Chapter-4

Corporate Governance Practices of Selected Companies

The Companies Act, 2013 makes it compulsory for Indian companies to follow CG and make mandatory disclosure about in their annual reports. So it is necessary to understand the practices of Indian companies. The study has collected data for NIFTY 100 indexed companies and analysed their corporate governance practices. The data has been collected through a structured questionnaire developed by the BSE, IFC and IiAS in 2016. The corporate governance Scorecard consisted of 70 questions divided into four OECD practice categories, namely

I. "Rights and equitable treatment of shareholders"
II. "Role of stakeholders"
III. "Disclosures and transparency"
IV. "Responsibilities of the board"

The chapter has been divided into five sections. The first section provides the details of methodology used for the analysis. The second section provides the details regarding reliability of questionnaire. The third section provides a view of the status of the CG practices that are prevalent in the NIFTY 100 companies. Finally, the fourth section shows the main highlights of the sample companies, and section five concludes the study.

4.1 Methodology

The study's first objective was to look into the CG procedures used by the Indian corporate sector. The first step was to measure the CG governance score of selected Indian companies. A scoresheet to calculate the CG total score has been adopted from the "Corporate Governance Scorecard of BSE,IFC and IiAS Initiative" and is used in the present study.

We have used the BSE Corporate Governance Scorecard for the NIFTY 100 Companies to carry out this analysis. The sample 100 companies come from nine *industrial sectors* (Information technology; Consumer Staples; Material; Utilities and Telecom; Consumer Discretionary; Industrial; Health care; Energy and Financials). The sources of information included annual reports and the website of the company. Each of the sub-categories of the BSE CG Scorecard has been sub-divided into numerous subparts for a more in-depth review of corporate governance practises, as shown in the table below.

Table 4.1 - BSE Corporate Governance Scorecard Sub-categories

"Category I- Rights and Equitable Treatment of Shareholders"	**"Category II- Role of Stakeholders"**	**"Category III- Disclosures and Transparency"**	**"Category IV- Responsibilities of the Board"**
(19 Question)	(9 Question)	(23 Question)	(19 Question)
"Quality of shareholder meetings" "Related party transactions" "Investor grievance policies" "Conflicts of interest"	"Business responsibility initiatives" "Supplier management" "Employee welfare" "Investor engagement" "Whistle-blower policy"	"Ownership structure" "Financials" "Company filings" "Risk Management" "Audit integrity" "Dividend payouts and policies"	"Board and committee composition" "Training for directors" "Board evaluation" "Director remuneration" "Succession planning"

Based on the practices followed by every company, a score of 0 (minimum), 1 or 2 (maximum) is allocated for each question. However, if the question is ‘not applicable’ to a particular company, the question has been excluded from the scoring formula.

Considering the requirements of the existing legal framework in India, which mainly includes the provisions of the Companies Act and the SEBI’s listing requirements, the companies were bifurcated into three categories based on the fact that based on the average number of companies falling within each group, i.e. practices needs improvement; practices are reasonable, and practices are closer to global standards. This detailed analysis attempts to answer the following research questions.

- How much do Indian firms practise CG?
- What are the best corporate governance practices followed by sample companies?

The analysis has been carried out using basic analysis of scores using tables, percentages and graphs.

4.2 Reliability and Validity of Corporate Governance Scoresheet

The scoresheet taken from Corporate Governance Scorecard of BSE-IFC Initiative”(BSE, 2016) was adapted. Reliability was tested by calculating Cronbach alpha. Cronbach alpha measures the consistency reliability of the set of items within a group (questionnaire). Reliability for all four categories of scoresheet is here under:

4.2.1 Category I Reliability: Rights and Equitable Treatment of Shareholders

Table 4.2 - Reliability Statistics

Cronbach's Alpha	N of Items
.926	19

The table 4.2 shows that for category 1, which included 19 statement cronbach's alpha value is .926, indicating that these statements regarding rights and equitable treatment of shareholders are highly reliable for data collection and conducting the analysis.

4.2.2 Category II Reliability: Role of Stakeholders

Table 4.3 - Reliability Statistics

Cronbach's Alpha	N of Items
.731	9

The table 4.3 shows that for category II, cronbach's alpha value is .731, shows that 9 statements regarding role of stakeholders are highly reliable for data collection.

4.2.3 Category III Reliability: Disclosures and Transparency

Table 4.4 - Reliability Statistics

Cronbach's Alpha	N of Items
.709	23

The table 4.4 shows that for category III, which is represented through 23 statement, its cronbach's alpha value is .709, indicating that these statements regarding disclosures and transparency are highly reliable for data collection.

4.2.4 Category IV Reliability: Responsibilities of the Board

Table 4.5 - Reliability Statistics

Cronbach's Alpha	N of Items
.831	19

Table 4.5 shows the reliability statistics; Cronbach alpha value is .831, which shows that for category IV, which comprises 19 statements regarding Responsibilities of the Board practices is highly reliable for collecting data.

4.3 Analysis of Corporate Governance (CG) Practices

The analysis of CG practises followed by sample companies (NIFTY 100) has been carried out in this section in four subsections. Sub-section one covers governance practices regarding rights, and equitable treatment of shareholders, sub-section two analyses practices regarding the role of stakeholders, sub-section three analyses disclosure and transparency practices, sub-section four analyse governance practices regarding responsibilities of the board.

4.3.1 Category I: Rights and Equitable Treatment of Shareholders

One of the fundamental OECD corporate governance principles is that the company must identify fundamental shareholder rights and treat all shareholders equally. A publically listed Company is not merely constituted by the promoters group or high net worth investor with significant interest/shareholding to make themselves heard. It also includes small/retail investors with a minority interest. A good CG practice suggests that a company must give equitable rights and treatment to its shareholders, irrespective of their shareholding size. Quality of shareholder meetings, disclosures and policies and

framework of related party transactions, investor grievance policies formulated by the company, and practises of companies regarding any conflict of interest are a few of the core components to measure the extent of focus of companies towards the rights and equitable treatment of shareholders. 19 parameters were selected to understand the procedures being followed by the NIFTY 100 companies concerning the OECD principle "Rights and Equitable Treatment of Shareholders."

