A Study on Corporate Governance Practices in Selected Companies in Chennai

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ABSTRACT

Corporate Governance is an aspect in monetary aspects that investigates how to anchor/spur fruitful management of companies by the use of encouraging energy tools, for instance, agreements, chain of command compositions and performance. This is regularly limited to the subject of improving funds associated implementation, for example, how the company administrators can anchor/stir that the company chiefs will suggest an forceful velocity of return. Another definition is "Corporate Governance is concerned with reference to keeping the synchronization among financial and societal purposes and among personal and mutual goals. The company governance structure is at hand to empower the proficient use of assets and likewise to necessitate accountability for the stewardship of assets. This study mainly emphasizes on the Corporate Governance practices followed by selected listed companies in Chennai.

Keywords: Corporate Governance, Board Effectiveness, CEO Duality

INTRODUCTION:

The concept of corporate governance is gaining importance these days in the developed as well as in the developing nations of the world. The need of this has been realized after the failure of business giants such as Enron, Xerox, WorldCom and Tyco, etc., in USA and UK. It is well thought-out to be diverse from company administration. Administration is apprehensive with the operation of the business and the control aspires to make certain to facilitate the company is operating in a reasonable and apparent style to the best interests of all the beneficiaries who are directly or indirectly attached to it. Traits of company control depends upon the reliability, capability and consistency of the associates of the board, equality on the part of administration, value of business and monetary reporting and the contribution of all the beneficiaries in decision making procedure. The board of directors, administration executives and the shareholders are the major participants in company governance. The boards of directors are considered to be powerful instrument in corporate governance matters because of severance of possession, control and administration. Since the owners of the company i.e. the shareholders belong to far and wide places, so it becomes difficult for them to keep check on each and every activity of the company to which they belong. Hence, the separation of ownership, control and management in joint stock companies causes certain costs to incur.

SIGNIFICANCE OF THE STUDY:

The present study is an attempt to know the Corporate Governance practices followed by the companies. Superior significance is given for the investors in this study, since they are capable of learning how excellent CG will be able to pressurize the market worth and performance of a business.

OBJECTIVES OF THE STUDY:

1. To highlight the company governance put into practice in listed companies in Chennai.
2. To analyze the various factors affecting corporate governance practices.
3. To evaluate the impact of Board composition.
4. To offer suggestions to improve the present practices.

NEED FOR THE STUDY:

In India, this idea has accepted hugeness after a progression of securities exchange tricks. The event of securities exchange tricks turned into an ordinary component of our economy since the globalization and advancement in the year 1991. Harshad Mehta Scam (1992), Vanishing Companies Scam (1994), M.S Shoes Scam (1994), CRB Scam (1997), IT Scam (2000) and as of late happened Satyam Computer Services Ltd. Trick (2009), and so forth., brought questions up in the psyches of financial specialists with respect to the believability of SEBI and its ability to make sound capital market. Considering the circumstance, SEBI laid down a board of trustees under the chairmanship of Kumar Mangalam Birla in the year 2000 to suggest the corporate administration norms for recorded organizations in India. The suggestions of Kumar Mangalam Birla board on corporate administration had been presented through provision 49 of the posting understanding in the year 2001. Thus, in the present research an endeavor has been made to ponder the corporate administration divulgence practices of the organizations according to statement 49 of the posting understanding and further its effect on different money related execution measures. Additionally, deliberate corporate administration revelation made by the organizations well beyond the statutory prerequisites has likewise been contemplated.

SAMPLING DESIGN:

In this study purpose sampling of the listed companies has been utilized. Intentional inspecting is generally utilized in subjective examination for the unique evidence and determination of fact loaded cases recognized with the spectacle of quality. Despite the truth that there are a small number of diverse deliberate testing techniques, foundation examining includes all the set aside of being used mainly generally in carrying out. In a few cases, combination of testing techniques may be increasingly correct to the points of usage study and progressively reliable with delayed progression in quantitative approach. Since the recorded organizations are chosen for the specific reasons. A Sample configuration is a discrete arrangement for obtaining an illustration commencing from a known population. It alludes to the system or the style the specialist would obtain in deciding things for the case. Reviewing the entire populace isn't just unreasonable yet additionally unfeasible. All things considered, non-likelihood inspecting was increasingly well-suited to suit the information gathering and examination aptitudes, all the more exactly judgmental testing. The last was progressively reasonable since it empowers the analyst to concentrate on the example which suits for the investigation. Truth be told, the main 50 organizations chose, ensured confirmation of those organizations with most noteworthy execution with adequate divulgences in regards to best practice proposals of CG. At last it was conceivable to gather information from 31 companies just for the examination.

