29	31.55	43.97	14.79	24.60
5	Healthcare	07	38	-37	20	1.15	0.37	0.80	54.77	-27.00	26.40	26.35	-7.11	17.47
6	Housing Related	08	51	8	28	1.50	0.32	0.84	80.94	5.42	27.76	38.61	5.45	19.85
7	Info. Technology	07	92	19	34	2.80	0.65	1.39	214.00	11.71	66.42	20.56	4.36	12.85
8	Mining, Metal Products	08	69	8	33	1.66	0.43	0.88	379.06	14.10	97.84	46.60	4.87	14.11
9	Oil and Gas	11	39	-138	00	4.37	0.00	1.55	133.86	-0.44	45.83	211.02	-521.11	-70.16
10	Power	04	37	15	24	0.57	0.12	0.41	47.00	3.60	25.26	25.40	17.92	22.73
11	Telecom	05	27	15	18	0.95	0.30	0.55	32.91	3.96	13.89	41.20	9.95	26.57
12	Transport Equipments	08	17	8	13	2.37	0.80	2.03	198.00	3.53	54.40	20.00	8.67	13.92
	<b>Total Companies</b>	<b>90</b>												
	<b>Aggregate Average</b>				20			1.24			45.46			13.19

As mentioned in the above table, the Information Technology which is having highest average EBIT/ Sales ratio where as oil and gas sector is lowest ratio. Average Sales to Total Assets ratio is highest in FMCG sector whereas is lowest in Financial services and banking sector. Average EPS is highest in mining, metal and metal products sector, whereas is lowest in Telecom sector. Average PE is highest in Diversified sector, whereas is lowest in Oil and Gas sector.

Thereafter the researcher has tried to find out the correlation between the four parameters of Corporate Governance Score and four financial performance parameters. The below mentioned are its key findings.

The analysis of the Capital Goods sector indicates a strong positive relationship between DI and SA whereas TI and PE are negatively related.

In Diversified Sector, DI is having negative relationship with PE whereas GI and EPS are positively related.

In Banking and Financial Services sector, GI is positively related with ES whereas DI is negatively related with EPS. In case of FMCG Sector, DI is negatively related with all financial parameters whereas GI is positively related with SA and negatively with PE.

In Healthcare sector, TD and GI are negatively related with all financial performance parameters whereas DI is positively related with EPS.

In case of Housing and related companies, TD is positively related with ES whereas it is negatively related with SA. In IT & ITES sector, BC is positively related with PE whereas TD is negatively related with ES.

In Metal and Mining sector, DI is positively related with EPS and is neutral with SA, GI is negatively related with SA.

In case of Petroleum and Petrochemicals sector, BC is negatively related with SA, positively with EPS and is neutral with PE.

In case of Power sector, BC is positively related with EPS whereas GI is negatively related with PE.

In case of Telecom sector, all corporate governance parameters are positively related with all financial performance parameters, more specifically, GI is positively related with ES.

In case of Capital Equipment sector, GI is positively related with EPS is neutral with PE, whereas BC is negatively related with PE. In case of overall analysis, SA is negatively related with DI, positively with GI, whereas BC and ES are neutral.

## Findings on the basis of Hypothesis Testing

Relationship	Accepted	Rejected	Remarks
H1 significant difference in the expected and actual Corporate Governance Score	Null hypothesis Can Not be Rejected		There is no significant Difference
H2 significant difference in the Corporate Governance Score among various sectors of the Indian companies	Null hypothesis Can Not be Rejected		There is no significant Difference
H3 There is a positive impact of Corporate Governance on the financial performance of the selected Indian companies.	Null Hypothesis Accepted		The corporate governance score is positively related with EBT/Sales.

H1: For expected and actual score of corporate governance, the hypothesis is not rejected it means there is no significant difference between the corporate governance score of various sample companies.

H2 : For corporate governance score among various sectors of selected companies, the hypothesis is not rejected it means there is no difference in average corporate governance score of different industries.

H3 : For relationship between corporate governance score and the financial performance score, the hypothesis is accepted indicating there is a positive relationship between the EBT/Sales ratio and corporate governance score of selected Indian companies.

## Conclusion

This study is based on secondary data related to the published data of sampled group companies. The study is related with corporate governance disclosure disclosed by sampled group companies. Thus this study has scope of further investigation. As corporate governance has been evolved as recent practice among Indian companies, the study itself is an investigation for this evolving concept.