4.3.1.1 Quality of Shareholder's Meeting

While ensuring equitable rights and treatment to all the shareholders, an important aspect is ensuring the quality of shareholders' meetings. This is tested by understanding NIFTY 100 Companies practices, for the following statements:

Table 4.6– Average Score of Quality of Shareholder's Meeting Practices (percent)

Statement	Needs improvement	Reasonable practices	Global standard practices
"Has the company taken steps to ensure that the fundamental rights of shareholders are unequivocal?"	0	1	99
"Did the previous AGM allow sufficient time for shareholder engagement?"	14	85	1
"Can a minority shareholder with less than a 10 percent stake propose an agenda item in a shareholder meeting?"	99	1	0
"Was there any evidence of combining multiple matters or issues in a single resolution?"	7	42	51
"Was shareholder participation facilitated for all shareholders at the previous AGM in the past year?"	2	1	97
"Did the company provide proxy and e-voting facilities for all shareholder meetings in the past year?"	1	1	98
"Did all board members attend the previous AGM?"	9	72	19
"Did the external auditors attend and participate in the previous AGM?"	11	54	35
"Within how many months of the fiscal year-end was the last AGM held?"	22	52	26
"Do the charter documents of the company give additional rights to certain shareholders?"	2	3	95
Average Score	**17**	**31**	**52**

AGM's are one of the most important ways of ensuring equitable treatments for shareholders and involving them. The matter involving sufficient time to shareholders in

the last AGM, attendance and participation of all the board members and external auditors during the previous AGM can be analysed. The directors need to attend AGM because directors are the ones who take decisions on behalf of various shareholders; they are accountable to be present at AGM to answer questions of the shareholders. Apart from this, they should exercise their voting right to impact decisions and best suited for the organisation and shareholders.

Good corporate governance practices also suggest that the board must not combine two separate agendas into one voting item. The Agendas must be quoted unambiguously, and the shareholder must have a right to evaluate each item separately

Table 4.6 shows practices regarding the quality of shareholder's meetings. It depicts that almost all the companies have framed policies shareholders are unequivocal, only in one company no specific steps were taken beyond compliance with the law. Companies are also facilitating shareholder's participation and providing proxy and e-voting facility, without fail. It was only in 19 percent of companies that all the board members attended the AGM. In 72 percent of companies' chairman was not present at the AGM. In 7 percent companies, multiple resolutions were combined in 42 percent companies; at least one resolution was combined. Sufficient time was given to shareholders for participation, and their minutes were also recorded. 98 percent companies had provided an e-voting facility. Only one company did not give an e-voting facility for AGMs/EGS/Postal Ballot. In the majority of the companies, the Chairman, CEO and the Chairman of the Audit Committee attended the AGM; however, only in the case of 19 percent companies, the entire board participated at the AGM. In the case of 9 percent companies, even the Chairman/CEO, the Chairman of the Audit Committee did not attend the AGM. In only 36 percent of

companies, the Statutory Auditors participated in the AGM. In only 26 percent companies, AGM was held within four months of the fiscal years ending. Ninety-five companies do not give additional rights to any shareholders.

From the above analysis, it can be concluded that the majority of the companies (83 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards. Only in the case of 17 percent companies the practices were not as per the expected norms. These companies indicated a need for improvement in the quality of shareholder meetings.

4.3.1.2 Conflict of Interest

Conflict of Interest is another crucial factor determining equitable rights and treatment to all the shareholders. Any factor that leads to a conflict of interest for the minority shareholder hampers the good governance category of a company.

Table 4.7– Average Scores on Conflict of Interest Practices (percent)

Statement	Needs improvement	Reasonable practices	Global standard practices
"Were any preferential warrants issued to the controlling shareholders in the past one year?"	2	1	97
"Does the company have a policy requiring all related party transactions (RPTs) to be dealt with only by independent non conflicted board members?"	100	0	0
"Does the company have a system, including policies and procedures, to facilitate disclosures of conflicts of interest by stakeholders?"	5	62	33
"Did the company undertake any related party transaction in the past three years, which may have been prejudicial to the interests of minority shareholders?"	0	0	100
"Does the company payout disproportionately high royalty to its group entities?"	7	1	92
"In the past, has the company (or its subsidiaries) provided financial assistance to promoter entities that had to be written off or unlikely to be recovered?"	0	0	100

“Has the company been transparent while undertaking any M&A, restructuring, or slump sale?”	3	18	9
“Does the company have a policy to publicly disclose the reasons for pledging of shares by the controlling shareholders?”	9	0	28
“Is there evidence of structures or mechanisms that have the potential to violate minority shareholder rights?”	18	1	81
Average Score	**16**	**9**	**60**

The mere fact that the related parties are not independent of each other, the Companies Act, 2013 and SEBI (LODR), among other financial reporting frameworks, have established accounting and disclosure requirements for the RPTs. Section 177 of the Companies Act, 2013 require that “the company obtain prior approval from the Audit Committee, either individually or omnibus”. SEBI (LODR), the corporate governance certificate, requires the company to indicate that prior approval from the Audit Committee was obtained for the respective RPT. The company must also ensure that every RPT is at arm’s length and in an ordinary course of business. If any requirements are not met, the company must obtain shareholder approval through a resolution for any RPT. The fact that an RPT may conflict with the minority shareholders/Company interest requires the Audit Committee, the board of directors, and the statutory auditors to pay special attention to each RPT. The disclosures regarding the RPT are, therefore, vital from the Corporate Governance perspective.

Table 4.7 shows practices regarding conflict of interest. Regarding issues of preferential warrants, only two of the NIFTY 100 Companies had issued preferential warrants to controlling shareholders. The majority of the NIFTY 100 Companies have not given any preferential warrants to controlling shareholders. Two companies have issued preferential warrants, whereas one company has issued preferential warrants were issued following the debt restructuring scheme.

Almost all companies have rules and procedures in place to make it easier for stakeholders to disclose conflicts of interest. However, only 33 percent companies cover all stakeholders, including suppliers and vendors. This implies that though the majority of the companies are complying with the law, there is great scope for improvement since only 1/3rd of the companies cover all their stakeholders. In the majority of the NIFTY 100 companies, 92 percent of the royalty payouts were not disproportionate. Only in the case of 7 percent companies were royalty payouts higher than net profits and profitability growth. In none of the NIFTY 100 companies were loans/investments written off or classified as doubtful. Out of NIFTY 100 Companies that had undertaken M&A, restructuring or slump sale, the majority of the Companies (27 percent) had disclosed ample details, including fairness opinion. Only nine companies publically announced fairness opinions and independent valuation reports. There were only 3 percent companies that did not disclose an adequate amount of details.

Out of NIFTY 100 Companies, whose controlling shareholders had pledged shares, the majority had provided reasons for pledging of shares. Only in the case of 9 percent companies there were no reasons for pledging available.

Even though the majority of the NIFTY 100 Companies did not present evidence indicating structures or mechanisms that may violate minority shareholder rights, however, in the case of 18 percent of companies, there was evidence relating to pyramidal / opaque holding structures, cross-holdings and many inactive joint ventures.

From the above analysis, it can be concluded that the majority of the companies (84 percent) forming part of the NIFTY 100 had reasonable practices or practices close to

global standards. Only in the case of 16 percent companies the practices were not as per the expected norms. These companies indicated a need for decreasing conflict of interest.

4.3.2 Category II: Role of Stakeholders

Another important OECD principle of corporate governance is to encourage cooperation between stakeholders and the company. Every stakeholder, including shareholders, suppliers, or company employees, has their vested interest because they are associated with the company. The company also thrives based on its excellent relationship with its stakeholders. A few of the core components to measure companies' extent of focus towards corporate governance stakeholders include the welfare of employees, suppliers, investors, society and whistle-blower policy. Nine parameters were selected to understand the practices being followed by the NIFTY 100 companies concerning the OECD principle "Role of Stakeholders."

