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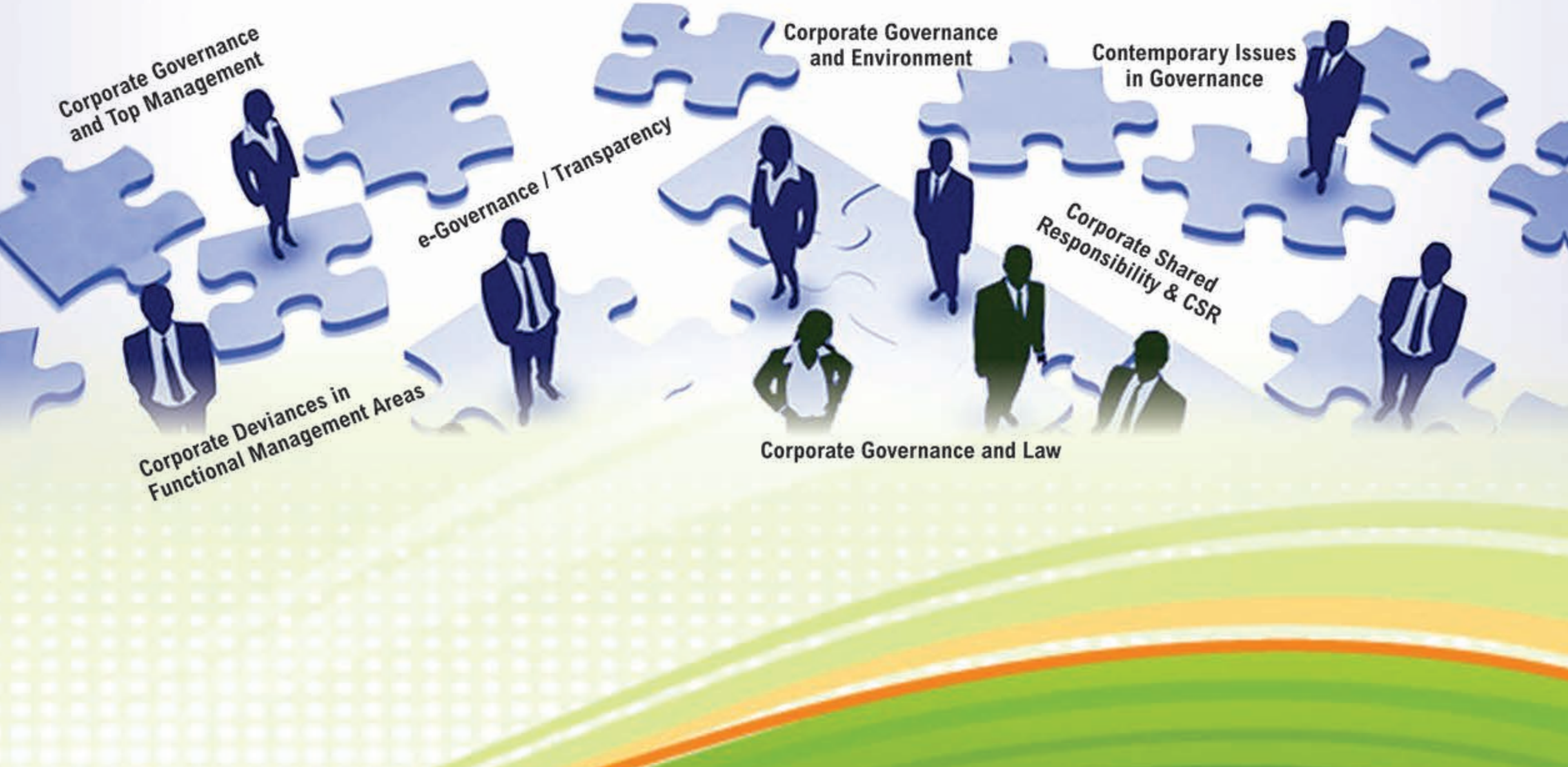
Corporate Governance: Contemporary Issues & Challenges in Indian Economic Environment



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Dr. Akshai K. Aggarwal

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Foreword

Governance Systems: Principles, Policies & Practices

The government of a country determines, in multifarious ways, the quality of life of its citizens. Jointly the governments can work for the benefit of humanity, and in fact for all life on the earth and the seas, if they work in a spirit of cooperation. However, even when the ruling dispensation in a country wants to work for its citizens, it will be able to do so only if the governance systems are effective. Similarly even if all the governments of the world were to start working jointly in the interest of the whole of the mankind, good governance systems will be required at international entities like UNO, UNESCO, ITU, Interpol etc.

The quality of life can be impacted not only by the governments, but also by businesses and industries, universities and schools, hospitals and NGOs. Hence governance systems in all these entities should be studied, critically and rigorously, by a University to understand their working and to be able to help them become more effective. We hope that the research papers in this volume will prove to be an important addition to the body of knowledge on governance systems.

In this volume, researchers have studied a diversity of governance issues:

A researcher from Mexico has studied governance issues for building a competitive strategy for SMEs. Another paper studies the issues of Social Diversity of Board Of Directors in the financial sector In Ethiopia.

Legal issues arising out of Companies Act of 29 August 2013 have been explored in two papers. Another paper has analysed the constitutional provisions of the Controller and Auditor General of India and Tanzania. Role of the government and of NGOs in rural healthcare services has been presented in one paper.

There are a number of papers on Corporate Social Responsibility (CSR). CSR practices in a geographical region have been studied by two researchers and such practices in a particular sector of businesses have been reported in another paper. Use of Cause Related Marketing (CRM) as contribution to CSR has been studied by two researchers. That Ethical practices make a company sustain itself successfully in the marketplace has been explored in a few papers. Two researchers have studied the issues of corporate frauds like that in the commodity exchange NSEL. The role of whistle blower has been studied as has been the role of independent directors in two different papers. Good Disclosure practices have been explored in two papers and the issue of minority shareholders has been studied in one paper. In another paper, the 4-step Deming method of PDCA (plan–do–check–act or plan–do–check–adjust) has been used to study the CSR activities of emerging companies. Another author has studied the outlook of budding entrepreneurs for good governance. One researcher has explored the Green Initiatives in the corporate sector. Environment funds can create an incentive for some corporations and these have been outlined in a paper in this volume.

The issues of social media in governance and digitization of money are studied in one paper each. A few researchers have studied the issues of e-governance, data management in the clouds and the impacts on privacy of individuals.

While there is one paper on issues relating to Indian Premier League, there are a number of papers relating to studies on Banks. Thus two authors have conducted a comparative study of governance in two Banks by using the Compliance, Performance & Responsibility (CPR) Index. The results of an empirical study on corporate governance and financial performance have been reported by two researchers in a paper.

Thus this volume covers a wide range of issues relating to governance and we hope it will prove to be useful to the researchers in this field.

Dr. Akshai K. Aggarwal
Vice Chancellor
Gujarat Technological University
Ahmedabad

Preface

Corporate Governance in Industry, university, educational institutes, hospitals, government organizations NGOs and other service firms is a timely subject requiring attention for the proper governance in all these sectors. Every day, in the newspaper, there are news of scandals in industry, government, and others, indicating improper governance hurting the /stake holders and environment of the country.

Corporate Governance refers to the system by which corporations in all these sectors are directed and controlled. The governance structure specifies the rights and responsibilities among participants in the corporation, stating from top management, chief executive, his team of managers, board of directors, shareholders, creditors, suppliers, regulators, customers and other stack holders. Governance provides the structure through which corporations set and pursue the objectives and meeting legal requirements as specified, all thru which the stake holders' interests are protected.

Securities and Exchange Board of India (SEBI) is the watchdog, looking very carefully, the working of each major corporation of its meeting corporate governance stipulations. Immediate reports are made for the public of the companies not implementing stipulations. Investors punish such companies by their share values /prices dropping drastically. Investors lose their confidence in such companies. Today's news of a well known company sent to jail by the Supreme Court in co operation with SEBI is an example of poor Corporate Governance.

GTU has organized the International Conference on Corporate Governance in all the sectors and it has received very warm response from Industrialists, NGOs, Hospitals, SEBI, Bombay Stock Exchange (BSE), large number of students and researchers from number of Educational Institutes. Great Initiative taken by GTU, for this Conference has been appreciated in the nation and GTU is planning to organize such International Conferences on such timely subjects, with great response expected.

A reading of this book on 'Corporate Governance: Contemporary Issues & Challenges in Indian Economic Environment' is expected to provide not only insightful summary of the work being done in this area, but, more importantly, it would help generate new research directions in the area of corporate governance. These could be picked up for any further work to improve upon the delivery of corporate governance by firms operating in Indian economic environment.

Prof. Bharat C. Dalal
Dr. Viral G. Bhatt
Dr. Ritesh K. Patel
Dr. Kaushal A. Bhatt
March 5, 2014
Ahmedabad

Acknowledgments

'Corporate Governance: Contemporary Issues & Challenges in Indian Economic Environment' is a select collection of contributions made by scholars and practitioners. We express our deep sense of gratitude to all who have contributed and put in their dedicated hard work to give shape to the book in its present form. This title is the culmination of inputs of many people who have guided and executed our efforts in creating this compilation of contemporary research.

We seek to place on record our immense gratitude to Mr. Bhadresh K. Shah [Managing Director, AIA Engineering, Ahmedabad], Mr. Kaushal Mehta [CEO MOTIF India, Ahmedabad], Dr. Shailesh Thaker [Honorary Director, GTU's PG Research Centre for Business Ethics and CSR, Ahmedabad], Mr. M. S. Rajaram [CEO – Erhardt & Leimer (India) Pvt. Ltd.], and Dr. Yogesh Doshit [Professor, Department of Strategy and Finance, Institute of Management, Nirma University, Ahmedabad] for their helpful guidance and suggestions during this conference.

We like to extend our gratitude to GTU's Management Deans Dr. S O Junare [Director, Shri Jairambhai Patel Institute of Business Management and Computer Application, Gandhinagar], Dr. Chinnam Reddy [Director, Marwadi Group of Education, Rajkot], and Dr. P.G.K. Murthy [Director, Parul Institute of Management and Research, Vadodara] for sharing their resources, knowledge and expertise with us during the conference. We acknowledge the efforts put in by our distinguished professors of Management Dr. Rajesh Khajuria [Director, SMJV's C K Shah Vijapurwala Institute Management, Vadodara] and Dr. Jagdish Joshipura [Director, Som Lalit Institute of Management, Ahmedabad].

We also acknowledge Prof. Robert M. Daines [Pritzker Professor of Law and Business, Stanford Law School; Professor (by courtesy) of Finance], Dr. Charles Savage [President and Mentor, Knowledge Era Enterprising International, Germany], Prof. Irving R. Katz [Katz Financial, LLC], Dr. Mukesh Hariawala [Cardiac Surgeon & Healthcare Economist, Harvard Group of Hospitals, Boston, USA], Dr. Nimish S. Radia [Director Research - Ericsson, San Jose, California, USA], Mr. Sanjay B. Dalal [CEO - oGoing Inc., Irvine California, USA], Mr. Sunil Modi [International Consultant & Foreign Trade Advisor], Mr. D. P. Negi [Director – Hasmukh Goswami College of Engineering], and Mr. Nayan Parikh [Former President, IIM-A Alumni Association, Ahmedabad Chapter] for their helpful association and guidance in organizing this conference.

Our thanks are due to the PG Research Centre for Governance Systems (CGS) at Gujarat Technological University (GTU) and all Assistant Professors, Research Associates and Research Assistants of various PG Research Centres at GTU, Chandkheda campus for their continuous efforts in making this publication possible, right from inputs at the conference meetings to their contribution in reviewing the submissions for publication and feedback to the participants.

This book would not have been possible without the research efforts of all the national and international scholars, academicians, practitioners and participants of the conference. It is their contribution that has resulted in this publication becoming possible. We are, hence indebted to them and place on record our heartfelt gratitude for their outstanding intellectual efforts. We also thank the organizing committee members of ICGS 2014 [GTU-CGS, 2nd International Conference on Corporate Governance: Contemporary Issues & Challenges in Indian Economic Environment] for supporting this academic endeavour.

We are thankful to Dr. G. P. Vadodaria, I/C Registrar, GTU, for his administrative support. Thanks are due to Mr. R H Rajput, Shri J. C. Lilani, Shri M. N. Parmar, Smt. A. M. Juneja, at GTU for their continuous secretarial and administrative support. A special thanks is due to the remarkable efforts of Ms. Hema Rajput, and Ms. Babita Gupta for coordinating all the interactions with the delegates. We would like to thank the students of Sal Institute of Management for the hard work put in by them for making the conference a success.

We are also indebted to Dr. Dheeraj Sharma [Chiar – Marketing Area, IIM-A, Ahmedabad], Shri Piyoosh Gupta [Regional Manager, Securities and Exchange Board of India (SEBI), Western Regional Office II, Ahmedabad], Shri Piyush Desai (CMD, Wagh Bakri Tea Group, Ahmedabad), Guruji. G. Narayana [Chairman Emiritus, Excel Industries Ltd.], Dr. Alok Chakrawal [Professor, Department of Commerce and Business Administration, Saurashtra University, Rajkot], Dr. Samo Bobek [Dean, University of Maribor, Faculty of Economics and Business,Maribor, Slovenija] and Shri Ashish Chauhan [CEO, Bombay Stock Exchange (BSE),Mumbai] for accepting our invitation to be keynote speaker of the conference and share their views and practical expertise in the area of corporate governance during the conference.

Special thanks to the conference paper review committee members without whose, support and meticulousness this book would not have been ready for timely publication. Finally, our sincere thanks are due to Print Vision Pvt. Ltd., Ahmedabad for timely publication of this book.

We owe a lot to our families, who have uncomplainingly afforded us the required time and absence from home to accomplish this significant task.

Last but not the least; we thank almighty who gave potency to accomplish this book.