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## Prominent Guidelines on Corporate Governance

- AFL-CIO Guidelines American Federation of Labor and Congress of Industrial Organisations, Investing Our Future: AFL-CIO Proxy Voting Guidelines (1997).
- ALI Principles American Law Institute, Principles of Corporate Governance: Analysis and Recommendations (1994).
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- Toronto Guidelines Toronto Stock Exchange, The Toronto Stock Exchange Company Manual
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- UK Combined Code Financial Services Authority, The Listing Rules, and Combined code.
- US Business Roundtable Report Business Roundtable, Corporate Governance and American Competitiveness.

## Links on Corporate Governance

### A) European Union

- Commission/DG Internal Market: Directors' Remuneration
- Commission/DG Internal Market: Independent Directors and Board Committees
- Commission/DG Internal Market: European Corporate Governance Forum
- Eul-Lex: Communication 'Modernising Company Law' and Enhancing Corporate Governance in the European Union - A Plan to Move Forward, Com (2003) 284
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- Winter Group: Report of the High Level Group of Company Law Experts on Issues Related to Takeover Bids (January 2002)
- Commission: Comparative Study of Corporate Governance Codes Relevant to the European Union and its Member States (March 2002)
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- Parliament :OEIL: Company Law Perspectives in the European Union
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## B) Governments

- Belgium: Report of the Belgian Commission on Corporate Finance (1998)
- Germany: German Panel on Corporate Governance-Corporate Governance Rules for Quoted German Companies (January 2000)
- UK: Hamper Report - Committee on Corporate Governance Final Report (January 1998)
- UK: Cadbury Commission-Report of the Committee on the Financial Aspects of Corporate Governance (December 1992)
- United States: Sarbanes-Oxley Act on Public Company Accounting Reform and Investor Protection (2002)
- India: Report of the Task Force on Corporate Excellence through Governance (2000), Dept.of Company Affaires, Govt of India
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## C) International Organisations

- International Chamber of Commerce (ICC): Corporate Governance
- World Council for Corporate Governance (WCFCG): website
- Global Corporate Governance Forum (GCGF): website
- OECD: Principles of Corporate Governance (Revised -January 2004)
- OECD: Survey of Corporate Governance Development in OECD Countries
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**ANNEXURE : 1 : CLAUSE 49 OF LISTING  
AGREEMENT**

## Clause 49 - Corporate Governance

The company agrees to comply with the following provisions:

### I. Board of Directors

#### Composition of Board

(i) The board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors. The number of independent directors would depend on whether the Chairman is executive or non-executive. In case of a non-executive chairman, at least one-third of board should comprise of independent directors and in case of an executive chairman, at least half of board should comprise of independent directors.

Explanation (i): For the purpose of this clause, the expression ‘independent director’ shall mean non-executive director of the company who apart from receiving director’s remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its senior management or its holding company, its subsidiaries and associated companies; is not related to promoters or management at the board level or at one level below the board; has not been an executive of the company in the immediately preceding three financial years; is not a partner or an executive of the statutory audit firm or the internal audit firm that is associated with the company, and has not been a partner or an executive of any such firm for the last three years. This will also apply to legal firm(s) and consulting firm(s) that have a material association with the entity. is not a supplier, service provider or customer of the company. This should include lessor-lessee type relationships also; and is not a substantial shareholder of the company, i.e. owning two percent or more of the block of voting shares.

Explanation (ii): Institutional directors on the boards of companies shall be considered as independent directors whether the institution is an investing institution or a lending institution.

#### (B) Non executive directors’ compensation and disclosures

(i) All compensation paid to non-executive directors shall be fixed by the Board of Directors and shall be approved by shareholders in general meeting. Limits shall be set for the maximum number of stock options that can be granted to non-executive directors in any financial year and in aggregate. The stock options granted to the non-executive directors shall vest after a period of at least one year from the date such non-executive directors have retired from the Board of the Company.

(ii) The considerations as regards compensation paid to an independent director shall be the same as those applied to a non-executive director.

(iii) The company shall publish its compensation philosophy and statement of entitled compensation in respect of non-executive directors in its annual report. Alternatively,

this may be put up on the company's website and reference drawn thereto in the annual report. Company shall disclose on an annual basis, details of shares held by non-executive directors, including on an "if-converted" basis.