DATA COLLECTION:

Primary data is used for the study through questionnaire from the respondent companies. The questionnaire is designed for the evaluation of corporate governance Components through survey method. The instrument will cover the 8 basic practices focused in the corporate governance. The dimensions corporate governance is:

- ✓ Board Effectiveness
- ✓ CEO Duality
- ✓ Directors Remuneration
- ✓ Audit Quality
- ✓ Sustainability reporting

The questionnaire is also designed whether the working environment have impact on the key thrust areas.

LIMITATIONS OF THE STUDY:

Our sample represents 31 listed companies in Chennai and has been drawn from major industries only. The researcher has faced difficulties in collecting different results by extending the sample size. The effect of few firm specific variables has been controlled while analyzing the role of company governance on company's performance,. The effects of other variables like ownership structure, import export intensity, no. of employees, research & development intensity, etc., have not been taken into consideration. So, personal biasness of the respondents may affect the results. It is not easy to interview the executives and the employees without influencing their responses in order for the researcher to get particular information from them. Therefore the findings of this study cannot be generalized, but they provide insight into the factors that act as barriers to successful implementation of corporate governance within specific contexts.

REVIEW OF LITERATURE:

Literature Review is supportive in acquiring background information of the study issue and spotting the diverse problem associated to it. In this way, it prepares the ground for justification of research plan. It is also helpful in accepting the study problems in detail, preparing the purposes and research design of the study. The present study extends the previous literature by examining the impact of company governance on monetary performance of companies in a developing country like India. The literature is available in abundance on this emerging topic of research covering all the dimensions of corporate governance namely board structure, board size, its role and composition, board sub committees, risk management, investors protection, managers/CEO incentives, shareholders rights, etc. Hence, every attempt has been made to include all the important studies dealing with various aspects of corporate governance. A variety of reports, working papers, articles and books of the regulatory authorities have been considered for the rationale of systematic understanding of this conception.

Rana (2014) in his work brings up that a significant idea of company governance covers problems of responsibility and fiduciary obligation, basically promoting the execution of rules and instruments to make sure of superior conduct and shield shareholders. A further main hub is the economic competence outlook, in the course of which the company governance structure ought to intend to optimize economic outcomes, with a thickset importance on welfare of shareholders. The main objective of the study was finding whether there is a relation between compliance with the corporate governance norms and a company's performance. His suggestions include Corporate governance compliance disclosure positively contributes to performance. A number of variables included in the index were voluntary, a higher disclosure signals transparency and better governance which is perceived as valuable by the market, potential investors identify a sound administered business as less uncertain for their investment and could be keen to give somebody the use of capital at a lesser cost. This should act as a motivation for corporations to take on diverse governance restructuring though doing so needs distribution of added resources for the purpose.

Luu (2013) says company governance is erected on the accountability of members towards further stakeholders within and exterior to the business. In the course of the testing of hypotheses on the interconnections amid company governance and its antecedent, this study aimed to validate that emotional intelligence (EI) is the initial stratum of bricks, trust the subsequent stratum, and company social responsibility (corporate social responsibility) the third stratum of the complete structural design of company governance. The drive to check research hypotheses includes, stratum by stratum, an EI-based form of company governance in which a elevated focus of emotional intelligence amongst members in the organization catalyzes knowledge-based or identity-based dependence, lacking which company social conscientiousness schemes to develop principled ideals cannot be put into practice effectively to optimize company governance efficiency in Vietnamese organizations.

John (2012) observes how the possession and company governance of special purpose acquisition companies (SPACs) control their short and long term performance. By means of dividing the section at the center value of diverse control distinctiveness, they assess the dissimilarity in short and long term performance sandwiched between the low and elevated governance groups. They locate feeble substantiation of an affirmative pressure of board sovereignty on performance, save for no suggestion that both administrative and institutional possession is linked in the midst of performance. The study offers additional substantiation on the open query as to how governance distinctiveness has an effect on firm performance. They portray the exceptional inconsistency that is present in a SPAC, and the current development of their organizational composition in reply to these inconsistencies.

ANALYSIS AND INTERPRETATION OF DATA

TABLE NO.1 – RESPONDENTS' DEMOGRAPHIC SUMMARY

DEMOGRAPHIC SUMMARY	OPTIONS	FREQUENCY	PERCENTAGE
DESIGNATION OF RESPONDENTS	CEO/Executive Director	1	3.23
	Company Secretary	8	25.8
	Senior Manager	12	38.7
	Others	10	32.3
	TOTAL	**31**	**100**
YEAR OF EXISTENCE OF	Less Than 20 Years	13	41.9
	21 -40 Years	8	25.8