Prof. Bharat C. Dalal
Dr. Viral G. Bhatt
Dr. Ritesh K. Patel
Dr. Kaushal A. Bhatt
March 5, 2014
Ahmedabad

Brief Profile of Editors

Dr. Akshai K. Aggarwal is working as Vice Chancellor, Gujarat Technological University (GTU), Ahmedabad, India. Before joining as the Vice-Chancellor, he was working as the Director of School of Computer Science, University of Windsor, Canada. At Windsor, he established the High Performance Laboratory along with 3 Centers. He worked as a Professor and Head of Department of Computer Science at Gujarat University for about 10 years. Before that he was Professor and Head, Department of EE at M.S. University of Baroda. He was Chairman of IEEE India Council for two years. He initiated IEEE activities in Gujarat by starting the first IEEE student Branch at M.S. University of Baroda. Later he initiated the establishment of the student Branch at Gujarat University. He was the founder Chairman of IEEE Gujarat Section, the IEEE Computer Society Chapter and IEEE joint Chapter of Industry Application, Industrial Electronics and Power Electronics. Gujarat Section conducted two International Conferences and one National Seminars during his Chairmanship. He graduated with a B.Sc. (EE) from Punjab Engineering College and studied at M.S. University of Baroda for his Master's and Doctoral work. He has published a large number of research papers in national and international journals and conference proceedings. At GTU, he has initiated National Conferences on Business Ethics and Financial Services. GTU is setting up Centres for studies in the areas of Business Ethics and CSR, Financial Services, Governance Systems in businesses, industries, universities, hospitals, mass transportation systems, NGO's and governments. GTU is working to bring industries and businesses closer to the University so that all its student projects and case studies are based on the problems from the shop-floors of industries or from the board-rooms of businesses. GTU is also taking major steps to make ethical business practices and value-education as a part of its educational offerings.

Prof. Bharat C. Dalal is a leading Management Consultant and his clients include large and small organizations; eg. Larsen & Tourbro, Himson group, DCM, Torrent, Gujarat State Fertilizers, Vadilal Ice cream, Gujarat Tea processors and others. Prof. Dalal was the founder Professor at the Indian Institute of Management, Ahmedabad. Prof. Dalal was the Chairman of Executive Management programs at Nirma University, Ahmadabad for several years and he is credited with the start up of Diploma in Executive Education programs for working managers. He organized every year more than 10 Management Development Programs for Executives in industry. He was conferred full Professorship at the young age of 29 years by Indian Institute of Management, Ahmadabad. He has written more than 40 cases in Strategic Marketing and Management in the Indian and American organizations. He is at present giving honorary services as the Hon. Director of Centre for Corporate Governance (CGS), A PG Research Centre at Gujarat Technology University (GTU) since last two years. First International Conference on Good Governance was organized in the year 2013 at GTU and it received great response from the Educational Institutes, Industry and Non Profit organizations.

Dr. Viral G. Bhatt (Ph.D. MBA, M.Com (Gold Medalist), PGDHMM, B.Com) heads the SAL Institute of Management since the inception as a Director. A highly skilled, talented and qualified Director, with more than 17 years of experience in the Teaching, Administration and Management of college activities. His core areas of expertise are quantitative techniques, research methodology and organizational research. Throughout the career, he has served many renowned institutions like Som Lalit, Royale Business School, United world School of Business and Sarvoday Group of Colleges. Other than academic industry, he has been constantly associated with institutions like SEBI as a Committee member for monitoring the private equity education fund for Gujarat state and BSE and NSE as a member of common pool of arbitrators. He has also been serving many other companies like Kamlesh Engineering, SFL Furniture, S P Valvsetc as a consultant and a mentor. He has taken very keen interest in overall grooming and development of the MBA students by regularly associating renowned personalities from industry and keeping interacting sessions with the students. Actively participating in the industrial interface and handling various activities like student placement, industrial projects and corporate consultancies. Worksop with TATA Consultancy Services and Recent leadership seminars at the Gujarat Technological University shows the efforts made by him for the innovation and development of the academic industry. He has organised and manage the program of Honouring and Awarded of Doctorate Degree to Sunita Willams. He has actively contributed as a Convener in International Conference on Good Governance at GTU in 2013. He firmly believes that industrial interaction, interface is the key for management educations and always ready to provide effective platform for management students.

Dr. Ritesh K. Patel is currently working as Assistant Professor at Centre for Governance Systems (CGS) a PG Research Centre at Gujarat Technological University (GTU), Chandkheda, Ahmedabad. He has gained his MBA degree in Marketing from Hemchandracharya North Gujarat University, Patan and Ph.D. in the area of Marketing from Department of Management, Sardar Patel University, Anand. He has also cleared 'National Eligibility Test for Lectureship (UGC-NET)' in the subject of Management. He has sound academic experience of 5 years at Post Graduate Level and 5 years Industry experience at Managerial level. Prior to joining GTU he worked as Academic Associate with Indian Institute of Management Ahmedabad (IIM-A); He has also worked as Assistant Professor at Institute of Law, Nirma University (NU) for a short stint. He started his academic career with Gandhinagar Institute of Technology (GIT), Gandhinagar. Prior to joining academics he worked as Branch Manager at nationalised financial services providers like Indiabulls Securities Ltd., and Angel Broking Ltd. He has presented several research papers in various national and international level conferences. He has published around 18 research papers in various referred journals of national and international repute. Based on his thesis he has published a book 'Brand Management in Retail Banking', with LAP LAMBERT Academic Publishing, Deutschland/Germany, ISBN: 978-3-659-27382-7, www.morebooks.de. He has also published a reference book on Research Methodology, ISBN: 978-93-80866-48-2 with Ahmedabad based publisher. His area of consulting and teaching are Branding, Online Retailing, Quantitative Techniques and Good Governance.

Dr. Kaushal A. Bhatt is an Assistant Professor at one of the most active PG Research Centre for Global Business Studies and member of International Student Admission Committee, Gujarat Technological University, Ahmedabad. He has sound academic experience of 7 years at Post Graduate Level and 2 years Industry experience at Managerial level. Dr. Bhatt has earned Doctorate of Philosophy and Master of Philosophy (Gold Medallist) degrees from Department of Commerce and Business Administration, Saurashtra University. He has obtained two Master Degrees i.e. M.B.A. with Finance Specialization and M. Com. (Silver Medallist) with Advance Management Accounting specialization.

He has successfully undergone Faculty Development Program at IIM-K (Indian Institute of Management- Kozhikode) and Orientation Programme from UGC Academic Staff College, Saurashtra University. He is member of Financial Management Association (FMA), University of South Florida, USA and life member of IAA (Indian Accounting Association), AIMS - International (All India Management Scholar) United Kingdom, ICA (Indian Commerce Association) Mumbai. He has participated and presented research papers in more than dozen of International and National Conferences and Seminars. He has published more than 17 Research Papers in referred Journals at National and International level. He has two books on his name i.e. Performance Evaluation of Commercial Banks through CAMEL Approach" with ISBN No. 978-3-8473-2494-2 and "Contemporary Issues in Accounting" with ISBN No. 978-3-659-25089-7 which were published by an International Publication house. He is an eminent reviewer of "Emerald's Managerial Finance" Journal, USA. He is also a member of editorial board of International Journal of Advanced Research in Management and Social Sciences, United Kingdom (UK), International Journal of Economics and Finance published by Canadian Center of Science and Education (CCSE), Canada and Standard International Journal - The SIJ Transactions on Industrial, Financial & Business Management (IFBM), Coimbatore, India.

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CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE: AN EMPIRICAL STUDY

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ABSTRACT

Corporate governance refers to the system by which corporations are directed and controlled. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders (a s per Wikipedia). Financial performance is the measurement of the results of operational policy of any business entity. Governance of Corporate is always an area of interest for stakeholders and business analysts. In recent years, ample of quality research and elite deliberations are made addressing the issue.As per general belief, the firms with better corporate governance have better financial performance. This study aimed at addressing the issue of mapping financial performance with regard to corporate governance. To address this issue the study was made on Nifty 50 firms for the period of F.Y. 2008-09 to F.Y2012- 13. ROE and ROA were taken as dependent variables defining financial performance. Moreover, Board Size,Duality, Board Remuneration, Block Holders , Board Ownership andNumber of Independent Directorswereconsidered as independent variables putting its impact over the performance of the stipulated firms. The researchers intend ed to quantify theimpact of each variable independently on Financial Performance and combined effect as well.It was found to h ave a very little impact of the variables representing corporate governance on financial performance.

Key words: Corporate Governance, Financial Performance, Board Ownership

INTRODUCTION

Corporate governance refers to the system by which corporations are directed and controlled. The governance structure agrees the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making judgments in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations.

There are many different models of corporate governance around the world. These vary according to the variety of capitalism in which they are rooted. The Anglo American "model" tends to emphasize the interests of shareholders. The synchronized or Multi stake holder Model associated with Continental Europe and Japan also recognizes the interests of workers, managers, suppliers, customers, and the community. A related distinction is between market-orientated and network-orientated models of corporate governance.[1]

In India SEBI's Committee on Corporate Governance defines corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company."[2] It has been proposed that the Indian approach is drawn from the Gandhian principle of trusteeship and the Directive Principles of the Indian Constitution, but this conceptualization of corporate objectives is also prevalent in Anglo-American and most other jurisdictions.

Good governance helps to improve a brand name for the company and it improves the confidence of investors and stakeholders of the company. Existence and Composition of the board (including the number of executive and-non executive directors namely independent directors and affiliated / nominee directors) , remuneration to the board members , relations with shareholders (including participation in the AGM) , accountability and audit , committees established to oversee critical procedures are few parameters with which governance can be measured. Quantitative measurement of these factors is not sufficient, the reason being factors such as independence of the directors or independence of the auditor must be measured from the qualitative aspects and not quantitative.

REVIEW OF LITERATURE

Corporate Governance is not a new topic in research. Adequate financial disclosure has always been expected of the firms in the market. It is also considered as a prerequisite for Efficient Market Theory. But in reality that has not always been the case. Singhvi and Desai (1971) did an empirical analysis of the quality of corporate financial disclosure. In the study, they determined that inadequate corporate disclosure in annual reports will lead to wide fluctuations in the market price of those securities.[3]

Corporate Governance term came into limelight with the Cadbury Committee Report (1992) which was a committee formed in UK due to a large spate of financial scams and corporate failures in the 1980s. It was formed by the London Stock Exchange, the Financial Reporting Council and the accountancy professionals. The main aim of the committee was to discuss about financial aspects of Corporate Governance.[4] This report was followed by Greenbury Report (1995) which was a study on Director's remuneration; Hampel Report (1998) was a committee on Corporate Governance and Turnbull Report (1999) which talked about obligations of directors.

Even though empirical studies cannot provide an agreed view on a contribution of duality to a firm's performance, there is an agreement between shareholders, institutional investors, and policymakers that a chairman or chairwoman of a board should not be the same with the chief executive officer. In their study, Dahya et al. (2009) presented that, between 1994 and 2003, policymakers in 15 advanced nations and the United Kingdom recommended a chairman or chairwoman of a board should not be the same with the chief executive officer. [5] In Europe, 84 per cent of firms distinct the roles of a chair of a board and a CEO of a firm (Heidrick and

Struggles, 2009). Accoring to a Hewa-Wellalage and Locke 2011 study, in Sri Lanka, the Sri Lankan code of best practice on corporate governance stresses the balance of power within a firm to minimize any one individual's influence to the decision making process. These rules provided recommendation that when there is a duality in a firm, a number of independent directors on a board should be a majority to provide balance and an effective and efficient operation of a board.

In relation to an association between the size of a board and a firm's performance, there are two distinct schools of thoughts. The first school of thought argues that a smaller board size will contribute more to the achievement of a firm (Lipton and Lorsch, 1992; Jensen, 1993; Yermack, 1996). However, the second school of thought considers that a large board size will improve a firm's performance (Pfeffer, 1972; Klein, 1998; Coles and ctg, 2008). These studies indicate that a large board will support and advise firm management more effectively because of a complex of business environment and an organizational culture (Klein, 1998). Moreover, a large board size will gather much more information. As a result, a large board size appears to be better for firm performance (Dalton and ctg, 1999).[6]

Board composition refers to the number of independent non executive directors on the board relative to the total number ofdirectors. An independent non -executive director is defined as an independent director who has no affiliation with the firm except for their directorship (Clifford and Evans, 1997).

Zahra and Pearce (1989) and Hillman and Dalziel (2003) describe the two main functions of the Board of Directors as monitoring and providing resources. The theoretical underpinning of the board's monitoring function is derived from agency theory, which describes the potential for conflicts of interest that arise from the separation of ownership and control in organizations (Berle and Means, 1932; Fama and Jensen, 1983). Agency theorists see the primary function of boards as monitoring the actions of "agents"- managers - to protect the interests of "principals"- owners (Eisenhardt, 1989; Jensen and Meckling, 1976; Mizruchi, 1983). Monitoring by the board is important because of the potential costs incurred when management pursues its own interests at the expense of shareholders' interests. Monitoring by boards of directors can reduce agency costs inherent in the separation of ownership and control and, in this way, improve firm performance (Fama, 1980; Mizruchi, 1983; Zahra and Pearce, 1989).

In India's case also, in 1999 SEBI constituted a committee under Kumar mangalam Birla to recommend corporate governance measures to be followed by Indian companies. SEBI felt a need to regularise the disclosures by the companies in wake of scams like MS Shoes etc. The committee came out with a report in 2000 but it was not implemented immediately. The recommendations were considered to be too strict in Indian context. But after the Enron scam 2002, another committee was formed under Narayan Murthy (2003) to come up with concrete measures to implement corporate governance. The recommendations of these two committees took the form of Clause 49 of the listing agreement and finally implemented in 2006.

The study done by Uadiale (2010)examined the impact of board structure on corporate financial performance in Nigeria. It investigated the composition of boards of directors in Nigerian firms and analyses whether board structure has an impact on financial performance, as measured by return on equity (ROE) and return on capital employed (ROCE). Based on the extensive literature, four board characteristics (board composition, board size, board ownership and CEO duality) have been identified as possibly having an impact on corporate financial performance and these characteristics are set as the independent variables. The Ordinary Least Squares (OLS) regression was used to estimate the relationship between corporate performance measures and the independent variables. Findings from the study show that there is strong positive association between board size and corporate financial performance. Evidence also exists that there is a positive association between outside directors sitting on the board and corporate financial performance.[7]

Dilip Kumar Sen (2007) in his presentation at IIM-C in 3rd Director Leadership Programme on Clause 49 spoke about the belief that excellence in Corporate Governance can only be achieved with a change in the mind set and organisation culture, both of which takes time. Without this change, he believes corporate governance compliance will remain a box ticking exercise.[8]

Lacker, Richardson and Tuna (2004) in their working paper series on importance of Corporate Governance, examine the relation between a broad set of corporate governance factors and various measures of organizational behaviour and managerial performance. Through their empirical research they find that typical structural indicators of corporate governance have very limited ability to explain managerial behaviour and organizational performance.