(iv) Non-executive directors shall be required to disclose their stock holding (both own or held by / for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should accompany their notice of appointment

#### (C) Independent Director

Independent Director shall however periodically review legal compliance reports prepared by the company as well as steps taken by the company to cure any taint. In the event of any proceedings against an independent director in connection with the affairs of the company, defence shall not be permitted on the ground that the independent director was unaware of this responsibility.

The considerations as regards remuneration paid to an independent director shall be the same as those applied to a non executive director

#### (D) Board Procedure

The board meeting shall be held at least four times a year, with a maximum time gap of four months between any two meetings. The minimum information to be made available to the board is given in Annexure-IA.

A director shall not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director. Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

Explanation: For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies (i e private limited companies, foreign companies and companies under Section 25 of the Companies Act, etc) shall be excluded.

Further only the three committees viz. the Audit Committee, the Shareholders' Grievance Committee and the Remuneration Committee shall be considered for this purpose.

#### (E) Code of Conduct

It shall be obligatory for the Board of a company to lay down the code of conduct for all Board members and senior management of a company. This code of conduct shall be posted on the website of the company.

All Board members and senior management personnel shall affirm compliance with the code on an annual basis. The annual report of the company shall contain a declaration to this effect signed by the CEO and COO.

Explanation: For this purpose, the term "senior management" shall mean personnel of the company who are members of its management / operating council (i.e. core management team excluding Board of Directors). Normally, this would comprise all members of management one level below the executive directors

(F) Term of Office of Non-executive directors

Person shall be eligible for the office of non-executive director so long as the term of office did not exceed nine years in three terms of three years each, running continuously.

II Audit Committee.

Qualified and Independent Audit Committee

A qualified and independent audit committee shall be set up and shall comply with the following:

- The audit committee shall have minimum three members. All the members of audit committee shall be non-executive directors, with the majority of them being independent.
- All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation (i):The term "financially literate" means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation (ii): A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities.

- The Chairman of the Committee shall be an independent director;
- The Chairman shall be present at Annual General Meeting to answer shareholder queries;

The audit committee should invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and when required, a representative of the external auditor shall be present as invitees for the meetings of the audit committee;

- The Company Secretary shall act as the secretary to the committee.



(B) Meeting of Audit Committee

The audit committee shall meet at least thrice a year. One meeting shall be held before finalization of annual accounts and one every six months. The quorum shall be either two members or one third of the members of the audit committee, whichever is higher and minimum of two independent directors.

(C) Powers of Audit Committee

The audit committee shall have powers which should include the following:

To investigate any activity within its terms of reference.

To seek information from any employee.

To obtain outside legal or other professional advice.

To secure attendance of outsiders with relevant expertise, if it considers necessary.

(D) Role of Audit Committee

(i) The role of the audit committee shall include the following:

- Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the board, focusing primarily on;
  - Any changes in accounting policies and practices.
  - Major accounting entries based on exercise of judgment by management.
  - Qualifications in draft audit report.
  - Significant adjustments arising out of audit.
  - The going concern assumption.
  - Compliance with accounting standards.
  - Compliance with stock exchange and legal requirements concerning financial statements
- Any related party transactions
- Reviewing with the management, external and internal auditors, the adequacy of internal control systems.
- Reviewing the adequacy of internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discussion with internal auditors any significant findings and follow up there on.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.

- Discussion with external auditors before the audit commences about nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- Reviewing the company's financial and risk management policies.
- To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.

Explanation (i): The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii): If the company has set up an audit committee pursuant to provision of the Companies Act, the company agrees that the said audit committee shall have such additional functions / features as is contained in the Listing Agreement.

#### (E) Review of information by Audit Committee

(i) The Audit Committee shall mandatorily review the following information:

Financial statements and draft audit report, including quarterly / half-yearly financial information; Management discussion and analysis of financial condition and results of operations; Reports relating to compliance with laws and to risk management; Management letters / letters of internal control weaknesses issued by statutory / internal auditors; and Records of related party transactions The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee

### III. Audit Reports and Audit Qualifications

#### Disclosure of Accounting Treatment

In case it has followed a treatment different from that prescribed in an Accounting Standards, management shall justify why they believe such alternative treatment is more representative of the underlined business transactions. Management shall also clearly explain the alternative accounting treatment in the footnote of financial statements.

#### IV. Whistle Blower Policy

##### (A) Internal Policy on access to Audit Committees:

Personnel who observe an unethical or improper practice (not necessarily a violation of law) shall be able to approach the audit committee without necessarily informing their supervisors.