4.3.2.1 Supplier Management and Employee Welfare

THE OECD'S principle IV states that "The corporate governance framework must encourage active cooperation between companies and their stakeholders". Therefore, supplier management and employee welfare practices of any Company are key determinants of corporate governance.

Table 4.8–Average Score of Supplier Management and Employee Welfare Practices (percent)

Statement	Needs improvement	Reasonable practices	Global standard practices
"Does the company have publicly disclosed policies and/or mechanisms to address employees' health, safety, and welfare?"	2	27	71
"Does the company have policies and practices that explain its supplier/contractor selection and management processes?"	18	15	67

“Has the company demonstrated a commitment to protect the rights of its lenders, creditors, and suppliers?”	6	8	86
“Does the company demonstrate a commitment to strong ethical practices and is anti-corruption and anti-bribery?”	5	57	38
Average Score	**8**	**27**	**66**

For any business concern, suppliers and employees are among the most critical stakeholders. Good relations and reputation with suppliers ensures an ongoing and hassle-free business, while on the other hand, good employer-employee relations and practices ensure that the employee will focus on Company growth and it will operate effectively and efficiently. Therefore, good governance practices require that the company disclose their policies and mechanism to speak about the welfare of employees publicly. Supplier selection and management procedures must also be transparent with adequate policies in place. The company's commitment to ethical procedures and anti-corruption and anti-bribery policies are directly related to supplier and employee wellbeing.

Table 4.8 shows that the majority of the companies are closer to international standards of corporate governance and provided information on the health, safety, and welfare of employees along with detailed policies; however, 27 percent of companies did not have such policies and only disclosed information on the welfare of employees. Further, the two companies did not even disclose any information on employees’ health, safety, and interest and did not have any such related policies available in the public domain.

The majority of the companies have displayed their policies regarding both supplier and contractor selection. Although 15 percent of companies have only made their policies available either for the supplier or contractor selection, 18 percent are still lacking in making their supplier/ contractor policy available on the website.

86 percent of the companies have made efforts to meet the international standards regarding the protection of rights of their lenders, creditors, and suppliers as these companies have made timely payments to lenders, suppliers and other creditors. However, 8 percent of companies have made timely repayments to lenders but failed to repay suppliers on time. Further, 6 percent of companies have made delayed repayments to their lenders.

The majority of the companies have made their ethics policy available on their website for an ethical code of conduct. However, only 38 percent of companies have mentioned anti-corruption and bribery measures.57 percent have not said anti-corruption and bribery measures. Moreover, only 5 percent of the companies have not made their ethical practices policy available on their website.

From the above analysis, it can be concluded that the majority of the companies (92 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards. Only in the case of 8 percent companies the practices were not as per the expected norms. These companies indicated a need for improvement in supplier management and employee welfare practices.

4.3.2.2 Business Responsibility Initiatives

Corporate social responsibility is no longer an option for an organisation. From time to time, research has proved that if a business takes an interest in social and environmental issues, it can positively impact a firm’s overall performance.

As per the Companies Act, 2013, “all companies having net worth > 500 crores or turnover> 100 crore or net profit >5 crores need to form a CSR committee and spend a

minimum of 2 percent of the average net profit made during three immediately preceding years."

However, to improve the quality of CSR projects undertaken by the firm and to know any loopholes in the initiative, it is essential to conduct its impact assessment. In Jan 2021, the MCA has amended the CSR rules of 2014 and made impact assessment of CSR activities mandatory. The company can assess the impact of the CSR project after one year of its implementation. Now the firm must hire an independent agency to conduct an impact assessment. However, impact assessment expenditure should not exceed 5 percent of total spending on CSR projects or INR 5000.

Table 4.9–Average Score on Business Responsibility Initiatives Practices (percent)

Statement	Needs improvement	Reasonable practices	Global standard practices
"Is the company committed to developing stakeholder relationships?"	40	28	32
"Does the company demonstrate its commitment to being a good corporate citizen?"	4	27	69
"Does the company have processes in place to implement and measure the efficacy of its CSR programs?"	2	19	79
Average Score	**15**	**25**	**60**

Table 4.9 shows that for developing stakeholder's relationship, 32 percent of the companies meet "at least four times a year", have two independent directors and talk about stakeholder welfare. Twenty-eight percent of companies meet the requirement but do not fulfil the independent director requirement. Forty percent of the companies still do not have a Stakeholders' Relationship Committee. Regarding CSR spend and being a good corporate citizen, only four companies have not spent any amount on CSR activities; however, 27companies have spent less than "2 percent of average profit for the last three years", and 69 companies have spent 2 percent or more on CSR activities.

Further, 19 percent of companies do not undertake CSR impact assessment. Seventeen companies do not undertake CSR impact assessment. However, 80 percent of the companies have a well-structured and appropriate framework, i.e., a CSR committee disclosing spending and are conducting an impact assessment.

From the above analysis, it can be concluded that the majority of the companies (85 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards. Only in the case of 15 percent companies the practices were not as per the expected norms. These companies indicated a need for improvement in the business responsibility initiatives.

4.3.2.3 Investor Engagement and Whistle-blowing

Whistle-blower policy/mechanism allows everyone to raise red flags against the wrong going or unethical practices within an organisation without the fear of disclosing their identity. It aims to reinforce compliance with policies and procedures. Whistle-blowing helps an organisation to maintain an honest and transparent culture in an organisation. It allows anyone to raise concerns without the fear of disclosing their identity. There are times when individuals are afraid to raise concerns because they may be made targets and that there may be no action against the complaint. Therefore, Whistle-blower Policy ensures that a person can bring attention or uncover the misconduct, wrongdoing, illegal and unethical practices in an organisation while protecting himself/his self-interest. Thus, SEBI (LODR) mandates all the listed companies shall have a whistle-blowing policy for stakeholders.

Further, Companies must ensure that even the minority shareholders can engage and express any concerns through investor complaints. The Companies must have a stringent system to address investor grievances effectively.

Table 4.10–Average Score on Investor Engagement and Whistle-blower Practices (percent)

Statement	Needs improvement	Reasonable practices	Global standard practices
"Does the company have policies and processes in place to handle investor grievances?"	4	17	79
"Does the company have an effective whistle-blower mechanism for stakeholders to report complaints and suspected or illegal activities?"	3	44	53
Average Score	**4**	**30**	**66**

Table 4.10 shows that 79 percent of the companies have formulated a policy for investor grievances and address them through an escalation mechanism. Only 17 percent of the companies have reasonable practices on this. 4 percent of the companies are still behind in meeting the governance practices benchmark as these companies either do not have a policy or do not publicly disclose the investor grievances policies. Regarding effective whistle-blower mechanisms for stakeholders and filing complaints, only 53 percent of the companies have an effective whistle-blower policy covering all stakeholders. 44 percent of companies have a whistle-blower policy for employees but not for external stakeholders. Further, only 3 percent of companies have not disclosed whistle-blower policy and mechanism.