Buchanan (2007) in his article talks about the concept of corporate governance in Japan. Here it is analysed in terms of the concept of “Internalism”, which stands for the belief that companies should be controlled by internally appointed managers who are integrated into their firms.

Kim and Woochan Kim (2008), talk about the best governance practices in Korea which were seen mainly in three kinds of corporations: (1) newly privatized companies; (2) large corporations run by professional management; and (3) banks with substantial equity ownership in the hands of foreign investors. The governance practices of many of these companies met the global standard. At the other end, of the spectrum, however, were many large chaebols-affiliated or family-run firms that refused to change and circumvented regulatory reform measures.

Afsharipour, Afra. (2009) in her article on Corporate governance in India, examines recent corporate governance reforms in India as a case study for evaluating the competing claims on global convergence of corporate governance standards. India's reform efforts demonstrated that while corporate governance rules may converge on a formal level with Anglo- American corporate governance norms, local characteristics tend to prevent reforms from being more than merely formal. India's inability to effectively implement and enforce its extensive new rules corroborates the argument that comprehensive convergence is limited, and that the transmission of ideas from one system to another is highly complex and difficult, requiring political, social and institutional changes that cannot be made easily.[9]

RESEARCH METHODOLOGY

The underlying study aims to address the issue of corporate governance and financial performance. The researchers intend to study the financial performance of Indian companies with respect to corporate governance effectiveness. Nifty 50 companies were taken as sample for the study. These companies are blue chip companies having comparatively better financial performance and are having better corporate governance as well. Moreover, these companies are sufficient enough to represent population also. Financial performance of these companies were analyzed for the period of last five years from 2009-2013.

OLS Regression method was used to test the relationship between corporate governance and financial performance. The variables taken in the study are as follows:

Dependent Variables measuring financial performance:

1. Return on Assets (ROA)
2. Return on Equity(ROE)

Independent Variables defining corporate governance:

1. Board Size (number of members in board)
2. Duality (1, if chairman and managing director are same otherwise, 0)
3. Remuneration to the board of directors
4. Independence (Number of non-executive directors)
5. Board Ownership (Shareholding of promoter and promoter's group)
6. Block Holders (1, if shareholders holding 5 percent or more stake, other than board are present, otherwise, 0)

In the above context the following regression lines were used:

<u>Model 1</u>

ROA = f{Board Size, Duality, Remuneration, Number of- Non executive Directors,Board Ownership, Block Holders, U}

<u>Model 2</u>

ROE =f {Board Size, Duality, Remuneration, Number of -Non executive Directors, Board Ownership, Block Holders, U}

ANALYSIS AND INTERPRETATION

Table 1 Descriptive Statistics

	Mean	*Std. Deviation*	*N*
ROA	10.340	8.405	50
ROE	22.755	17.405	50
Board Size	13.300	2.712	50
Board Remuneration	17.193	19.450	50
Independence	6.840	2.923	50
Board Ownership	46.484	22.983	50
Block Holders	0.680	0.471	50
Duality	0.300	0.463	50

Table 1 enumerates the descriptive statistics of all variables for Nifty 50 companies. There was a significant difference between average ROA and ROE.Average Number of Board Members are 13.3 out of which 6.84 are non-executive and independentdirectors. The average holding by promoters is 46.484 percent. There were 68 percent companies where block holders (shareholders having 5 percent or more shareholding) were present. In 30 percent of companies position of Chairman and Managing Directors were held by one person.

Table 2 Correlations

		ROA	*ROE*	*Board Size*	*Board Remuneration*	*Independence*	*Board Ownership*	*Block Holders*	*Duality*
Pearson Correlation	ROA	1.000	--						
	ROE	--	1.000						
	Board Size	0.016	0.067	1.000					
	Board Remuneration	0.240	0.250	0.056	1.000				
	Independence	0.120	0.110	0.547	0.289	1.000			
	Board Ownership	0.248	0.158	-0.006	-0.211	-0.204	1.000		
	Block Holders	-0.288	-0.375	0.013	-0.129	-0.171	-0.292	1.000	
	Duality	0.072	0.087	0.301	-0.198	-0.130	0.432	0.075	1.000

Table 2 represents the correlation among all variables. It was found that the correlations between majority of the variables and profitability are very little. Moreover, it was also observed that presence of block holders impacts negatively to the profitability of the firm.

Table 3 Regression Statistics

Model 1		*Model 2*	
Multiple R	0.434	Multiple R	0.457
R Square	0.189	R Square	0.209
Adjusted R Square	0.075	Adjusted R Square	0.099
Standard Error	8.081	Standard Error	16.525
Observations	50	Observations	50

Table 3 suggests the regression statistics. It was worth noticing that the model developed for studying the relationship between corporate governance and profitability was having very little Adjusted R Square (0.075 and 0.099). This happens to be a critical limitation of the study. However, the researchers justify it by putting forward an argument that there are many variables contributing to the financial well-being of the firms. The impact that is explained by corporate governance will be definitely low. This becomes that reason of low Adjusted R Square.

Table 4 ANOVA

		Df	*SS*	*MS*	*F*	*Significance F*
Model 1	Regression	6	652.760	108.793	1.666	0.153
	Residual	43	2808.341	65.310		
	Total	49	3461.101			
Model 2	Regression	6	3101.542	516.924	1.893	0.104
	Residual	43	11742.690	273.086		
	Total	49	14844.233			

Table 5 Coefficients

	Model 1				*Model 2*			
	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Coefficients*	*Standard Error*	*t Stat*	*P-value*
Constant	6.817	7.473	0.912	0.367	22.532	15.280	1.475	0.148
Board Size	-0.253	0.573	-0.441	0.662	0.121	1.173	0.103	0.918
Board Remuneration	0.110	0.064	1.719	0.093	0.217	0.131	1.662	0.104
Independence	0.351	0.538	0.653	0.517	-0.001	1.100	-0.001	0.999
Board Ownership	0.091	0.062	1.463	0.151	0.041	0.127	0.321	0.750
Block Holders	-2.946	2.749	-1.072	0.290	-12.499	5.621	-2.224	0.031
Duality	1.221	3.126	0.391	0.698	4.955	6.391	0.775	0.442

Dependent Variable: Model 1 - ROA and Model 2 - ROE

The above tables suggest the impact of all variables proxy for corporate governance of the firm on financial performance. In both models very high levels of constant (alpha) suggest that there are many other more important variables impacting profitability of the firms. This study is however confined to map the impact of corporate governance on profitability.

It is worth noticing that majority of the variables have very little impact on profitability. However, presence of Block Holders and Duality found to be having very significant impact on financial performance.

CONCLUSION

The debate for the level of impact that corporate governance makes on financial performance of the firm has catch the heat in recent times. As this paper aims at mapping out such impact, the researchers infer that there is a very little impact of corporate governance on financial performance of the firms.

Two variables, Duality and presence of Block Holders were seen making significant impact on financial performance. Rest of all variables proxying corporate governance had very little impact on the financial performance. These inferences are matching with some reviewed literature and contradicting to a few literatures that were reviewed. The reason of such contradictions can be the time frame of the study and the economic set up under which the studies are conducted.

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THE ROLE OF GOVERNMENT AND NGOS IN RURAL HEALTHCARE SERVICES: A STUDY IN ANDHRA PRADESH

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ABSTRACT

The study presents a piece of work attempting to explore the current rural healthcare system by knowing the availability of healthcare facilities with respect to government and NGOs health policies and schemes, infrastructure, manpower and the utilization pattern of the different healthcare facilities in rural areas of Andhra Pradesh. The healthcare system facilitates the achievement of optimal level of health to the community through the delivery of services of appropriate quality and quantity. After more than four decades, it is the time to critically evaluate where India as a nation stands in providing healthcare to its people. In order to ensure that the benefits of healthcare policies and programmes reach the intended sections of society i.e. underprivileged and deprived, role of the government and other NGOs is vital. There has to be proper mechanisms of checks and balances to not only manage the services efficiently but also to stop deviating the budgetary allocations from undesirable directions. In the context, the issue of governance becomes pertinent that needs to be attended in order to ensure accountability and transparency.

Key Words: Rural Healthcare, NHM, National Health Policy, WHO, NRHM, JSY, ASHA.

INTRODUCTION

The study presents a piece of work attempting to explore the current rural healthcare system by knowing the availability of healthcare facilities with respect to government and NGOs health policies and schemes, infrastructure, manpower and level or the utilization pattern of the different healthcare facilities in rural areas of Andhra Pradesh.

The healthcare system facilitates the achievement of optimal level of health to the community through the delivery of services of appropriate quality and quantity. However, the rural health system has certain delimitations. Increasing accessibility, heightening awareness about the services and technological advances for the management of health problems, raising expectations of the people, and the ever-escalating cost of healthcare are some of the challenges that the healthcare systems have to cope up with.

The very idea of rural healthcare in the context of India appears to have strengthened at present, and Governments at different levels along with the NGOs started regulating and implementing the healthcare services at its fullest. Healthcare in India consists of a universal healthcare system run by the respective State Governments. However in India, which adopted rural healthcare services in way back 70s, however, the concept is getting momentum day by day. The healthcare service in India has a relatively broader scope but when it comes to implementation strategies the general perception appears to be less encouraging.

BACKGROUND

Healthcare is one of India's largest sectors, especially in terms of revenue and employment as many studies suggests. The access to high quality, reliable and affordable healthcare service is one of the key challenges facing the rural and semi-urban population in the country. In the context, rural healthcare is also getting momentum. While looking at the availability of healthcare facilities, an attempt has been made to highlight the issues pertaining to the role of government and NGOs in Indian rural healthcare services. After more than four decades, it is the time to critically evaluate where India as a nation stands in providing healthcare to its people. The entire issue pertaining tohealthcare is to be understood with a more significant statement i.e. "The health of people is the foundation upon which all their happiness and all their powers as a state depend".

RATIONALE OF THE STUDY

One of the key determinants of human development is the ability to live long and healthy life. Health has become an important national concern in most countries, especially in the developing countries in order to the quality of life for individuals. However, it is also considered profitable for the entire community as health is the engine that drives economic development. In the context, health is considered to bea vital constitue nt of any robust and viable development process. It isunderstood to be an important component for economic growth and internal stability ofIndia . In this regard, assuring an optimum level ofhealthcare to the citizensmay prove asa significant milestone of the country's development process. Keeping in view the significanceof universal qualityrural healthcare to enable accessibility at affordable cost cannot be underestimated in the Governments and NGOs health policy. Keeping in view the aforesaid, the study has been designed to explore the role of government and NGOs especially in creating awareness, establishing community networks and more importantly the management of healthcare services in the rural and remote areas of the country.

RURAL HEALTHCARE SERVICES IN INDIA

Health being a fundamental right, has to be emphasized in all the governments and NGOs policy, programme and execution, as was highlighted in the Alma-Ata declaration of 1978. In this international conference which was organized by WHO and UNICEF at Alma Ata, a revolutionary strategy based on primary healthcare was put forward to attain the goal of "Health for All" by 2000. Dr. Halfdan. T. Malher, Director General of WHO (1973 – 1988) argued that we must consider health in the broader context of its contribution to social development and expanded the definition of health to include the ability to lead a socially and economically productive life.

In its first National Health Policy (NHP) in 1983, India did evolve a countrywide policy in consonance with the Alma-Ata declaration of health for all by 2000. After 65 years of independence though India is committed to ensure health for all but its implementation strategies are still in vein. Given the present scenario, the rural healthcare services need to be accelerated. NHP 2002 also commits to ensure the acceptable statement of health amongst the populace of the country.

Rural healthcare services in India are generally based on Primary healthcare, which envisages achievement of healthy status for all. The different Health Policies and Programmes of the country aim at achieving an acceptable standard of health for the people of the country.

Keeping in view with the broad objective a comprehensive approach was advocated which includes individual healthcare improvement and healthy living. Major emphasis was laid on to reducing disparities in health across geographical proximity and discusses communities by ensuring access to affordable health, especially to the disadvantaged and excluded groups of the society. A few significant achievements have been made but still a lot is to be done especially in bridging the gap of health facilities provided in different regions of the country.
It is necessary to have an understanding of the Rural Healthcare System in India. The country has a structure and set procedure to be followed while providing rural healthcare facilities to the citizens. The healthcare infrastructure in rural areas of the country is based on a three-tier system with the following population norms:

Centres	Population Norms	
	Plain Area	Hilly/Tribal/Difficult Area
Sub-Centre	5,000	3,000
Primary Health Centre	30,000	20,000
Community Health Centre	1,20,000	80,000

Fig. I

According to NRHM report - March, 2011, currently there are 148124 Sub Centres, 23887 Primary Health Centres (PHCs) and 4809 Community Health Centres (CHCs) functioning in the country.

India has achieved considerable improvements in human development factors. According to Human Development Report 2011 of UNDP, the HDI for India is 0.547 in 2011 with an overall global ranking of 134 out of the 187 countries. Life expectancy at birth in India was 65.4 years in 2011 as against 55.1 in 1980. Infant Mortality Rate (IMR) has declined considerably, 71 per 1000 live births in 1997 and reached 47 per 1000 live births in 2010. But the rural (77 in 1997 and 51 in 2010) & urban (45 in 1997 and 31 in 2010) differentials are still high.

ROLE OF GOVERNMENT IN HEALTHCARE SERVICES

The government's role in providing healthcare services for communities is rather a complex issue with many challenges. In a democratic set up like ours, the government plays a vital role in assuring healthcare services for community. A state government serves as a non-profit organization which recruits healthcare professionals to cater to the healthcare of the community. Alternatively, the government provides not only policies, programmes and budgetary allocation but also the necessary leadership role to organize, monitor and manage the entire healthcare issues of the citizens.

The National Rural Health Mission (NRHM) launched by the Hon'ble Prime Minister on 12th April, 2005 throughout the country specially focussing on 18 states of the country. The NRHM was introduced with an aim to provide accessible, affordable and quality healthcare services to the citizens especially rural population.