Companies shall take measures to ensure that this right of access is communicated to all employees through means of internal circulars, etc. The employment and other personnel policies of the company shall contain provisions protecting "whistle blowers" from unfair termination and other unfair prejudicial employment practices.

Company shall annually affirm that it has not denied any personnel access to the audit committee of the company (in respect of matters involving alleged misconduct) and that it has provided protection to "whistle blowers" from unfair termination and other unfair or prejudicial employment practices.

Such affirmation shall form a part of the Board report on Corporate Governance that is required to be prepared and submitted together with the annual report.

The appointment, removal and terms of remuneration of the chief internal auditor shall be subject to review by the Audit Committee.

#### V. Subsidiary Companies

The company agrees that provisions relating to the composition of the Board of Directors of the holding company shall be made applicable to the composition of the Board of Directors of subsidiary companies

At least one independent director on the Board of Directors of the holding company shall be a director on the Board of Directors of the subsidiary company.

The Audit Committee of the holding company shall also review the financial statements, in particular the investments made by the subsidiary company.

(iv) The minutes of the Board meetings of the subsidiary company shall be placed for review at the Board meeting of the holding company.

(v) The Board report of the holding company should state that they have reviewed the affairs of the subsidiary company also

## VI. Disclosure of contingent liabilities

(i) The company agrees that management shall provide a clear description in plain English of each material contingent liability and its risks, which shall be accompanied by the auditor's clearly worded comments on the management's view. This section shall be highlighted in the significant accounting policies and notes on accounts, as well as, in the auditor's report, where necessary.

## VII. Disclosures

### (A) Basis of related party transactions

(i) A statement of all transactions with related parties including their basis shall be placed before the Audit Committee for formal approval/ratification. If any transaction is not on an arm's length basis, management shall provide an explanation to the Audit Committee justifying the same.

### (B) Board Disclosures –Risk management

(i) It shall put in place procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

(ii) Management shall place a report certified by the compliance officer of the company, before the entire Board of Directors every quarter documenting the business risks faced by the company, measures to address and minimize such risks, and any limitations to the risk taking capacity of the corporation. This document shall be formally approved by the Board.

### (C) Proceeds from Initial Public Offerings (IPOs)

(i) When money is raised through an Initial Public Offering (IPO) it shall disclose to the Audit Committee, the uses / applications of funds by major category (capital expenditure, sales and marketing, working capital, etc), on a quarterly basis as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus. This statement shall be certified by the independent auditors of the company. The audit committee shall make appropriate recommendations to the Board to take up steps in this matter.

(D) Remuneration of Directors

All pecuniary relationship or transactions of the non-executive director's vis-à-vis the company shall be disclosed in the Annual Report.

(ii) Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the annual report.

All elements of remuneration package of all the directors i.e. salary, benefits, bonuses, stock options, pension etc.

Details of fixed component and performance linked incentives, along with the performance criteria.

Service contracts, notice period, severance fees.

Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.

(E) Management

As part of the directors' report or as an addition there to, a Management Discussion and Analysis report should form part of the annual report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:

Industry structure and developments.

Opportunities and Threats.

Segment-wise or product-wise performance.

Outlook

Risks and concerns.

Internal control systems and their adequacy.

Discussion on financial performance with respect to operational performance.

Material developments in Human Resources / Industrial Relations front, including number of people employed.

Management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

(F) Shareholders

(i) In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:

A brief resume of the director; Nature of his expertise in specific functional areas ; and Names of companies in which the person also holds the directorship and the membership of Committees of the board.

(ii) Information like quarterly results, presentation made by companies to analysts shall be put on company's web-site, or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site.

(iii) A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as 'Shareholders/Investors Grievance Committee'.

(iv) To expedite the process of share transfers the board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

VIII. CEO/CFO certification

CEO (either the Executive Chairman or the Managing Director) and the CFO (whole-time Finance Director or other person discharging this function) of the company shall certify that, to the best of their knowledge and belief:

They have reviewed the balance sheet and profit and loss account and all its schedules and notes on accounts, as well as the cash flow statements and the Directors' Report;

These statements do not contain any materially untrue statement or omit any material fact nor do they contain statements that might be misleading;

These statements together present a true and fair view of the company, and are in compliance with the existing accounting standards and / or applicable laws / regulations;

They are responsible for establishing and maintaining internal controls and have evaluated the effectiveness of internal control systems of the company; and they have also disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, and what they have done or propose to do to rectify these;

They have also disclosed to the auditors as well as the Audit Committee, instances of significant fraud, if any, that involves management or employees having a significant role in the company's internal control systems; and

They have indicated to the auditors, the Audit Committee and in the notes on accounts, whether or not there were significant changes in internal control and / or of accounting policies during the year.