From the above analysis, it can be concluded that the majority of the companies (96 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards. Only in the case of the four companies the practices were not as per the

expected norms. These companies indicated a need for improvement in the investor engagement initiatives and whistle-blower mechanism.

4.3.3 Category III: Disclosures and Transparency

The disclosure and transparency principle of OECD states that "*the corporate governance framework must facilitate disclosure of material information to aid in informed decision-making.*" A company should always strive to provide self-explanatory, relevant and complete disclosures to its stakeholders. A good corporate governance practice suggests that a company must ensure adequate disclosures and transparency in its fillings. The company should timely and accurately make disclosures regarding its ownership structure, financial, risk management practices, audit outcomes and dividend policy, among others. 23 parameters were selected to understand the procedures being followed by the NIFTY 100 companies concerning the OECD principle "Disclosures and Transparency".

4.3.3.1 Company Filling

Quality of company fillings and their timely availability is among the most critical factors of good governance. Technically, the company's filings are the only media of information transfer to its stakeholder, including the minority shareholders. The quality and the quantum of information available in the company's fillings directly determine the level of awareness of the stakeholders. Timely information delivery is also a crucial factor of Corporate Governance. SEBI (LODR) has mandated all the companies to formulate and disclose a policy on disclosing material information. SEBI (LODR) has also directed company's to develop an extensive related party transaction policy since it represents a severe risk of conflict of interest.

Table 4.11–Average Score on Company Filling Practices (percent)

Statement	Needs improvement	Reasonable practices	Global standard practices
"Does the company have a policy for determining and disclosing material information?"	0	0	100
"Has the company developed and disclosed a comprehensive related party transaction (RPT) policy?"	0	19	81
"Did the company provide timely, accessible and comprehensive information for all shareholder meetings in the past one year?"	1	0	99
"Are the detailed minutes or transcripts of the previous AGM publicly available?"	4	43	53
"Did the company disclose voting results for each shareholder category for all resolutions proposed in the past one year?"	0	1	99
"Is the information on the company website comprehensive and accessible?"	2	57	41
"Does the company have a dedicated investor relations team/person whose contact details are publicly available?"	2	52	46
"Has the company identified its senior executives and their responsibilities?"	2	11	87
"Has the company disclosed the experience of each board member and senior executive?"	2	55	43
"Has the company identified its independent directors in the annual report and on its website?"	0	0	100
"Does the company fully disclose the process and criteria used for appointing new directors?"	2	40	58
"Does the company disclose details on its training, development and orientation programs for directors?"	4	7	89
Average Score (percent)	**1**	**24**	**75**

Table 4.11 shows that regarding disclosure of material information of last three years, companies follow good practices on filing reports. For related party transactions, all the companies have an RPT policy, but 81 percent of companies have a comprehensive RPT

policy that defines the ordinary course of business, the materiality of transactions and 19 percent of companies do not have a complete RPT policy.

Almost all the companies (99 percent) have provided comprehensive and timely information of shareholders meetings. Only one company has failed to meet global standards as its information was not accessible.

The availability of detailed minutes or transcripts of the previous AGMs, 53 percent company's meetings is available online. However, 43 percent of companies have made reasonable disclosure through minutes of the meetings, and four percent have not disclosed anything. Almost all the companies meet international standards concerning the disclosure of voting details and invalid votes. For information on the company website, 41 percent of companies have accessible, accurate, and comprehensive information. Fifty-seven percent of companies have accessible and precise, but it is not complete. Regarding the investor relations team and contact detail, 46 percent of the companies have disclosed the name and contact details on their website. Fifty-two percent of companies have announced names of the individuals but not contact details.

The majority of the companies, 87 percent, has disclosed information regarding senior executives and revealed information regarding their roles. 11 percent of the companies have only disclosed basic information about senior management. The experience of board members and senior executives has been disclosed by 43 percent of companies. All companies have revealed details about independent directors in the annual report.

Regarding full disclosure of process and criteria for appointment of new directors', majority of the company's, 58 percent has disclosed both process and criteria information. Forty percent of the companies have either announced the process,

not the criteria. For disclosure of details regarding directors training development and orientation programs, 89 percent have admitted detailed framework off training and familiarisation programs. 4 percent of the companies have not disclosed details regarding training, development and orientation program for directors in the public domain.

The majority of companies follow global standards in terms of disclosure and transparency of corporate filing of reports.

4.3.3.2 Audit Integrity

The quality of the financial statements issued by the company should reflect a "true and fair view" of the company. Statutory auditors audit the financial statements and certify if the statements indeed present a "true and fair view". In case of any concerns, the auditor gives a qualified opinion. The auditors may also draw users of financial statements to specific items/notes of financial statements through Emphasis of Matter (EOM) paras. Any concerns in the audit report impact the "true and fair view" of the financial statements/annual reports. The Companies Act, 2013 requires the auditors to be independent and auditors' rotation every five years.

Table 4.12–Average Score of Audit Integrity Practices (percent)

Statement	Needs improvement	Reasonable practices	Global standard practices
"Have there been any concerns about the financial statements in the past three years?"	0	28	72
"Is the company transparent in disclosing financial performance quarterly in the past one year?"	0	1	98
"Is the company transparent in disclosing segmental information?"	4	58	35
"Is the company transparent in disclosing non-financial information?"	3	53	43
"Does the company provide any information about the independence, competence and	0	34	66

experience of the external auditor?”			
“Has the company periodically rotated its auditors (firm and partner)?”	1	4	95
“Does the latest annual report contain a statement confirming the company’s compliance with the regulatory requirements on corporate governance?”	15	2	83
Average Score	**3**	**26**	**70**

In the majority of the companies, that is 72 percent of the companies, and there is no Emphasis of matter issued by the auditor. However, 28 percent of the companies’ auditors have raised an emphasis of matter. Regarding companies’ transparency in disclosing financial performance quarterly, almost all the companies, 98 percent have met the global standards. For disclosure of segmental information, 35 percent have disclosed comprehensive information of all business segments.

Regarding disclosure of non-financial information, 43 percent of companies have made detailed and meaningful disclosure. However, 53 percent of companies have made disclosure only on some parameters. Three companies have not disclosed non-financial information up to the mark. Sixty-six percent companies have disclosed their competence and expertise these companies have also provided evolution criteria for auditor’s independence.

Regarding rotation of auditors, almost all the companies (95 percent) have rotated their auditors in less than ten years, and audit partner is also rotated in less than five years. In 4 percent of the companies’ auditor’s tenure is less than ten years, but the audit partner is rotated after five years. Eighty-three percent of companies have provided information regarding the reason for non-compliance and the steps taken for future compliance. 2 percent of the companies have given statement confirming companies’ compliance with

the regulatory requirements but has not disclosed the reason for non-compliance neither they have revealed a compliance plan.