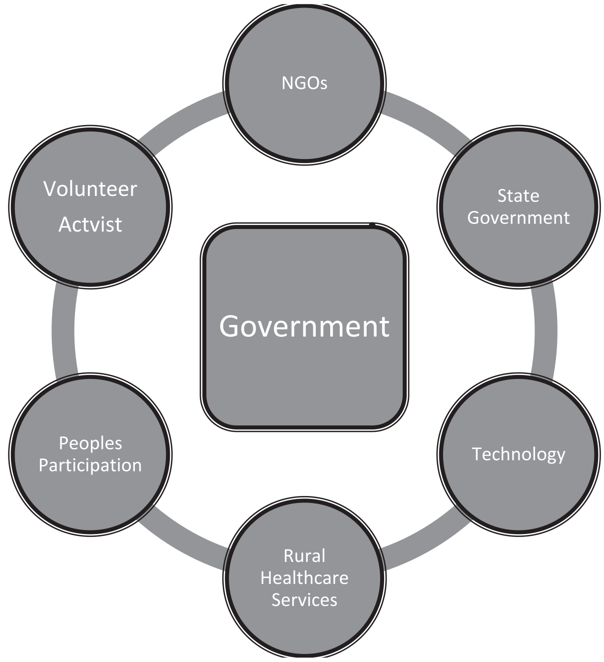
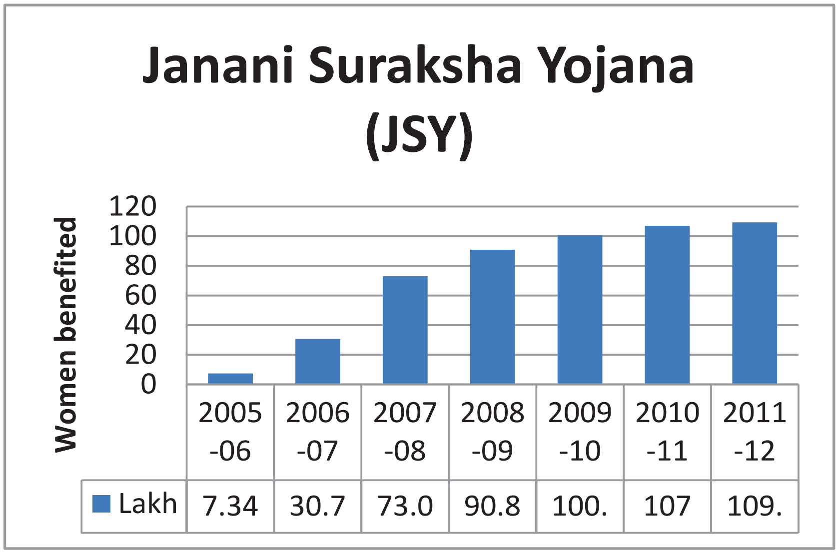


Fig. II

After Alma Ata declaration of "Health for All" in 1978, it was a big challenge to achieve till India launched its ambitious programme of National Rural Health Mission (NRHM) to improve the health status and quality life of its rural community, especially the women and children of the weaker section of the society. NRHM focused on to reduce infant mortality rate and maternal mortality rate and upgrade Ayurvedic, Yoga, Unani, Siddha and Homeopath (AYUSH). It also decided to build up the infrastructure, improve the manpower at all levels of healthcare delivery centres like Primary Health Centres, Sub Centres as its core strategy. It emphasized the need of a Health Activist for each of the villages, thus introducing Accredited Social Health Activist (ASHA) in every village for every 1000 population. Also, it emphasized the need for community participation and partnership with the private healthcare providers and NGOs in creating awareness about the healthcare issues especially maternal and child healthcare through health education and different healthcare programmes. The NRHM adopts a synergistic approach by relating health to determinants of good health viz. segments of nutrition, sanitation, hygiene and safe drinking water.

The other scheme of the central government vis a vis Pradhan Mantri Swasthya Suraksha Yojana (PMSSY) aims at correcting the disparities in the accessibility of affordable healthcare facilities in the different parts of the country in general, and augmenting facilities for quality medical education in the under-served States in particular. The scheme was approved in March 2006 and launched subsequently It is hoped that consequent to the successful implementation of PMSSY, better, accessible and affordable healthcare facilities are easily accessible to anyone and anywhere in the country.

The most important and centrally sponsored scheme for women is the Janani Suraksha Yojana (JSY); it integrates cash assistance with delivery and post-delivery care, which has led to a huge increase in institutional deliveries within just four years.



Source: NRHM (Annual Health Survey) Newsletter Vol. 7 No. 4, July-Aug. 2012

Fig. III

The JSY is operationalised in all the state 7.34 lakh women are benefited in the year 2005-06, 30.73 lakh in 2006-07, 73.08 lakh in 2007-08, 90.80 lakh in 2008-09 and 100.6 lakh in the year 2009-10, 106.97 lakh in 2010-11 and 109.37 lakh 2011-12

These interventions led by the government shall have the powers to monitor and supervise the facilities for quality of care provided. In child health, the major strategies proposed areinter - sectoral interventions against child malnutrition, providing community level care for new born and sick children and strengthening facilities to provide institutional care for sick children.

The major crisis which has been found by many researchers is unavailability of skilled human resources for the healthcare sector has been addressed through the rapid expansion of medical education in the country. But still much more needs to be done in this direction. In addition, we need to consider a model of Primary Healthcare where many of the health services would be provided by the locally selected and adequately trained healthcare providers with medical doctors contributing largely to more specialised care. Likewise human resources are being augmented by relaxing several norms which were restricting the supply side. However, much more need to be done in addressing the issues related to availability and quality of human resources.

Rural Healthcare Services in Andhra Pradesh

Andhra Pradesh, the fifth largest State in India was formed on 1st November, 1956 under the States' reorganization scheme. It is one of the most populous states in the country with a population of 84.66 million (Census 2011). The state has 23 districts, 1127 blocks and 26,614 villages. The Total Fertility Rate of the State is 1.8; and the Infant Mortality Rate is43. The Sex Ratio in the State is 992 (as compared to 940 for the country). The following table shows a comparison of Andhra Pradesh, and India on several significant demographic and health indicators.

S. No.	Demographic and Health indicators	Andhra Pradesh				India			
		2009	2010	2011	2012	2009	2010	2011	2012
1	Total population (Census 2011) (in millions)	--	--	84.66	--	--	--	1210. 19	--
2	Crude Birth Rate (CBR)	18.3	17.9	17.5	17.5	22.5	22.1	21.8	21.6
3	Crude Death Rate (CDR)	7.6	7.6	7.5	7.4	7.3	7.2	7.1	7.0
4	Total Fertility Rate (TFR)	--	1.8	--	--	--	2.5	--	--
5	Infant Mortality Rate (IMR)	49	46	43	41	50	47	44	42

Source: http://planningcommission.nic.in/data/datatable/

Fig. IV

Andhra Pradesh has achieved tremendous progress in the field of healthcare. The State's infant mortality rate and maternity mortality rate was very low at par with that of various states in our country. Public and private sectors have contributed to the State's worthy achievements in the field of healthcare. In Andhra Pradesh, a majority of childbirth are being reported from hospitals whereas in many other parts of the country the situation is much different due to lack of proper health awareness and facility.

In Andhra Pradesh, The Janani Suraksha Yojana (JSY) scheme was successfully launched on 1st November 2005. It is a safe motherhood intervention under the NRHM. The JSY is to promote institutional deliveries and reduce maternal and infant mortality. In Andhra Pradesh during the year 2006-07; 5.05 lakh beneficiaries are benefited and in 2007-08; 5.63 lakh beneficiaries are benefited under the scheme. This scheme grant Rs.1000/- (Rs.700/- under JSY (GOI) + Rs.300/- under Sukhibhava (by state) to rural BPL woman who delivers in any Government or private hospital towards transport and incidental expenses. From 1st April 2006, JSY has been extended to BPL urban families also and Rs.600/- cash assistance will be paid to such eligible pregnant woman of urban areas who comes to Governments hospitals and private health institutions in urban areas for delivery services.

The proper and effective execution of any scheme requires well trained human resource and professionals to get the job done effectively, efficiently and expeditiously. In the context, Accredited Social Health Activist (ASHA) is there to act as a health resource person-of-first-resort in all maternal and child health matters, and to act as link-person between the community and the service providers.

ASHA would act as a bridge between the ANM and the village and be accountable to the Panchayat. The ASHAs will receive performance-based incentives for promoting universal immunization, referral and escort services for Reproductive and Child Health and other healthcare programmes, and construction of household toilets. 70,700 ASHAs identified and selected. All 70,700 ASHA workers are placed (55,400 in rural areas; 5,300 in urban areas & 10,000 in tribal areas). Last Tuesday of every month being observed as ASHA day fo effective monitoring and ensuring timely payment of incentives.

ROLE OF NGOS IN HEALTHCARE SERVICES

The relevance of the rural healthcare largely depends upon the active participation and willing co-operation of the rural people through self-help organizations, voluntary agencies and NGOs. In recent years, the voluntary agencies have acquired greater importance and significance than before. The NGOs like Rural Development (RDT), Association for Social Health in India, Hyderabad, Care (Saksham project) organize the awareness program regarding rural community participation in healthcare activities. Some have succeeded in this process and some are still struggling in progressive direction. In this endeavour, the role of NGOs in rural healthcare services in the context of availability and accessibility has assumed greater significance. Moreover, in recent years, the role of NGOs in rural healthcare services for people's participation is increasingly improving health conditions of rural population.

In addition to the government, NGOs have to play a key role in the promotion of rural healthcare, especially at a time when the State is faced with largely growing diseases. Making healthcare affordable and accessible for all its citizens is one of the key focus areas highlighted by today's NGOs and other voluntary organizations.

Non-governmental organizations have increasingly been promoted as alternative healthcare providers to the state, to achieve the goals but less hampered by government inefficiencies and resource constraints. However, the NGOs may also suffer from resource constraints and management inefficiencies similar to those of government providers. Despite the resource constraints, a number of NGOs are into various aspects of community development such as health awareness creation, promotion of rural healthcare services, reproductive health education with dedication and determination.

CONCLUSION

In order to ensure that the benefits of healthcare policies and programmes reach the intended sections of society i.e. underprivileged and deprived, role of the government and other NGOs is vital. There has to be proper mechanisms of checks and balances to not only manage the services efficiently but also to stop deviating the budgetary allocations from undesirable directions. In the context, the issue of governance becomes pertinent that needs to be attended in order to ensure accountability and transparency. The existing gap in healthcare services on the basis of geographical proximity also needs to be bridged on priority basis. Such interventions are surely going to improve the accountability of the rural health professionals and other practitioners along with the greater community participation, leading to effective service delivery. Awareness level of the rural community needs to be increased which will help towards the upliftment of the rural community and better rural healthcare services.

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"AN ANALYTICAL STUDY OF CORPORATE GOVERNANCE DISCLOSURE PRACTICES OF MAHARATNA COMPANIES IN INDIA"

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ABSTRACT

Corporate governance has attained immense significance all over the world with extensive financial liberalization, privatisation and globalisation. The cases of fraud, malpractices and various scams & scandals in past two decades, have call for transparency and fair practices of corporate. Corporate governance is for ensuring values, ethical business conducts,transparency, disclosure and corporate practices as per laws, rules and guidelines for enhancing shareholders value and being a responsible corporate citizen.

In India, Public sector enterprises have been the backbone of Indian Economy since the time of independence. With support from the Government of India, these companies have been involved in various industrial activities, manufacturing and producing various products, raw materials and offered distinct services to benefit the Indian citizens. In India, The Maharatna (In Sanskrit ~ Maha = Vast and Ratna= Gemstone) Companies, have took a position of highest magnitude to foster socio-economic growth. Under the Maharatna status, companies can incur an expenditure on purchasing new products or go for replacement without any monetary ceiling.

This paper aims to study corporate governance disclosure practices with distinct parameter of Clause 49 of Listing agreement as prescribed by SEBI guidelines and identify the relationship between CG mechanism & performances of seven Maharatna Companies in India. The reason for selecting these Companies lies in their corporate practices & financial performance which made them inclusive in Maharatna status. An appropriate evaluation of these companies will be presented in scientific manner by applying of suitable tools and techniques to draw the fair conclusion.

Key words: Corporate Governance, Maharatna Companies, Public Sector Enterprises, Clause 49 of SEBI.

INTRODUCTION

Ever since India has opened up its economy to privatisation, liberalization & globalization, there has been rapid institutionalisation of the corporate sector and private enterprise. This has quickened the pace of economic growth since 1992, measured in terms of enhanced GDP. The shift of free market economy system resulted in companies to win over the various stakeholders to grow and sustain in a highly competitive and turbulent business environment.

Public sector units in India has always portrait itself as benchmark model of performance for sustainable development by taking up the major industrial responsibility to uplift the society and it member together with their economic goal attainment. Many of these industrial units and organisations have been operating since the last 4-5 decades.Together with their primary contributions of providing industrial components, they have also provided employment opportunities to millions of Indians and have been the vital source of revenue to the government.

Such organisation have great significance in Indian economy and to honour their contributions and socio-economic assistance, the Government of India confersspecial status to some of these industrial organisations, in order to their path of progress towards growth and prosperity.[10]In Indian Vedic verses "Ratna" is denominated as treasured gems and precious stones.It is of great importance for the companies to be inducted into the list of "***Ratnas***" in the country, because it gave them a different status and level in the society and among the other private and public undertakings. But their significance is equalled to their being important in the country's economy. Public Sector Undertakings are broadly classified into three categories, ***Maharatna, Navratna*** and ***Miniratnas*** are supposed to stand in the hierarchical order where the ***Maharatna*** (Maha=Vast and Ratna=Gemstone), the ***Navratna*** (Nav=Nine and Ratna=Gemstone) and the ***Miniratna***(Mini=Small and Ratna=Gemstone). The classification of these companies on the basis of their expansion and market value.

In 2009, the government established theMaharatna status, which raises a company's investment ceiling from Rs. 1,000 crore to Rs. 5,000 crore. The Maharatna firms can now decide on investments of up to 15 per cent of their net worth in a project. Presently to be eligible for the MAHARATNA status, there are certain criteria to be fulfilled by a specific company:

- The company should already have a Navratna status
- It should have an Indian Stock Exchange listing with the requisite public shareholding as laid down by regulations of SEBI.
- Annual turnover should be on an average more than Rs 20,000 Crores if the last 3 years are taking into account.
- Net worth of the company should be more than Rs 10,000 Crores for 3 previous years.
- Average profit annually should be more than Rs 2,500 Crores after Tax sinc the last 3 years. International operations and global presence should be of significant value and worth.

Under the Maharatna status, companies can incur an expenditure on purchasing new products or go for replacement without any monetary ceiling.The p rocedure of granting Maharatna status is to be initiated by concernedAdministrative Ministries or Departments and the final decision is taken by inter-ministerial committee with initiative of the Department of Public Enterprises.The Board will be delegated thespecial Powers to manage the company by a restructured boardfor which the Department of Public Enterprises will lays down certain rules and direction.