COMPANIES	Above 40 Years	10	32.3
	TOTAL	**31**	**100**
LISTING OF COMPANIES	BSE	5	16.1
	NSE	4	12.9
	Both	22	71
	TOTAL	**31**	**100**
PAID UP CAPITAL OF COMPANIES	Below 100 Lakhs	8	25.8
	101-200 Lakhs	6	19.4
	Above 200 Lakhs	17	54.8
	TOTAL	**31**	**100**

Source: Primary data

The above table depicts that 38.7% of the respondents were Senior Managers who give necessary information for our present study. Analysis of designation of these people explain that majority of top level management were not able to devote their valuable time and senior managers play a predominant role in measuring the governance practices of listed companies. 41.9% of the respondent companies were in existence for less than 20 years. Majority of the respondent companies (71%) were listed in both BSE and NSE and 12.9% were listed in NSE. Company Governance seems to be a unique kind and yardstick in the outline of Company distinction. The SEBI had specified ideologies of Company Governance found on the suggestion sof the Birla Committee, and in the Listing agreement of the Stock Exchanges in the year 2000 initiated a fresh clause 49. These ideologies of company governance were made appropriate in a phased mode and the entire listed companies having the paid up capital of Rs 3 crores and above or net worth of Rs 25 crores or more at some point in time in the history of the corporation, were enclosed as of March 31, 2003. The table reveals that among the respondent companies 54.8% were having paid up capital of more than 200 lakhs, where as 25.8% were having less than 100 lakhs as their paid up capital. From this it is clearly understood that companies with higher capital was considered for the study.

TABLE NO. 2

ESSENTIALS FOR EFFECTIVE CORPORATE GOVERNANCE

S.No	Name of the Committee	Yes		No	
		Frequency	Percentage	Frequency	Percentage
1.	Audit Committee	30	97	1	3
2.	Remuneration Committee	24	77	7	23
3.	Nomination Committee	16	52	15	48
4.	Shareholder Grievance Committee	21	68	10	32
5.	Other Committees	4	13	27	87

Source: Primary data

As part of the corporate governance, there should be different committees of the board to make certain focused concentration of a variety of features of the working of the company. Board committees are important for two reasons. First they assist the board of directors in discharging their increasing heavy responsibilities. Second board committees strengthen the position of directors of whom they are largely made up, involving them more directly in the affairs of the companies. Majority of the respondents have the opinion that there must be various committees for effective corporate governance.

CHI SQUARE TEST & CORRELATION

TABLE NO.3

INFLUENCE OF BOARD COMPOSITION ON SHAREHOLDER GRIEVANCE

H0 : There is no significant association between board composition and shareholder grievance.

	Shareholder grievance		
Board composition	**LOW LEVEL**	**HIGH LEVEL**	**TOTAL**
Directors experience only one industry	3	3	6
Directors experience more than one industry	4	8	12
Experienced professional	3	10	13
Total	10	21	31
	Value	**Df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	1.434	3	0.698
Pearson's R	0.147		0.253

The chi square value is 1.434 and the significant value is 0.698, which is greater than 0.05 and so it is not significant. Hence we accept the null hypothesis and reject alternate hypothesis and conclude that there is no association between board composition and shareholder grievances. The R value is 0.147 which shows that there is a positive correlation between board composition and shareholder grievances.

INFLUENCE OF GOOD GOVERNANCE ON REMUNERATION PAID TO DIRECTORS:

H0: There is no significant difference between good governance on remuneration paid to directors.

Good Governance system influence the company's financial system positively and its impact on remuneration paid to directors were measured through ANOVA. The company pays fair and equitable remuneration to the directors and it is compared with opinion relating to company's financial system.

TABLE NO.4

ANOVA : IMPACT OF GOOD GOVERNANCE SYSTEM ON REMUNERATION PAID TO DIRECTORS

One way analysis	Sum of Square	Df	Mean Square	F	Sig.
Between Groups	111.2	3	22.24	1.591	0.178
Within Groups	782.8	28	13.979		
Total	894	31			

The above table reveals the impact of good governance system positively on remuneration paid to directors which gives the F value of the factors, (F=1.591, P=0.178). The descriptive table clearly shows that, there is no significant difference between the good governance system on remuneration paid to directors.

CONCLUSION:

Company governance has established to be extremely highly linked with the board composition and the percentage of independent directors in the various committees. It is needed for good corporate governance. Excellent administered businesses are capable to draw additional capital from foreign institutional investors. Audit committee plays a fundamental function in the company governance traditions. Findings of the study show that most of the companies are having and effectively engaged with the audit committee in their working schedules. The descriptive results have also noticed that 87% survey respondents suggested that board of directors were supposed to be answerable for non compliance of company governance exercises. In the same vein, the statistical results have also supported this stance. Remuneration of director’s influences listed companies company governance exercises. In addition, it has as well been concluded that the performance of listed companies also depends on the type of communication strategies followed in the listed companies.

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