All companies have followed audit integrity practices, and 70 percent of companies follow global standards about audit practices.

4.3.3.3 Risk Management, Ownership Structure and Dividend Policy

Effective risk management framework, transparent disclosures of the shareholding pattern and transparent dividend policy are essential of corporate disclosures. SEBI (LODR) requires companies to constitute Risk Management Committee. Companies shall also disclose information about their potential risk. The company's stakeholders should be aware of the foreseeable risk and the company's mitigation. The shareholding pattern is another crucial variable. It enables stakeholders to understand who the real decision-makers are. SEBI (LODR) requires the companies to disclose their shareholding pattern quarterly. This includes disclosure of shareholding of individual board members and KMPs.

Table 4.13 - Average Score of Risk Management, Ownership Structure and Dividend Policy (percent)

Statement	Needs improvement	Reasonable practices	Global standard practices
"Does the company provide comprehensive disclosures on its foreseeable risks?"	1	24	75
"Is the company transparent in disclosing its shareholding pattern?"	0	2	98
"Is the shareholding of individual board members and key managerial personnel (KMP) disclosed in the latest annual report?"	0	6	94
"Has the company articulated a dividend policy for its shareholders?"	7	50	43
Average Score	**2**	**21**	**78**

Table 4.13 reveals that the majority of the companies (75 percent) have disclosed information regarding the risk management framework that outlines the mitigations measures. Twenty-four percent companies have disclosed risk management but have not given any information regarding mitigation measures. Concerning transparency in disclosing shareholding patterns, almost all the companies that are 98 percent have informed quarterly shareholding pattern filings and have listed the top ten shareholders.

Ninety-four percent of the companies have met the global standards and disclosed information regarding the shareholding of the board members and key managerial persons. As far as the disclosure of information regarding dividend policy is concerned, 43 percent companies have shown their approved dividend policy and payout ratio on their website. Further, 7 percent companies have not made any disclosure on dividend policy publicly.

4.3.4 Category IV: Responsibilities of the Board

The last OECD principle states that "*the corporate governance framework must ensure effective supervision by the board and enhance the board accountability to stakeholders.*" Shareholders appoint directors as agents to overlook the day to day management of the company. It is the board's responsibility to ensure effective company supervision and enhance accountability to the stakeholders. A strong and ethically board ensures that the company thrives on being successful, and in meeting the objectives, 19 parameters were selected to understand the practices being followed by the NIFTY 100 companies about the OECD principle "Responsibilities of the Board."

4.3.4.1 Board and Committee Composition and Effectiveness

The Companies Act, 2013, and SEBI (LODR) have laid down specific regulations regarding the composition of committees. About audit committee, CSR committee and nomination and remuneration committee, it is necessary to have at least three directors. These committees' Chairperson should be an Independent director. It is also critical that the board of directors possess diverse skill sets as the board is the pillar of an organisation and provides direction to a company. A director's expertise and competency can be relating to general management technical skills, legal, accounting, industry knowledge, and behavioural competency. However, a single board member cannot possess all skills and competencies. Thus, the board should have these skills collectively. At present, there are no specific guidelines regarding skill sets matrix disclosure, but the board should have balanced and wholesome expertise and skills to make informed and wise decisions. Although, SEBI has recommended that a detailed disclosure of board members' expertise, competency, skills, and qualifications and their names be mentioned in the annual report.

In light of recent scandals, the Companies Act, 2013 and SEBI both require the nomination of Independent Directors (IDs). Further, SEBI recommends that half of the board comprise IDs in the case of executive Chairman, and in the case of non-executive Chairman, 1/3 of the board members should be independent. They not only makes fair choices, but also acts in the shareholders' best interests. They bring their experience and expertise, help conflict resolution and hold management and other directors responsible for their actions, views and decisions. SEBI (LODR) has also mandated at least one women director on board, this was done to bring gender diversity. Before Uday Kotak Committee, many companies already had women directors. However, the committee

observed that most of these companies had appointed such women directors from their families themselves. Committee noted that companies were doing this to comply with the law in letter merely. Therefore, to preserve the spirit of the law, Uday Kotak Committee recommended an independent women director on board.

Also, by combining the role of CEO and Chairman, the power of a single person can be enhanced. This conjoining of functions might lead to a conflict of interest. Thus, SEBI (LODR) mandated that top 500 companies must separate the role of CEO and Chairman by 2020.

Table 4.14–Average Score of Board and Committee Composition and Effectiveness Practices (percent)

Statement	**Needs improvement**	**Reasonable practices**	**Global standard practices**
"Are all directors fully engaged in company matters and committed to corporate governance?"	50	42	8
"Does the board meet sufficiently to exercise due diligence?"	1	6	93
"Is there a separation of roles between the Chairperson and the CEO?"	29	61	10
"Does the board have sufficient skills, competence and expertise?"	0	4	96
"Does the board have gender diversity?"	6	65	29
"Does the company have adequate independent representation on the board?"	45	32	23
"Do the board committees have adequate independent representation?"	52	2	46
"Is the audit committee effective in its composition and its meeting frequency?"	44	3	53
"Does the company have a robust internal audit framework?"	5	55	40
"Were all resolutions proposed by the board to shareholders in the past one year accepted?"	3	6	91
"Is there evidence to show that the company, directors or its key managerial personnel (KMP) have violated normally expected ethical/ behavioural norms?"	15	0	85
Average Score	**23**	**25**	**52**

Table 4.14 shows that only 8 percent have full attendance of board members in meetings and 50 percent have less than 75 percent participation in board meetings in the last three months. Regarding board meetings, 93 percent companies had at least met the requirement. About the separation of roles between Chairperson and CEO that is CEO duality, only 10 percent of the companies have managed to keep Chairperson and CEO separate, and the CEO is an independent director. In 29 percent of the companies, CEO duality has not been maintained separation of Chairperson and CEO.

Whether the board has sufficient skills, competence and expertise, almost all the companies have a director with prior experience in similar business and the board having diverse skills. For gender diversity or representation of women directors on board, only 29 percent of companies have women directors who are not from the promoter's family. Sixty-five percent companies have women directors from the promoter's family. However, 6 percent does not have women directors on board.

Regarding independent directors' representation in the board, only 23 percent of the companies have independent directors, higher than the regulatory requirements, but 45 percent companies have not met the regulatory requirements related to IDs. As for the SEBI (LODR) and Companies Act 2013, the audit committee must have 2/3 IDs, and the Chairman being independent. For the nomination and remuneration committee, out of 3 members, at ½ of the directors must be independent. Thus as per the results, only 46 percent of the companies have exceeded size on independence norms regarding independent representation. These companies also have "non-conflicting members in audit", and "nomination and remuneration", "CSR", and "stakeholder relationship" committee.

Concerning audit committee and meeting frequency, it is found that 53 percent of companies have a publicly available charter; meet over four times; with board having financial expertise. Regarding the information w.r.t. robust and internal audit framework, only 40 percent of companies have disclosed that "internal audit reports to the audit committee" were directly provided and that they have "internal audit charter".