In the year 2013, the public sector undertakings like Bharat Heavy Electricals Limited, Coal India Limited, GAIL (India) Limited, Indian Oil Corporation, NTPC Limited, Oil and Natural Gas Corporation and Steel Authority of India limited, were entitled with the Maharatna status and given the privilege to raise capital and expand its horizon.

This ascertains that, the financial and economic development is largely dependent on the capital requirement. This requirement is met by raising fund in the capital market andthese calls for the investor’s protection and wealth maximisation of stakeholders. With this very reason “Corporate Governance” has become the catchword in the corporate sector in India. In this regards, the management needs to shoulder more responsibility and act as trustee of the shareholders as a large to prevent asymmetry of benefits between owner- managers and the shareholders.

Corporate governance is important in Indian context because of the scams that occurred since liberation, i.e. the Harshad Mehta scamin 1992, Ketan Parekhscam in 2001,Tata financial scandal, Satyam fraud case in 2008-08, latest 3G scam and lastly Citi Bank fraud of Rs. 400 crores. All this scandals necessitate a need of set of good corporate governance doctrine. Various reforms were channelled through different paths with both Security and Exchange Board of India (SEBI) and the Ministry of Corporate Affairs(MCA), Government of India; playing important role. Various committees like Rahul Bajaj Committee of The CII Code, Kumar Mangalam Birla Committee, N.R. Narayan Murthy Committee were set and certain provisions of regulatory framework for CG were modified and relevant amendments were made to Clause 49 of Listing Agreement.

LITERATURE REVIEW

Ramsay & Hoad (1997) had analysed examined the annual report of 268 listed companies to learn about the extent to which Austraian companies disclose their CG practices. They used content analysis method and their findings revealed that the extent of the quality of disclosure is better for large companies as compared to small companies.

Laixing (1999)studied the Chinese companies in Shanghai & established that the presence of independent directors was positively correlated to higher returns for the firms. In Contrast, they could even identify that a positive relationship was not be established in other CG indicators like board size and shareholder activism.

Gupta et.al(2003) has analysed the CG practices of 30 selected Indian companies listed on BSE for two year 2001- 2002 and 2002- 03 by using content analysis having dependent variable i.e. disclosure score and independent variable viz. Total assest, number of independent director and listing status and used ordinary least square regression techniques for data analysis. The omission of mandatory requirement as per clause 49 was observed in certain cases.

Beiner, Drobetz, Schmid and Immermann (2004)[3] explored the relationship between CG and firm’s valuation for Swiss firms by constructing a CG index(CGI), based on a survey of all firms listed on the Swiss Stock Exchange. They found that the CGI index, board size, shareholding of management have a significant influence on firm valuation thereby that firm with higher governance standard receive higher valuation.

Prasanna (2005) in her study of 130 Indian companies, focused on relationship between independent director and financial performance by examining the 3 years data from 2002- 2004 taking independent variables like composition of independent directors, participation in board meetings, annual general meeting, audit committee meeting and chairmanship of Governance Committee. However, value creation as measured by market value to book value ratio has been taken as a dependent variable. Multivariate regression analysis techniques have been used to analyse the data. She found negative relationship between dependent board and value maximisation.

Balasurahmanian, black, and khanna (2008) provided an insight into the CG practices of Indian companies based primarily on response to 2006 survey of 370 Indian Public Sector companies belonging to BSE 30 or 500 indexes. They created a broad Indian Corporate Governance Index (ICGI) based on 49 firm- level attributes and found a positive and statistically significant relation between ICGI and firms market value.

Joshi, Ashish B.(2010) in his study on Coporate Governance and the FinancialPerformance of Selected Indian Companies of 12 different sectors with the sample of 90 companies. The corporategovernance score was calculated by using broad parameters that weregrouped into seventeen different aspects having total score of 100. The researcher tried to find the correlation between four CG score parameter and Four financial performance parameter.It was observed that there was no significant difference among the various sectors of Indian companies for corporate governance score and the EBT / Sales ratio which is indicative of firm's financial performance was positively related with Corporate Governance Score.

Khatab et al. (2011) investigated the relationship between CG and firms performance the case of 20 firms listed atKarachi Stock Exchange. The researcher used Pooled Ordinary Least Square estimation method with panel data set that covers five years period from the year 2005 to 2009. Tobin's Q on asset and return on equity were the dependent variable and firm size, leverage and growth were independent variables of the study. The study revealed that leverage and growth has positive and significant impact on Tobin's Q and return on asset, this even leveraged on return on equity.

CURRENT RESEARCH PURPOSE

In Indian scenario, only fewresearchers have focused in relation to Indian studies of Clause 49 of listing agreement. The Maharatna, Navratna and Miniratna companies are those that have great significance in Indian economy and they enjoy various support and benefits of their status; which makes it even more vital to study their CG practices and their overall performance. Therefore this research will focus on Maharatna Companies CG disclosure practices by studying their mandatory as well as non mandatory disclosure requirement as per Clause 49 and their measures adopted for the creation of value of all stakeholders.

RESEARCH METHODOLOGY

The research framework of the study comprises of research problem, objectives, data & methodological framework, hypothesis, CG score parameters, implication and limitation of the study.

Title of the study:

"An Analytical Study of Corporate Governance Disclosure Practices of Maharatna Companies in India".

Research Problem:

It should be enquired into how far the Indian Maharatna Companies are adhering to recommendation of SEBI's Clause 49 of the listing agreement.

Objectives:

1. To find whether there is any significant difference in the score of CG disclosure practices of Maharatna Companies in the year 2012-2013.
2. To analyse the extent to which Maharatna Companies have complied with the CG disclosure practices with reference to mandatory and non-mandatory disclosure prescribed by SEBI under Clause 49.

Hypothesis of the study:

Ho: There is no significant difference in the score of Corporate Governance disclosure among the seven Maharatna Companies in India.

Period of the study

Data relating to the sample has been collected for the single year i.e. ***2012-2013***, to examine the latest development in the field of corporate governance and its implication in present time.

Data & Methodological Framework:

Data Source:The annual reports of 2012-2013, of the Maharatna companies are taken as a data source. These reports were available on the websites of respective companies.

Sample selection and Sample size: Purposive sampling technique is used for the sample. The researcher has covered the companies having "Maharatna" status in India in order to study the CG trend.

Table :1: Sample Companies Acknowledged with Maharatna Status in 2013

Sr. No.	**Company**	**Abbreviation**
1.	Bharat Heavy Electricals Ltd.	**BHEL**
2.	Coal India Limited	**CIL**
3.	GAIL (India) Limited	**GAIL**
4.	Indian Oil Corporation	**IOIC**
5.	NTPC Limited	**NTPC**
6.	Oil and Natural Gas Corporation	**ONCG**
7.	Steel Authority of India limited	**SAIL**

Formulation of CG parameter

Appropriate weight-age method is used to analyse the CG parameter by allotting appropriate points to all the checklist parameter. This method of scoring is determined after observing the review of literature and references aretaken from researcher i.e. Das, Gupta and Joshi; who has used it for their study inclusive of bit variation/ modification. The parameters include the Statutory and Non mandatory requirements stipulated by revised Clause 49 of the listing agreement as prescribed by SEBI and relative amendments in the Companies Act, 1956.

Table:2 : Evaluation of CG Standard's Parameter

Sr. No	**Corporate Governance Parameters**	**Score assigned**
1	Statement of Company's philosophy on code of governance	2
2	Structure and Strength of boardand BOD meetings held	3

<table>
<tr><td>3</td><td>Chairman & CEO Duality
<table>
<tr><th>Sr. No.</th><th>Particulars Points</th><th>Points</th></tr>
<tr><td>I.</td><td>Promoter Executive Chairman - Cum - MD / CEO</td><td>1.</td></tr>
<tr><td>I.</td><td>Non promoter Executive Chairman cum MD / CEO</td><td>2.</td></tr>
<tr><td>II.</td><td>Promoter Non Executive Chairman</td><td>3.</td></tr>
<tr><td>III.</td><td>Non Promoter Non Executive Chairman</td><td>4.</td></tr>
<tr><td>IV.</td><td>Non Executive Independent Chairman</td><td>5.</td></tr>
</table></td><td>5</td></tr>
<tr><td>4</td><td>Disclosure of Tenure and Age limit of directors</td><td>2</td></tr>
<tr><td>5</td><td>Disclosure of :
<table>
<tr><td>Definition of Independent Director</td><td>1</td></tr>
<tr><td>Selection Criteria of Board of Directors Incl. Independent directors</td><td>1</td></tr>
</table></td><td>2</td></tr>
<tr><td>6</td><td>Post Board meeting follow up system and compliance of the board procedures</td><td>2</td></tr>
<tr><td>7</td><td>Appointment of lead independent director</td><td>2</td></tr>
<tr><td>8</td><td>Disclosure of other provision as to the boards and committees</td><td>1</td></tr>
<tr><td>9</td><td>Disclosure of director’s remuneration amount & policy(each one)</td><td>2</td></tr>
<tr><td>10</td><td>Code of Conduct
<table>
<tr><td>Information on Code of Conduct</td><td>1</td></tr>
<tr><td>Affirmation of compliance</td><td>1</td></tr>
</table></td><td>2</td></tr>
<tr><td>11</td><td>Board Committee
<table>
<tr><th>Sr. No.</th><th>Particulars Points</th><th>25pts</th></tr>
<tr><td>I</td><td>Audit Committee</td><td>8</td></tr>
<tr><td>II</td><td>Remuneration Committee</td><td>6</td></tr>
<tr><td>III</td><td>Shareholders' / Investors Grievance Committee</td><td>5</td></tr>
<tr><td>IV</td><td>Nomination Committee</td><td>2</td></tr>
<tr><td>V</td><td>Other Committees</td><td>4</td></tr>
<tr><td></td><td>Total</td><td>25</td></tr>
</table>
I Audit committee
<table>
<tr><th>SNo.</th><th>Particulars Points</th><th>8pts</th></tr>
<tr><td>I.</td><td>Transparency in composition of audit committee</td><td>1</td></tr>
<tr><td>II.</td><td>Compliance of minimum requirement of the number of independent directors in the committee</td><td>1</td></tr>
<tr><td>III.</td><td>Compliance of minimum requirement of the number of meetings of the committee.</td><td>1</td></tr>
<tr><td>IV.</td><td>Information about literacy & expertise of committee members</td><td>1</td></tr>
<tr><td>V.</td><td>Information about participation of head of finance, statutory auditor and chief internal auditor in the committee meeting</td><td>2</td></tr>
<tr><td>VI.</td><td>Disclosure of audit committee charter and terms of reference</td><td>1</td></tr>
<tr><td>VII.</td><td>Publishing of audit committee report</td><td>1</td></tr>
</table>
II Remuneration Committee
<table>
<tr><th>Sr. No.</th><th>Particulars Points</th></tr>
<tr><td>I.</td><td>Formation of the committee</td></tr>
<tr><td>II.</td><td>Information about number of committee meetings</td></tr>
<tr><td>III.</td><td>compliance of minimum requirement of number of non executive directors in the committee</td></tr>
</table></td><td>25</td></tr>
</table>

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.	Disclosure of sitting fees in board & committee meeting	1

III Shareholders' / Investors Grievance Committee

Sr. No.	Particulars	5 Pts
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
V.	Information about action taken and investors/ shareholders survey	1

IV Nomination Committee

Sr. No.	Particulars	2 P
i	Formation of the Committee and	1
ii	Terms of Reference	1

V Other Committee

Sr. No.	Particulars	4 Pts
I.	Health, Safety and Environment Committee	1
II.	CSR and Sustainable development committe	1
III.	Investment Committee	1
IV.	Share Transfer Committee	1

12 Disclosure and Transparency — 25

Srno.	Particulars	25 Pts
1.	Significant related party transactions having potential conflicts with the interest of the company	2
2.	Non Compliance related to capital market matters during last three years	2
3.	Accounting Treatment	2
4.	Board Disclosure - Risk Management	3
5.	Management Discussion and Analysis2	2
6.	Shareholders' Information	4
7.	Shareholder Rights	2
8.	Audit Qualification	2
9.	Training of Board Members	2
10.	Evaluation of Non-Executive Directors	2
11.	Whistle Blower Policy	2

13 General Body Meetings — 3

Particulars	3 Pts
Location and time of general meetings held in last three years	1
Details of Special Resolution passed in last three AGMs \ EGMs	1
Details of resolution passed last year through postal ballot including 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 Clean Certificate from Auditor — 10 Qualified Certificate from auditors — 5	10
17	Disclosure of Stakeholders' interests **Sr. No.** / **Particulars** / **10 Points** 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	10
	Total	**100**

Evaluation of Governance Standard.

In order to identify the standard and quality of governance that has beenachieved by various companies by observing their checklist on corporate governance score card, it becomes vital to rank them onthe basis of the CG Score. This indicates the category of the company on the corporate governancescore card.

Score Range	100-85	84-75	74-65	64-50	Below 50
Grade	A - Excellent	B - Very Good	C - Good	D - Average	E - Poor

Table:3.Criterion for Evaluation of CG Standard’s Parameter of Maharatna C ompanies for 2012-13

Sr. No.	Corporate Governance Parameters	**Score assigned**	**BHEL**	**CIL**	**GAIL**	**IOIC**	**NTPC**	**ONCG**	**SAIL**
1	Statement of Company's philosophy on code of governance	2	2	2	2	2	2	2	2
2	Structure and Strength of board and BOD meetings held.	3	3	3	3	3	3	3	3
3	Chairman & CEO Duality	5	2	2	2	2	2	2	2
4	Disclosure of Tenure and Age limit of directors	2	2	2	0	0	2	0	2
5	Disclosure of defination of independent directors and their selection criteria	2	2	0	0	0	0	0	0

6	Post Board meeting follow up system and compliance of the board procedures	2	2	0	2	0	0	2	0
7	Appointment of lead independent director	2	2	2	0	0	0	2	0
8	Disclosure of other provision as to the boards and committees	1	1	1	1	1	1	1	1
9	Disclosure of director's remuneration amount & policy	2	2	1	1	1	1	1	1
10	Code of Conduct	2	2	2	2	2	2	2	2
11	Board Committee	25	22	18	20	20	20	21	21
12	Disclosure and Transparency	25	21	24	21	21	24	24	19
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	8	8	8	4	8	8	8
	Total CG Score	100	88	82	79	73	82	85	78
	Grade		A	B	B	C	B	A	B
		Avg.	**81**	**Min**	**73**	**Max**	**88**		

FINDINGS & SUMMARY

1. Statement of Company's philosophy on code of governance:
The first parameter to evaluate the companies CG score is statement of Company’s philosophy on Corporate Governance having a weightage of 2 on a scale of 100. All 7 companies get the expected score of 2by making sufficient disclosure . However, BHEL have better described Company's philosophy on code of governance.