#### IX. Report on Corporate Governance

(i) There shall be a separate section on Corporate Governance in the annual reports of company, with a detailed compliance report on Corporate Governance. Non-compliance of any mandatory requirement i.e. which is part of the listing agreement with reasons thereof and the extent to which the non-mandatory requirements have been adopted should be specifically highlighted. The suggested list of items to be included in this report is given in Annexure-1B and list of non-mandatory requirements is given in Annexure –1C.

(ii) The companies shall submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the format given below. The report shall be submitted either by the Compliance Officer or the Chief Executive Officer of the company after obtaining due approvals.

Format of Quarterly Compliance Report on Corporate Governance

Name of the Company:

Quarter ending on:

Particulars	Clause of Listing Agreement.	Compliance Status	Remarks
<b>I. Board of Directors</b>	49 I		
(A)Composition of Board	49(IA)		
(B)Non-executive Directors' compensation & disclosures	(IB)		
(C)Independent Director	(IC)		
(D)Board Procedure	9 (ID)		
(E)Code of Conduct	9 (IE)		
(F)Term of office of non-executive directors	49 (IF)		
<b>II. Audit Committee</b>	9 (II)		
(A)Qualified & Independent Audit Committee	9 (IIA)		
(B)Meeting of Audit Committee	9 (IIB)		
(C)Powers of Audit Committee	9 (IIC)		
(D)Role of Audit Committee	II(D)		
(E)Review of Information by Audit Committee	49 (IIE)		
<b>III. Audit Reports and Audit Qualifications</b>	49 (III)		
<b>IV. Whistle Blower Policy</b>	49 (IV)		
<b>V. Subsidiary Companies</b>	49 (V)		
<b>VI. Disclosure of contingent liabilities</b>	49 (VI)		
<b>VII. Disclosures</b>	49 (VII)		
(A)Basis of related party transactions	IIA)		
(B)Board Disclosures	(VIIB)		
(C)Proceeds from Initial Public offerings	49 (VIIC)		
(D)Remuneration of Directors	49 (VIID)		
(E)Management	(VIIE)		
(F)Shareholders	49 (VIIF)		
<b>VIII. CEO/CFO Certification</b>	49 (VIII)		
<b>IX. Report on Corporate Governance</b>	49 (IX)		
<b>X. Compliance</b>	49 (X)		

Note:

1) The details under each head shall be provided to incorporate all the information required as per the provisions of the clause 49 of the Listing Agreement.

2) In the column No.3, compliance or non-compliance may be indicated by Yes/No/N.A.. For example, if the Board has been composed in accordance with the clause 49 I of the Listing Agreement, "Yes" may be indicated. Similarly, in case the company has not come out with an IPO, the words "N.A." may be indicated against 49 (VIIC).



3) In the remarks column, reasons for non-compliance may be indicated, for example, in case of requirement related to circulation of information to the shareholders, which would be done only in the AGM/EGM, it might be indicated in the "Remarks" column as – "will be complied with at the AGM". Similarly, in respect of matters which can be complied with only where the situation arises, for example, "Report on Corporate Governance" is to be a part of Annual Report only, the words "will be complied in the next Annual Report" may be indicated.

#### X. Compliance

The company shall obtain a certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance as stipulated in this clause and annex the certificate with the directors' report, which is sent annually to all the shareholders of the company. The same certificate shall also be sent to the Stock Exchanges along with the annual returns filed by the company.

#### Schedule of implementation

(1) The provisions of the revised clause 49 shall be implemented as per the schedule of implementation given below:

(i) By all entities seeking listing for the first time, at the time of listing.

(ii) By all companies which were required to comply with the requirement of the erstwhile clause 49 i.e. all listed entities having a paid up share capital of Rs 3 crores and above or net worth of Rs 25 crores or more at any time in the history of the entity . These entities shall be required to comply with the requirement of this clause on or before March 31, 2004.

(2) The non-mandatory requirement given in Annexure – 1C shall be implemented as per the discretion of the company. However, the disclosures of the adoption/non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.