Regarding resolution acceptance, in 91 percent companies' majority of resolutions were accepted by shareholders. In 85 percent of the companies, director or key managerial personnel in the past three years have not been fined or penalised for violation and unethical behaviour in the past three years. However, in 15 percent of the companies, the company, director or key managerial person has been penalised for unethical behaviour in the past five years.

About audit committee, CSR committee, nomination, remuneration committee, the role of IDs, meeting frequency, experience and expertise of board members, CEO duality, women directors, most Indian companies follow global standards.

4.3.4.2 Directors Remuneration

The Companies Act, 2013 recommends aligning executive compensation with companies' performance. If a company does not earn profit during the year, executives are not entitled to remunerations. The shareholder approval, by special resolution, is required before discharging fee or compensation to executives who are a promoter or belong to the promoter group. The ceiling of compensation prescribed in the case of one MD or one WTD is a maximum of "5 percent of the net profits"; if there is more than one whole-time director, the maximum limit is "10 percent of net profits". However, for part-time

directors, the remuneration ceiling is 1 percent of the company's net earnings if there are more than one part-time director and 3 percent of the company's net profits if there is a single part-time director. A sitting fee is given in independent directors' remuneration, with a maximum limit of Rs. 1,00,000 per board or committee meeting. SEBI restrains independent directors from the entitlement of any commission fee, sweat equity and ESOP.

Table 4.15–Average Score on Directors Remuneration (percent)

Statement	**Needs improvement**	**Reasonable practices**	**Global standard practices**
"Does the remuneration structure for executive directors align pay with performance?"	37	1	62
"Has executive director(s) pay been aligned to company performance in the last three years?"	32	34	34
"If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price?"	5	9	86
"Is the CEO compensation commensurate with the company's size and performance?"	22	27	51
Average Score	**24**	**18**	**58**

Table 4.15 shows that disclosure related to remuneration structure of executive directors and its alignment with performance, 62 percent of the companies pay their executive directors, variable pay through which combines incentives. One percent of the company give variable pay to its executive directors through short term incentives.

Thirty-four percent of corporations' aggregate pay growth over three years is not higher than profit or sales growth. 86 percent of corporations have issued stock options at market price for stock option programmes. Furthermore, 9% of organisations provide employees a discount on stock options. Nearly half of the companies have variable pay, which is more than 67 percent of overall pay, and comprehensive pay is less than 5% of net profits, according to CEO compensation proportionate to company size and performance. This

means that half of the enterprises follow worldwide standards in terms of remuneration, ESOPs, and the relationship between compensation and performance.

4.3.4.3 Succession Planning

The current, as well as future of an organisation depends on the quality of a leader. To avoid any leadership gap and ensure the continuous performance of the company, it is essential to develop a leader's pipeline. Succession planning ensures that the right person is placed at the right job and at the right time. It also provides that no position (whether of the executive management or the board) is vacant for more than a stipulated time since it may lead to deficiency in controls and reduced checks and balances in the company.

An improper succession planning can result in deficiency in internal control, material weakness, misstatement of financial reporting. Thus, leading to unreliable financial information and impacting overall operational efficiency

Table 4.16– Average Score of Succession Planning (percent)

Statement	Needs improvement	Reasonable practices	Global standard practices
"Does the company have a succession plan for its directors and senior leadership?"	22	19	45
"Are the disclosures on succession planning detailed?"	32	37	17
Average Score	**27**	**28**	**31**

Regarding succession planning for directors and senior leaders, 45 percent of companies have designed succession plans for both groups. Nineteen percent of companies have developed succession plans either for directors or senior leaders, whereas 22 percent of companies still have not mentioned succession planning. Concerning disclosure on succession planning, 17 percent of companies have shown evidence about a detailed

framework on succession planning. Thirty-seven percent of companies have not given precise information regarding succession planning and developing leadership pipeline.

Succession planning is very important for the long term success of the business, in this regard, Indian companies, one-third of them follow the global standard, and another one third follow reasonable practices.

4.3.4.4 Board Evaluation

To ensure that board members have adopted good corporate governance practices and perform to their best capabilities, board performance is evaluated.

Boards of directors are the trustee and the agents who look after the interest of a large number of shareholders. Thus, it is important to have board members who are committed, respectable and trustworthy. SEBI (LODR) has mandated that the board and other committees should be evaluated annually so that attention can be paid to critical issues and the performance of board committees can be enhanced.

Table 4.17–Average Score on Board Evaluation Practices (percent)

Statement	**Needs improvement**	**Reasonable practices**	**Global standard practices**
"Is the board evaluation policy and process in place and effective?"	3	63	18
"Are board committees evaluated separately?"	3	24	57
Average Score	**3**	**44**	**38**

For board evaluation policy and process, only 18 percent of companies have met global standards where companies have mentioned who is evaluator, who is evaluated and what was the procedure followed for evaluation, apart from this, companies have also done impact assessment for future improvements. However, 63 percent have only disclosed about the evaluation system but have not given any information about impact assessment.

Regarding the evaluation of the board, 57 percent have disclosed review and evaluation criteria. Board evaluation practices need to be strengthened in Indian companies as the majority of them follow reasonable review and evaluation practices for the board.

4.4 Corporate Governance Practices -Highlights

This section shows the main highlights of corporate governance practices followed by sample companies. It discusses the demographic wise distribution of corporate governance scores.

Figure 4.1- Mean, Maximum and Minimum for Nifty 100 Companies

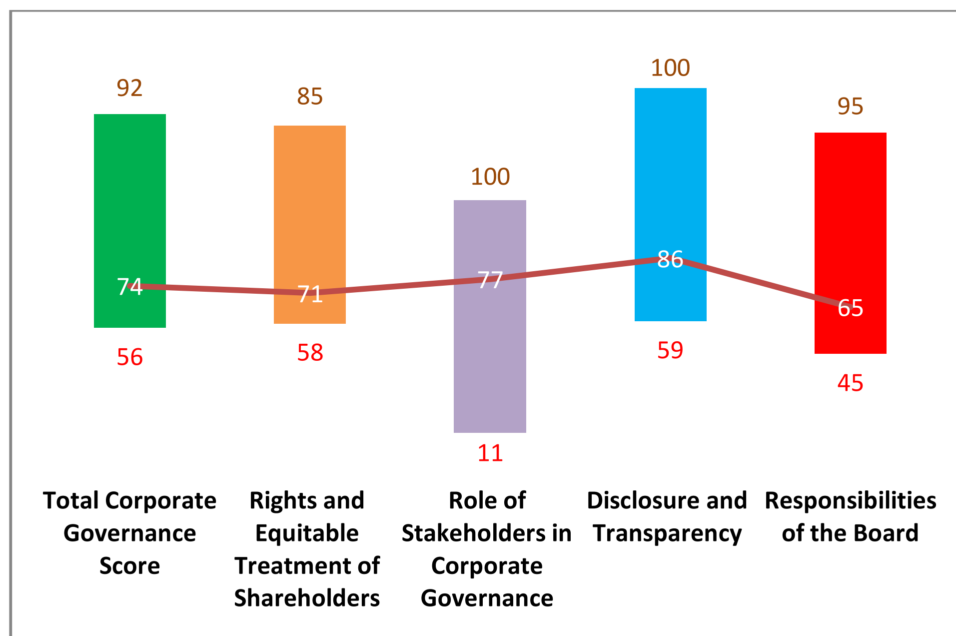


Figure 4.1 shows that the corporate governance total score of Nifty 100 company's ranges between maximum 92 and minimum 56 with 74 as the median. Category I ("Rights and Equitable Treatment of Shareholders") score range is 85 maximum and 58 minimum with a median value of 71, category II ("Role of Stakeholders") score lies between maximum 100 and minimum 11 with 77 being median value, category III ("Disclosure and