2. Structure and Strength of board
The second parameter is about the Structure, Strength of the board and disclosure of Board meetings and attendance of BOD in the meetings and last AGM . The point was assigned a weightage of 3 on a scale of 100. All companies have sufficiently disclosed the composition of executive, non-executive and stipulating the minimum requirement of independent director on BOD; and meeting held. Therefore each company is assigned the expected score of 3 points.

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 basis of criteria specified in Table:1 3rd parameter.
Non Executive Independent Director shows the ideal position of Chairman with utmost separation of ownership and management and ascertains highest transparency in comparison with the executive director as chairman. No company among this sample is assigned a score of 5 as each company has non-promoter executive director. Therefore each company is assigned score of 2 points.

4. Disclosure of Tenure and Age limit of directors
The fourth point, in the CG parameter is about Disclosure of Tenure and Age limit of directors having weightage of 2 on a scale of 100.All companiesexcept GAIL and IOIC get the expected score of 2 for having sufficiently disclosed the tenure and age limit of Directors.

5. Disclosure of Definition and selection criteria for (Independent) Directors
The fifth parameter is about the definition of ‘Independent Director’ and selection criteria for board members (including independent director). The point is assigned a weightage of 2 on a scale of 100. None of the companies have disclosed definition of ‘Independent Director’ and selection criteria for board members (including independent director).However, the definition of ‘Independent Director’ and selection criteria is available in the annual report ofBHEL.Hence it is assigned a score of 2 point. Other companies (except BHEL) did not get any point.

6. Post Board meeting follow up system and compliance of the board procedures
The sixth parameter is about disclosure ofPost Board meeting follow up system and compliance of the board procedures having a weightage of 2 points. The systematicdisclosures about the Post Board meeting follow up system is available in the annual report of BHEL, GAIL&ONCG which is entitled 2 points. The other four companies did not get any point in this section.

7. Appointment of lead independent director
The seventh parameter isabout theappointment of Lead Independent Director having a weightageof 2 on a scale of 100. Among the sample, ONCG, BHEL&CIL, haveformally appointed lead independent director.Hence, only this three companies get2 point.

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

The disclosureof other provisionas to the boards and committees is the eighth parameter,having weightage of 1point in. It is observed that all the companies havesufficiently disclosed about the various committees and sub-committees of theboard.Hence, All 7 companies get expected score of 1.

9. Disclosure of Remuneration Policy & Remuneration of Directors

The disclosure ofRemuneration Policy & Remuneration of Directors is assigned aweightage of 2 on a scale which is equally divided intotwo points, (i) Disclosure of remuneration policy and (ii) Disclosure ofremuneration to directors.All companies have satisfactorily disclosed the director’s remuneration and avails 1 point for it. Only BHELhas provided sufficient disclosure of the remuneration policy and therefore it gets the score of 2 points.

10. Code of Conduct

The tenth parameter is about the code ofconduct having weightage of2 points that areequally 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 and gets expected score of 2 points.

11. Board Committees

The eleventh parameter is about the variouscommittees of the board having maximum weightage of 25 that are inclusive of score assigned to different committee. The aggregated score from each committee is compiled and presented as follows.

Table : 3.1 Criteria for Determination of points for Board Committees

Sr. No.	Particulars Points		BHEL	CIL	GAIL	IOIC	NTPC	ONCG	SAIL
I	Audit Committee	8	7	7	6	7	7	7	6
II	Remuneration Committee	6	6	6	6	6	6	6	6
III	Shareholders' / Investors Grievance Committee	5	4	2	4	4	4	4	4
IV	Nomination Committee	2	2	0	0	0	0	0	2
V	Other Committees	4	3	3	4	3	3	4	3
	Total	**25**	**22**	**18**	**20**	**20**	**20**	**21**	**21**

BHEL has 9 committees, CIL has 11 committees, IOIC has 16 committees NTPC has around 15 committees, ONGC has around 10 committees, GAIL has 12 and SAIL has around committees. For the review of CG practices only major committees that are vital one is considered & details are provided herein.

Table : 3.1.1 Criteria for Determination of points for Audit Committees

S.No.	Particulars Points	Pts	BHEL	CIL	GAIL	IOIC	NTPC	ONCG	SAIL
I.	Transparency in composition of audit committee	1	1	1	1	1	1	1	
II.	Compliance of minimum requirement of the number of independent directors in the committee	1	1	1	1	1	1	1	1
III.	Compliance of minimum requirement of the number of meetings of the committee.	1	1	1	1	1	1	1	1
IV.	Information about literacy & expertise of committee members	1	1	1	0	1	1	1	0
V.	Information about participation of head of finance, statutory auditor and chief internal auditor in the committee meeting	2	1	1	1	1	1	1	1
VI.	Disclosure of audit committee charter and terms of reference	1	1	1	1	1	1	1	1
VII.	Publishing of audit committee report	1	0	0	0	0	0	0	0
	Total	**8**	**7**	**7**	**6**	**7**	**7**	**7**	**6**

It is observed that all companies have made sufficient disclosure aboutthe audit committee, except the publication ofAuditCommittee Report in the annual report. All the companies get score of 7 except GAIL and SAIL as they have not disclosed the literacy and expertise of committee member.

Table:3.1.2 Criteria for Determination of points for Remuneration Committee

S.No.	Particulars Points	Pts	BHEL	CIL	GAIL	IOIC	NTPC	ONCG	SAIL
I.	Formation of the committee	1	1	1	1	1	1	1	1
II.	Information about number of committee meetings	1	1	1	1	1	1	1	1
III.	compliance of minimum requirement of number of non executive directors in the committee	1	1	1	1	1	1	1	1
IV.	Compliance of the provision of independent director as a chairman of the committee	1	1	1	1	1	1	1	1
V.	Information about participation of all members in the committee meeting	1	1	1	1	1	1	1	1
VI.	Disclosure of sitting fees in board & committee meeting	1	1	1	1	1	1	1	1
	Total	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**

It is observed that all the companies, haveformed the committee and have also disclosed sufficiently. Therefore, each company get the score of 6 points.

Table: 3.1.3. Criteria for Determination of points for Shareholders /Investors Grievances Committee

S. No.	Particulars	Points	BHEL	CIL	GAIL	IOIC	NTPC	ONCG	SAIL
i	Transparency in Composition of the committee	1	1	1	1	1	1	1	1
ii	Information about nature of complaints & queries received and disposed.	1	1	0	1	1	1	1	1
Iii	Information about number of committee meetings	1	1	1	1	1	1	1	1
Iv	Information about action taken and investors/shareholders survey	1	1	0	1	1	1	1	1
	Total	**4**	**4**	**2**	**4**	**4**	**4**	**4**	**4**

It is observed that all the sample companies have formed thecommittee and have sufficiently disclosed about point i to iv.Hence, all companies get the score of 4, except CIL which gets only 2 points as it has not disclosed the nature of complain and action taken for it.

Table: 3.1.4. Criteria for Determination of points for Nomination Committee

Sr. No.	Particulars	Points	BHEL	CIL	GAIL	IOIC	NTPC	ONCG	SAIL
i	Formation of the Committee and	1	1	0	0	0	0	0	1
ii	Terms of Reference	1	1	0	0	0	0	0	1
	Total	**2**	**2**	0	0	0	0	0	**2**

It is observed that none of the sample companies except BHEL & SAIL have formed this committeeand hence theygets thescore of 2 .However, the other sample companies get the ZERO points.

Table : 3.1.5. Criteria for Determination of points for Other Committee

Sr. No.	Particulars	Points	BHEL	CIL	GAIL	IOIC	NTPC	ONCG	SAIL
I.	Health, Safety and Environment Committee	1	1	1	1	1	0	1	1
II.	CSR and Sustainable development committee	1	1	1	1	1	1	1	1
III.	Investment Committee	1	0	0	1	0	1	1	0
IV.	Share Transfer Committee	1	1	1	1	1	1	1	1
	Total	**4**	**3**	**3**	**4**	**3**	**3**	**4**	**3**

It isobserved that following committees are not formed by any of thesample companies.However, Share Transfer Committee is formed by GAIL and ONCGLtd. and hence they get complete score of 4 points where else all other companies get 3 points.

12. Disclosure and Transparency

The twelfth parameter is about the variousdisclosure and transparency shown in the company's annual report and is assigned a weightage of 25 on a scale of 100. The classification of thepoint is as under.

Table : 3.2. Determination of points for Disclosure and Transparency

Sr. No	Particulars	Pts	BHEL	CIL	GAIL	IOIC	NTPC	ONCD	SAIL
1.	Significant related party transactions having potential conflicts with the interest of the company	2	2	2	2	2	2	2	2
2.	Non Compliance related to capital market matters during last three years	2	2	2	2	2	2	2	2
3.	Accounting Treatment	2	2	2	2	2	2	2	2
4.	Board Disclosure - Risk Management	3	3	3	3	3	3	3	3
5.	Management Discussion and Analysis	2	2	2	2	2	2	2	2
6.	Shareholders' Information	4	4	4	4	4	4	4	4
7.	Shareholder Rights	2	0	1	0	0	1	1	0
8.	Audit Qualification	2	2	2	2	2	2	2	2
9.	Training of Board Members	2	2	2	2	2	2	2	0
10.	Evaluation of Non-Executive Directors	2	0	2	0	0	2	2	0
11.	Whistle Blower Policy	2	2	2	2	2	2	2	2
	Total	**25**	21	24	21	21	24	24	19

All the companies have scored full points viz.significant related party transactions having potential conflicts with the interest of the company; Non Compliance related to capital market matters during last three years; Accounting Treatment; Board Disclosure - Risk Management; Management Discussion and Analysis; Shareholders' Information; Audit Qualification; and Whistle Blower Policy. However, BHEL, GAIL, IOIC and SAIL has not provided disclosure of shareholders right, training of Board Members and evaluation of non-executive director and therefore they score zero. Shareholder rights are not printed in black and white in any of the annual report but there was disclosure in CIL, ONGC and NTPC wherein they specified that the communication of financial results are being published widely and also hosted on the Company’s website. Therefore, they are assigned 1 point for give partial reference of shareholder’s right.

13. General Body Meetings

The Thirteenth parameter is about the General Body Meetings disclosure carrying the weightage of 3 points on the scale of 100.

Table: 3.3. The Disclosure Regarding General Boad Meeting

Sr. No.	Particulars	Pts	BHEL	CIL	GAIL	IOIC	NTPC	ONCD	SAIL
i	Location and time of general meetings held in last three years	1	1	1	1	1	1	1	1
ii	Details of Special Resolution passed in last three AGMs \ EGMs	1	1	1	1	1	1	1	1
Iii	Details of resolution passed last year through postal ballot including conducting official and voting process	1	1	1	1	1	1	1	1
	Total	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**

All seven companies have sufficiently disclosed about the above points in theannual report and hence get the expected score of 3.

14. Means of communication and General shareholder information

The Fourteenth parameter is about the disclosure of the means of communicationand general shareholder information. This point was assigned a weightage of 2on a scale of 100. Every company has sufficiently disclosed and get the expected score of 2 points.

15. CEO / CFO Certification

It is observed that every company hasthe certification of CEO/ CFO for the corporate governance and hence are assigned the expected score of 2 points to fulfil the Fifteenth parameter of CG score.

16. Compliance of Corporate Governance and Auditors' Certificate

The Sixteenth parameter isabout the compliance of Corporate Governanceguidelines issued by SEBI & Auditor’s Certificate. Every company has a clean certificationfrom the Auditor & are assigned 10 points.

17. Disclosure of Stakeholders' Interests

The Seventeenth score point is about the disclosure of the stakeholders’interest and has a weightage of 10 on a scale of 100. Thesepoints are divided equally to the following.

Table :3.4. Disclosure of Stakeholders' Interests

Sr. No.	Particulars	Pts	BHEL	CIL	GAIL	IOIC	NTPC	ONCD	SAIL
i	EHS	2	2	2	2	2	2	2	2
ii	HRD Initiative	2	2	2	2	0	2	2	2
Iii	CSR	2	2	2	2	2	2	2	2
Iv	IR	2	2	2	2	0	2	2	2
Iv	Disclosure of policies on EHS, HRD,CSR & IR	2	0	0	0	0	0	0	0
	Total	10	8	8	8	4	8	8	8

It is observed that most of the companies have provided information about above mentioned points in various forms. However, the information regarding HRD initiatives and Industrial relations is not adequately provided in the report of IOIC. The disclosure of policy related of HSE, HRD initiatives, industrial relation and corporate governance policy is not adequate presented in annual report. Hence, every company get score of 8 points except IOIC.

TESTING OF HYPOTHESIS

ONE – WAY ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*F crit*
Between Groups	4955.411	16	309.71323	**438.76042**	**1.743621936**
Within Groups	72	102	0.7058823		
Total	5027.412	118			

HO: There is no significance difference in the score of Governance Parameters among Mahartna Companies
during the year 2012-2013.

Here, null hypothesis is rejected as F calculated value (438.760) is greater than F tabulated value (1.7436)

So, H1 accepted
There is significant difference in the governance score of Maharatna companies during the year 2012-2013

Source: Excel worksheet.

Summary

The Annual Reports of the Maharatna companies were taken from the respective company's website. The references for putting the score were taken after a detail study Clause 49 of SEBI and review of these reports. Among all the company's Annual report, the report of Bharat Heavy Electricals Limited was presented with utmost disclosure in very systematic way. It was effortless to identify this parameter and analyse other disclosure details.W hile taking reference to Table:3 CG Score Parameters, it can be observed that Bharat Heavy Electricals Limited acquires highest CG score of 88 points, which reveals that the disclosure of BHEL corporate governance practices are far ahead of the other company. On the other hand, Indian oil corporation is scoring the least i.e. 73 points. However, while comparing these companies CG score on the Grade as specified in Evaluation of CG Score, the researcher observes that the company is having the Grade range from A to C i.e. from Excellent to Good, with Maximum 88 points and Minimum 73 points deriving an Average Score of 81 points.