Transparency") score ranges from 100 to 59 with 86 as median value and category 4 ("Responsibilities of the Board") score ranges between maximum 45 and minimum 95 with median value as 65.

Figure 4.2- Age-wise Mean Scores for Nifty 100 Companies

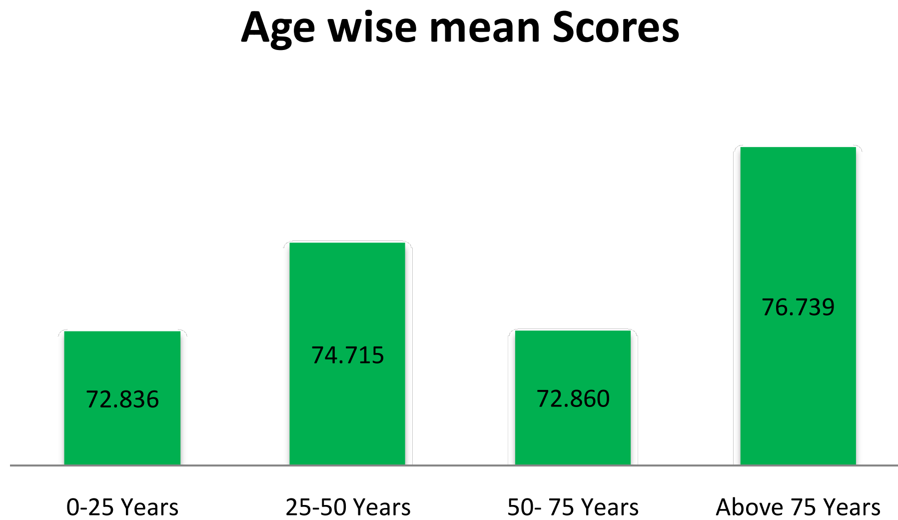


Figure 4.2 presents the age-wise distribution of corporate governance scores of companies. The mean score of companies above 75 years is 76.739, followed by 25-50 years (74.715), 50-75 years companies have a score of 72.860 and 0-25 years score is 72.836. This shows that corporate governance practices of companies above 75 years are better than other age group companies.

Figure 4.3– Ownership-wise Mean Scores for NIFTY 100 Companies

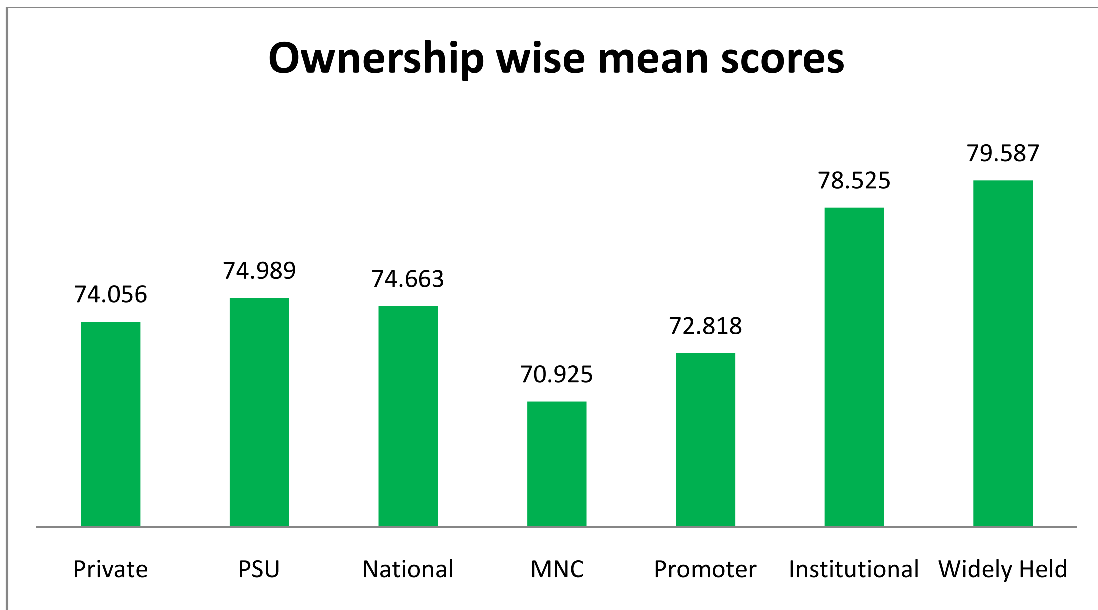


Figure 4.3 shows that the corporate governance average score of Private companies is 74.056, for PSU, it is 74.989, for Nationally-located companies, it is 74.663, MNC is 70.925, the promoter-held companies CG score is 72.818, institutional-owned is 78.525, and widely-held companies is 79.587. The widely held average score is the highest, and MNC has the least average corporate governance score.