The Researcher has also applied Data Analysis Technique by using Microsoft Excel to interpret the result ofOne - W ay ANNOVA and test the hypothesis of the study. The Researcher could conclude from the test that, there is Significant Difference in the Corporate Governance Score of Maharatna Companies during the year 2012-2013.

To summarize, Maharatna Companies have complied with the CG disclosure practices with reference to mandatory and non- mandatory disclosure prescribed by SEBI under Clause 49 to a great the extent and the researcher could attend both the objectives of study.

MANAGERIAL IMPLICATIONS

1. To infuse India’s business culture with a ‘Spirit of Corporate Governance”, in order to maintain sustainable and effective corporate governance.
2. To demonstrate the transparency and disclosure of Company have availed the prestigious status of being Maharatna Companies and fulfilling their obligations for investor’s protection and their well being.
3. To pay special attention in the quality and effectiveness of the legal, administrative and regulatory framework.
4. To form an appropriate system in order to check the Directors independence in the board and to monitor the work of Audit firms.
5. To take constructive measures in promoting investor’s awareness and education program that emphasis on importance of corporate governance and need for review of such practices.
6. To give an empirical finding on the disclosure of the “Maharatna” Companies in line with SEBI’s Clause 49 of listing agreement that may further strengthen the Indian literature on Corporate Governance.

RESEARCH LIMITATIONS / SCOPE FOR FUTURE STUDY

The study is conducted depending upon the secondary source of information i.e. company’s Annual Report and Corporate Governance Report and researcher has considered it to be the authentic publication of Report by the companies.

2. The study is limited to only(Seven) Maharatna Companies which comes into PSU category which has limited the research area.
3. The CG study is calculated by Score/Points which may have a scope of further research.

CONSLUSION

Hence, Maharatna Companies have provided significant disclosure and transparency in line with the SEBI’s Clause 49, which makes them truly significant in regards to investors view point and industrial or economic point of view. They have receivedmany credentials that are combined with various awarded and recognition for Corporate Governance & CSR policy, excellence in financial performance and even in the communal context. The Maharatna Companies have really position itself as significant PSUs having holistic framework and capability to be portrait as a model excellence.

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CORPORATE GOVERNANCE IN THE MEXICAN SMEs: COMPETITIVE STRATEGY

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ABSTRACT

The current governance model is a fundamental change in the corporate culture, given the constant change and globalization of markets, it serves to strengthen the organizational structure of the company, particularly Mexican small and medium enterprises (SMEs) are more vulnerable to change, what comes the interest of "Analyze corporate governance as a competitive strategy in SMEs of Mexico" under the assumption that SMEs are more competitive by adopting management as corporate governance, and if not adopted this strategy, the company may be displaced from the national or international market. As a result the long term, this strategy aims to create social and economic welfare of SMEs, being labor strength in Mexico.

Key words: competitiveness, corporate culture, corporate governance, SMEs.

RESUMEN

El modelo de gobierno corporativo actualmente es fundamental como cambio en la cultura empresarial, dada la globalización y el cambio constante de los mercados, pues sirve para afianzar la estructura organizacional de la empresa, en particular las pymes mexicanas que son más vulnerables al cambio, por lo que surge el interés de *"Analizar el gobierno corporativo como estrategia competitiva en las pymes de México"*, bajo los supuestos de que las pymes son más competitivas al adoptar su gestión como gobierno corporativo; y si no se adopta esta estrategia, la empresa podrá ser desplazada del mercado nacional o internacional. Como resultado a largo plazo, esta estrategia pretende generar bienestar social y económico de las pymes, al ser fortaleza laboral en México.

Palabras clave: Competitividad, cultura empresarial, gobierno corporativo, Pymes.

INTRODUCTION

Today, society is undergoing a continuous transformation process, reflected in the economic, political and social. This coupled with globalization, characterized by cultural integration , and government markets, where there are involved factors as important as technological innovation through research and development, leading to increased competition among employers, some by survive and others to maintain a strong position, changes in which must be constantly changing strategies for the benefit of the organization.

One of the biggest impacts caused by globalization has been the free market entry, since previously a firm could remain stable and positioned at national level, but once it started the globalization phase, initially was a competitive advantage for those firms that had vision to grow and had the opportunity to do so, but at the same time has been a threat for those who did not have the technology and capital to do the same.

Therefore it emerges the importance of addressing the use of corporate governance as a strategy in Mexican small and medium enterprises (SMEs) and as a way not only to survive, but to compete and even expand their horizons internationally. So SMEs should have an organizational structure that allows an orderly adapt to global change. There are companies that already implement corporate governance as a means to create competitive advantages, and have marked major differences from those that have not.

This document was developed through a qualitative study of the characteristics that should be adopted by small and medium enterprises in Mexico, to generate greater competition, greater wealth and greater economic, political and socio-cultural. To this end, for the theoretical framework is considered the agency theory, such asmotivating the creation and operation of corporate governance. Considering the objective of this paper is to analyze corporate governance as a competitive strategy in SMEs in Mexico.

Understanding that for change and adoption of corporate governance requires changes of directors, managers, among other major radical changes, so that they are aware of taking the right decisions and safeguard the interests of the company. These changes allow the consolidation ofpositioning in the market. Considering that many of the familiar Mexican SMEs, the impact would be very favorable and the changes are urgent because studies claim the convenience of going to consultancies, universities, incubators and government institutions that provide enabling developing business.

BACKGROUND

A. Evolution of SMEs in Mexico

Mexican companies have been affected since the 40's due to protectionist trade policies, which led to create incentive systems, biased and prejudiced greatly competitiveness, causing a lag in the country it self that begins to root before the opening of markets to foreign trade. This motivated to switch to an exchange-free policy. However, it had also failures because it exposed mainly small and medium enterprises, which did not have the resources needed to adapt and survive to the change in ordinate that was given.

It was not until these cold world war, when it was decided to open international markets and it is when Mexico looks like a great opportunity to export its products primarily to the neighboring country United States for the years50's and 60's, which brought a boom not only for

Mexico but to Latin America. At this time, after the Second World War (WW2), Mexico had built a strong industry. However did not last long due to the protection and subsidies, which created huge distortions in the economy. Here the government intervened to "support" businesses, causing the protection and government subsidies. Because of this, the employer had a captive market and had no interest in improving the quality of their products and services as well as to export them or seek new markets and resulting that the economy stagnated and would cause a deficit in the balance commercial.

From this background, SMEs (small and medium enterprises) have faced constant obstacles to survive and make in roads in international business. However this situation has been very difficult for them. Globalization has created great opportunities especially in the field of global competitiveness. Following the opening of borders for entry of all types of products and services, there was a decline in production and the breakdown of many companies, largely by consumer preference for foreign goods and products.

The trend of Mexican businessman doing business family heritage is reflected in most SMEs. It was unveiled at the International Seminar on the Role of MSMEs in the Process of Globalization of the World Economy, held in Mexico Cityin 1993. Mexico currently consists mainly of micro, small and medium enterprises (MSMEs), and they are of vital importance, since they form the 98.79% of the Mexican economy. Gutiérrez Peñaloza (2003, p. 12-13) points out that the country has an alternative which is in the creation of a new corporate culture based primarily on employee motivation in its creativity, trust, loyalty, work, initiative and enthusiasm, achieved through a healthy working environment. This alternative is urgently needed to be adopted in SMEs, due to the importance to the country.

B. Features of SMEs in Mexico

As mentioned above, SMEsare the economic center of the country. This is because social overcrowding and the need to raise capital and technical resources for operating production and services. However, despite the complex rules of management, it has been improving the level of perfection. SMEs have the peculiarity that not all research, planning or use a comprehensive methodology. Therefore, policies are complex functions depending on the type of company, besides cultural, educational, political, economic and social aspects.

Rodriguez Valencia (1994, page 26) states that from the point of view of the individual, a small business may seem insignificant, but in its overall size is really great, not only in numbers but by its contribution to the economy. The size of the SME is not measured solely by the number of firms. It is alsothe capital investment, production , value added, number of jobs created, to name a few factors that give rise to determine the complexity and at the same time the importance of SMEs in generating employment and wealth to the country. The following Table 1 shows the size distribution companies:

Table1: Distribution of firms by size

TYPEOFCOMPANY	**NUMBER**	**%**
Micro	2 605 849	95.5
Small	87 285	3.2
Median	25 517	.09
Large	7 715	.03
Totals	2 726 366	99.9

Source: INEGI(2010)

Some characteristics of SMEs are: little orno expertise in the administration, lack of access to capital, close personal contact between manager and employees, some dominant position in the consumer market and the close relationship with the local community.

APPROACH AND DELIMITATION OF THE PROBLEM

The research aims to highlight the importance of Mexican SMEs from strategically to adopt corporate governance, to be competitive and have a positive impact on the economic development of the country. The question that arises from the difficulty for SMEs to survive is :Corporate governance can be implemented as a competitive strategy in Mexican SMEs?

A. Research objective

The research objective of this paper is to analyze corporate governance as a competitive strategy in SMEs in Mexico under the support of the agency theory.

B. Research assumptions

The problems detected, leads to two cases. These are:

1) SMEs are more competitive by adopting management as corporate governance.
2) If it is adopt ed a corporate governance strategy type is easy to move the company in the domestic or international market.

JUSTIFICATION

SMEs in Mexico mostly have neither advice nor enough technology to be competitive. SMEs lack of resources and skilled human capital for business development and decision making to strengthen the business and the lack of information and vision of entrepreneurs. It is then, that SMEs are currently involved in a global market, which encourages companies to streamline their processes, train their staff, advice to improve the performance of firms, as well asmake use of the technologies. These aspects serve to make the company competitive. Lack of information can affect the degree of being affected in their yields, prices and costs, consequently,become uncompetitive. A factor that also influences the lack of monitoring processes and decisions made by the governance tripod which is comprised of the board, owners and managers (Peng, 2010).

Mexico has gone from being a closed economy, with in ward growth, into a country with a new model of outward growth through industrialization and export. The former model was effective from l940 to 1980, to which was followed by the1982 crisis because of overprotection in exports and over regulation generated monopolies and oligopolies, there was little international competitiveness (Villarreal Villarreal& Ramos, 2001). For the years 90's,the industrial model was booming. Mexico currently exports almost 80% of its production, however, has not diversified models to other parts of the world, because it has focused on the United States and Canada, and the percentage decreases for other countries also have opportunity to exploit and compete as well as we will generate a stability in these times of financial and economic volatility (Ministry of Economy, 2013).

Corporate governance can improve the understanding of the structures and governance mechanisms that benefit the operation of the organization. Peng (2010) defines governance as the determination of the general uses to which organizational resources are deployed and the resolution of conflicts between multiple participating organizations. Corporate governance focuses on the control of the executive personne l interest and the protection of the interests of shareholders in environments where organizational separate ownership and control.

One of the biggest impacts that globalization has generated has been creating more risk, in the sense of a more volatile and competitive, but also more opportunities in terms of the emergence of more markets. Several causes lead the companies to re define their culture and adopt an international business that allows easy adaptation to change and compete more successfully and welfare.

This new culture of corporate governance stands out in-depth assessment of managers and honesty to sustain the business, i.e. really care about the customers, shareholders and employees, and assess organizational levels, the delegation of responsibility and avoid bureaucracy forming multi functional working teams, seeking an atmosphere of trust and communication within the organization. This is a result of the presence of a senior leadership in enabling to promote good management decision-making for better and faster results.

Mexican SMEs are at a disadvantage in relation to large companies hogging demand , so they (SMEs) are displaced on automatic. This is the motive that explains why they are in urgent need to adapt and adjust to the current environment handled globally, which will enable to be more competitive. This implies a change in attitude to maintain market leadership, then. When buying a good inthe global market, no matter the place of origin, Argentina, Mexico or China, the important thing is to meet demand preferences and top with quality standards and marketing process.

Currently, SMEs compete differently. Companies can succeed if they master first at the ways to compete and overcome normal organizational barriers, doing things in a different way, being flexible to change and adapt to it. This leads to a new organizational culture of the 90's to the present has been anchor for change and improvement (Gutiérrez Peñaloza, 2003). Corporate governance is based on tools used for efficient administrative management such as coaching, benchmarking, management by values, empowerment, six sigma, quality function deployment, the balanced scorecard, to name a few.

A. Why implement corporate governance in SMEs?

To implement corporate governance helps institutionalize the operation of the company, giving it greater professionalism for decision-making and daily management. Some of the benefits generated by the company are:

1) Have access to public / private finance on better terms and conditions.
2) It can make better business decisions by the existence of timely, accurate and relevant financial reports from generating.
3) There is a clear identification of the levels of authority and responsibility.
4) It becomes clear to third parties and internal staff.
5) Helps improve succession processes generational change.
6) Measure the operation and better business performance.
7) Promotes risk management of the company.

Success depends on the belief that the owner or employer has on its advantages (De Gárate Lara Perez &Tenorio, 2010).

THEORETICAL AND CONCEPTUAL FRAMEWORK

It is currently undergoing continuous changes in relation to the business and social world, which is why companies have changed their role and significance, becoming afactor of changeand social influence. For further study, read Limón Suárez, 2006 and Koontz & Weihrich, 1998). Dr. Pilar Baptista, citedby LimónSuárez(2004) conducted arecent study to define the profile of SMEs and the outstanding results are that they are generally directed by the owner and that in turn are who serve as administrator and centralized decision maker.

For the Organization for Economic Cooperation and Development (Organizaciónpara la Cooperación y el Desarrollo Económico, OECD,1999), corporate governance refers to the internal means by which corporations are operated and controlled. To be properly implemented, corporate governance helps to ensure that corporations use their resources efficiently. So it can be said that corporate governance is a means to achieve the lead and control the company, in such a way that allow knowing the rights and responsibilities of people who make up the organization, making it possible to establish objectives, procedures, policies and standards with to improved administrative management and can become competitive in the market. Deloitte & Touche (2013) show a model of corporate governance including the parties thereto, and the responsibilities and rights of each of them.