Figure 4.4 - Industry-wise Mean Scores for NIFY 100 Companies

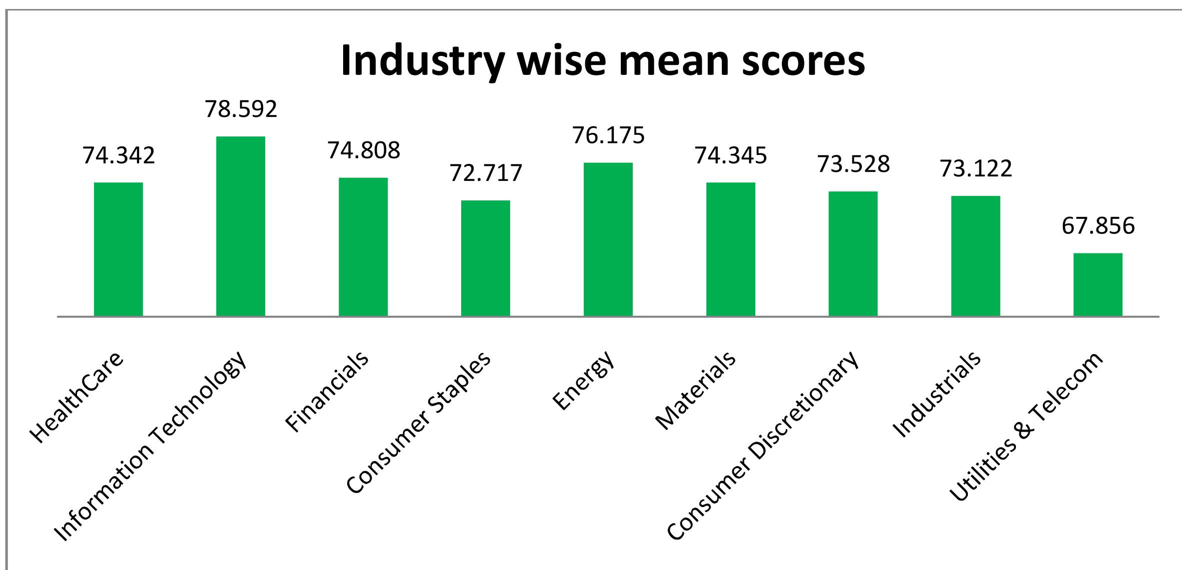


Figure 4.4 shows that corporate governance average score of the healthcare industry is 74.342, for IT sector it is 78.592, for financials, it is 7/4 .808, consumer surplus is 72.712, energy 76.175, material 74.345, consumer discretionary sector is 73.5 28, industrials have 73.122 and utilities, and telecom has 67.856. This shows that the IT sector has a relatively high score than other sectors like the healthcare sector, financials, and materials have similar corporate governance practices. Consumer staples, energy, consumer discretionary and industrials follow identical practices. However, utilities and the telecom industry have obtained the least average score.

Figure 4.5- Percentage of Companies in each Governance Practice Category

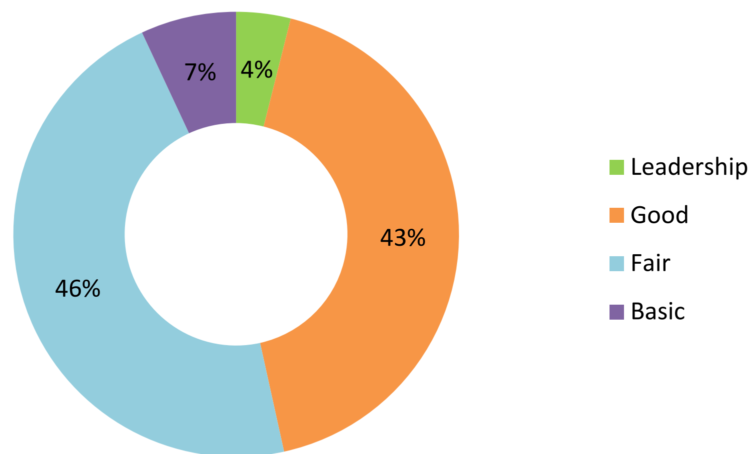
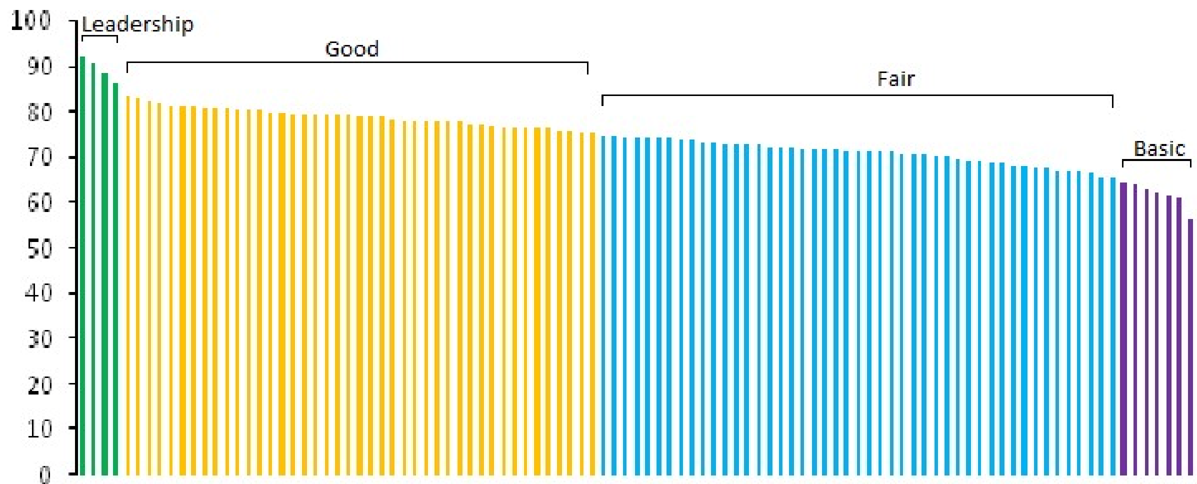


Figure 4.5 shows that in the leadership category, 4 percent of the companies have contributed, whereas 43 percent of the companies fall into the good category and 47 percent of the companies are in the fair category. However, 7 percent of the companies have scored less than 65 scores, thus, fall into the basic category.

Figure 4.6 -Governance Scores for the Nifty 100 Companies



Similar values are shown in Figure 4.6, which depicts the percentage of companies falling in various governance categories. It can be concluded from the above scores that approximately 90 percent of the companies follow reasonably good corporate governance practices when compared to global standards.

4.5 Conclusion

The analysis concludes that the majority of the companies (83 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards concerning quality of shareholders meetings. Conflict of interest, another important indicator, shows that 84 percent of companies have reasonable practices or practices close to global standards. Under stakeholder's rights, 92 percent of companies follow supplier management and employee welfare practices and have reasonable practices or practices close to global standards. Regarding business responsibility initiatives, 85 percent of companies have reasonable practices or practices close to global standards. The majority of the companies (96 percent) forming part of the NIFTY 100 have reasonable practices or

practices close to global standards on investor engagement initiatives and whistle-blower mechanism. In terms of corporate filing of reports, the majority of corporations adhere to worldwide norms in terms of disclosure and transparency. All companies have followed audit integrity practices, and 70 percent companies follow global standards about audit practices. About audit committee, CSR committee, nomination, remuneration committee, the role of IDs, meeting frequency, experience and expertise of board members, CEO duality, women directors, and majority of Indian companies follow global standards. Only 10 percent of the companies have managed to keep the roles of Chairperson and CEO separate, and the CEO is an independent director. 29 percent of companies have women directors who are not from the promoter's family. In 85 percent of the companies, directors or key managerial personnel in the past three years have not been fined or penalised for violation and unethical behaviour in the past three years. Only 23 percent of the companies have independent directors, higher than the regulatory requirements. Results indicate that with regard to remuneration, ESOPs, and the relationship of compensation with company's performance, half of the companies follow global standards. Succession planning is very important for the long term success of the business, in this regard, in Indian companies, one-third of them follow global standards, and another one third follow reasonable practices. Board evaluation practices need to be strengthened in Indian companies as the majority of them follow reasonable review and evaluation practices for the board.