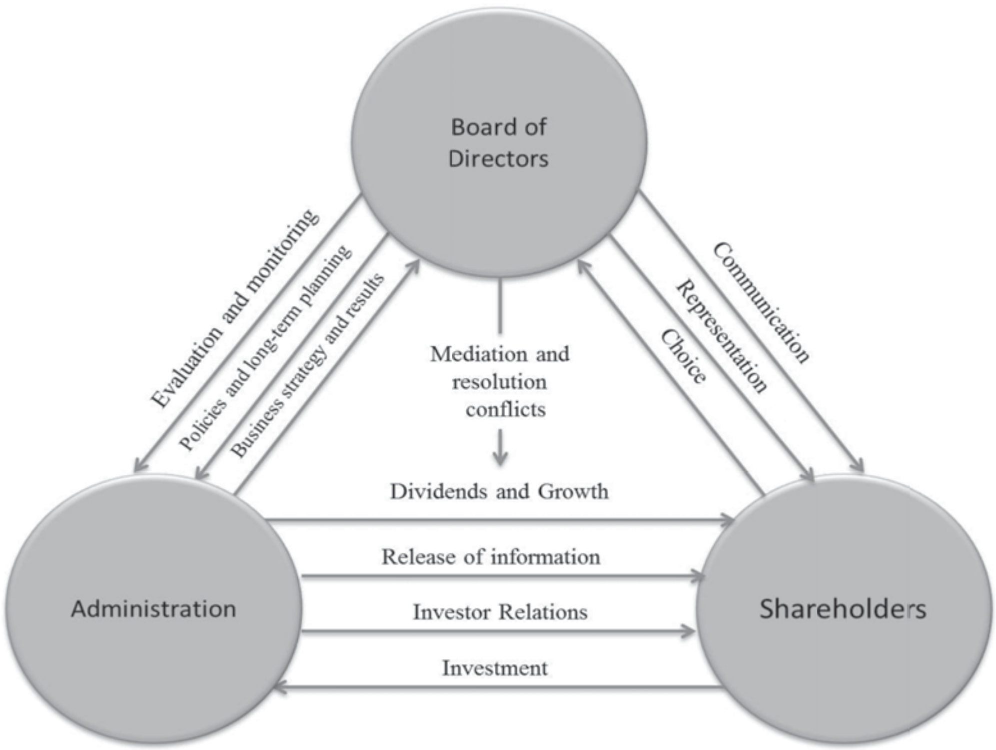

Figure 1.Corporate governance model
Source: Deloitte & Touche(2013).

With the interaction of the parts of the corporate governance, it leads to internal conflicts caused by differences of interest and information asymmetries. The interest is focused on SMEs, because of its importance in the economy as they are generating wealth in the country, covering 98.7% of the total national companies , and generate45% of GDP (INEGI, 2010). This implies that greater attention must be given to the promotion of technological development and competitiveness in the global market. The absence of structuralreforms that are needed to sustain and support is causing a steady loss of competitiveness.

That is why researchers in the field of corporate governance have the opportunity to directly influence corporate governance practices through the careful integration of theory and empirical research. Madhok (2002), argues that a theory of the business strategy should address not only the decision on hierarchical governance or market governance, but also should take into account how a company's resources and capabilities can be better developed and deployed in the pursuit of competitive advantage.

The agency theory is the one who gives rise to the study of corporate governance. Some of the expert authors who have made great contributions to the subject are Dalton, Daily, Ellstr and, &Johnson, 1998 and Shleifer &Vishny, 1997. Jensen & Meckling (1976) proposed in the theory of the agency how the corporation can be, given the assumption that managers are selfinterested, and the context in which managers do not bear the wealth effects to take their own decisions. However Berle & Means (1932) point out that the theory is simple. Large corporations are reduced to two participant's directors and shareholders and the interests of each one are supposed to be both expensive and consistent, in addition to considering the idea of that the human beings must be willing to sacrifice their personal interests for the interests of others.

According to Pratt & Zeckhauser (1985), the separation of ownership and control is a subset of a series of economic problems that can be classified as the "principal-agent problem", i.e. recognize the possibility that creativity in the area of governance, can do better. If the agent is given an income that does not depend on effort, has noneconomic incentive to work harder, in order to provide security for affected interests (Peng, 2010). Mahoney(2005) discusses the agency theory, which makes some predictions for the control, such as:

1) Monitoring of lower quality is expensive.
2) Agency loss is more serious when the economic interests of principals and agents diverge considerably.
3) Agency theory is simply limited control or completely successful on the company.
4) The economic benefits of reductions in the loss of the agency are shared by the principal and agent in most market situations.
5) The principal and the agent have a common economic interest in defining a structure for monitoring and economic stimulus to produce results as close as possible to the economic result that would occur if the monitoring information were no cost.

The principal-agent theory gives a good reason for the existence of share cropping contracts. This brings the question: Why is there a big difference between theory and practice? Some limitations of the model are:

1) The cost of specifying complex relationships.
2) Executive directors are judged based on criteria that could not be set in advance
3) Reward restricted or system penalty, usually expressed in terms of monetary payments.

The capital intensity, the degree of specialization of assets, information costs, capital markets and labor markets internal and external are examples of factors in the contracting environment that interact with monitoring costs and bonding different practices to determine contractual forms(Jensen &Meckling, 1976, p. 350).

The agency relationship is given to be a contract under which one or more persons (the principals) hire another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. In this case the relations of most agency directors and agents incur a positive control of the economic costs of union and there will be a divergence between the agent's decision and the decisions that maximize the economic welfare of the principal.

METHODOLOGY

The methodology used for the preparation of this research is based on an empirical approach to qualitative analysis, using electronic sources, literary and scientific, besides statistical databases of governmental information. It was collected information and considered one that furnish and give rise to answer the problem to be solved This research report is considered as a descriptive study because it examines how it is and manifests a phenomenon and its components (Hernández Sampieri, 1991).

The research is considering as the independent variable the corporate governance as a strategy and dependent variable the Mexican SMEs, the competitiveness and the impact factor of agency theory.

ANALYSIS OF RESULTS

Research has developed a wider and clearer appreciation of the role of corporate governance and its importance, leading to consider as a tool to generate competitive advantages in the market. For 2007, the newspaper El Universal (2013) published an article referring to SMEs that remain outside corporate practices in Mexico. However, during the period 2007-2012 the Ministry of Economy announced that advances and supports have been provided to SMEs through the National Program of Promotion and access to Finance for SMEs (Secretaría de Economía, Administración Pública Federal 2006-2012,2013), shown in Table2:

Table2. Supports from the Secretary of Economics (Secretaría de Economía) to SMEs 2007-2011

Concept	Annual data				
	2007	**2008**	**2009**	**2010**	**2011**
Number of SMEs	102,686	84,548	141,843	82,593	77,913
Financial support from the Secretary of Economics (Millions of pesos)	1,219.7	1,798.4	3,979.3	3,676.5	3,729.5
Seed capital	1,590.0	433	849	1,379	000
Productive projects	2,757.0	1,516	213	1,761	500

Source: Own elaboration based on Secretaría de Economía (2013).

According to INEGI(2013), in Mexico there are3, 724, 019family businesses across the country, of which 98.35% are concentrated in trade 49.9% (1.85855 million), services 36.7% (1,367,287) and industriesmanufacturing11.7% (436 851).

Mexico does not yet implement corporate governance culture in SMEs despite that the government makes great efforts to reach these economic entities that are strength and pillar of the Mexican economy. This is reflected through the Program for Business Debt Market that is intended to fund the institutionalization and installation of Corporate Governance in SMEs through payment of professional services, equipment and systems that help strengthen them so that they become issuing debt candidates on the Mexican Stock Exchange (BMV) (Observatorio PYME, 2013. SME Observatory, 2013).

Note that for the year 2004 was created the Center for Excellence in Corporate Governance (CEGC), which aims to: Providing board members and executives with information, methodologies and best corporate governance practices that will increase the efficiency and transparency levels, facilitate compliance with existing standards and create more confidence from investors to increase their economic value and social (Centro de Excelencia de Gobierno Corporativo, Center for Excellence in Corporate Governance, 2010, p. 2).

The electronic journal of Public Accounting issued by the Mexican Institute of Public Accountants in September 2010 posted an article that talk about the competitive government by SMEs, highlighting their basic functions in order to enable the organization to be managed and controlled efficiently, listed below:

1) Audit function.
2) Function evaluation and compensation.
3) Function of finance and planning.
4) These functions are carried out through two control bodies that are:
5) The Assembly of Shareholders.
6) The Board of Directors

As part of the analysis results, it is noted that in 2010 the company applied the first survey PwCon Corporate Governance in Mexico (EGC). It was done under specific objectives listed below:

1) Obtain relevant information that would confirm the current status of corporate governance (CG) practices and identify to what extent the culture and practices of GC, have managed to permeate different layers and Mexican business positions.
2) To know the form on how are structured the GC bodies headed by the Board of Directors and intermediate bodies of support (Committees).
3) To investigate which of the CG practices are most that register a lower coverage or less effective implementation by companies.
4) To seek the view points of the participants in the survey, about areas of opportunity to incorporate a greater number of companiesand entrepreneurs to their disciplines (Pymempresario, 2013).

Figure 2indicatesthe relationship between the functions and the supervisory bodies:

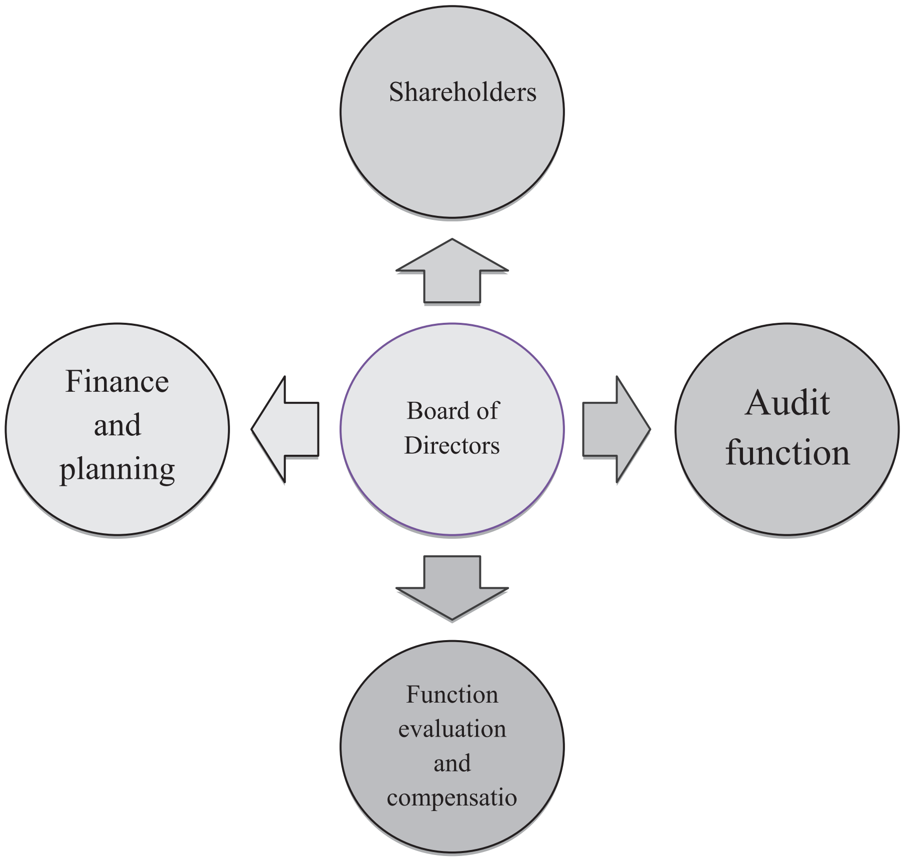

Figure 2.Relationship between control functions and organs
Source: De Garate Lara Perez & Tenorio (2010).

The relationship between horizontal and vertical size could be negative if coordination costs increase with the number of units produced. In terms of size and concentration of equity ownership, the effect should pre dominate is diversified risk of share holders. If the asset size is greater, maintain a certain proportion of ownership of the company to a share holder requires increasing the risk that the shareholder has, then it is higher the percentage of its equity position in the company. Therefore, it is also expected a negative relationship between heritage and ownership concentration.

1) The third-specific investments lead to more negotiation and the need for the manager to have room to negotiate more freely.
2) C osts of monitoring managers increase the likelihood of agency behavior, thereby increasing the concentration of ownership.
3) Scale economies increase the horizontal size of the business, making it more risky for share holders owning a certain proportion of the irheritage, thereby increasing the concentration of ownership.

4) The agency problem can be mitigated by concentrating the property.
5) There should be no relationship, with the understanding that such needs are part of compensation.
6) E xternal regulations replace controlling shareholders, thereby reducing the agency problem and thus the concentration of ownership (De Garate Lara Perez & Tenorio, 2010).

A clear vision, mission and strategy is communicated to share holders and repeated frequently. These elements are shared with employees from the point of interview and induction creating a uniform mentality and performance together. Dynamic leadership is visionary and able to stimulate good behavior in the organization. This feature occurs frequently in one person (the highest executive), although team work is recommended, especially to ensure continuity incase of rotation at the summit.

CONCLUSIONS AND RECOMMENDATIONS

Based on the target set at the beginning, the agency theory can foster entrepreneurial opportunism. However, it is necessary to look for ways to avoid the opportunism proposing policies, regulations and penalties that are established by agreement between managers, shareholders and the board. Managers or agents are directly responsible for effective functioning in the organization (Blair &Stout,2001). However it is found that there is an area of opportunity for future research in relation to the influence that exists between the tripod of government and performance of the company in question financial and production processes.

Corporate governance is a source of strategies, but it is suggested to consider rely on researchers and professionals experts to propose ways of supervision and counseling aimed to improving thecompany. Corporate governance provides the organization attributes, such as improvement in performance, strengthens the commitment of work. There is greater commitment and confidence of participants from across the organization, which results in contributing to organizational effectiveness and efficiency, although they do not fall into extremes.

A deficiency in the issue has been that the agency theory does not provide meaningful information for resources that it can use the board either behaviors or strategies that can be implemented externally to the organization. This is the reason why it is suggested to use experts in the area.

Recent legislative and regulatory changes in Mexico have facilitated the ability of shareholders to participate in the efforts of activists. These changes are fundamental to the effectiveness of the management system, from the point of view of shareholders, as the effectiveness of ownership concentration depends largely on the efficiency of the legal system that protects property rights of shareholders (Shleifer&Vishny, 1997).

In Mexico, SMEs have been affected by the industrial policies of protectionism and indiscriminately open borders. SMEs require refocusing their culture in order to successfully meet the challenges and opportunities that the environment presents, not to bedisplaced from international markets and maintain a good position on the national level, to create a pleasant work environment and reliable commitment to employees, customers, suppliers, etc.., with the organization. The stakeholders should feel to be part of the organization to achieve their goals and attain competitiveness in the current environment of globalization (Gutiérrez Peñaloza,2003).

SMEs need to develop the ability to acting an environment of constant change, competitive, participatory and internationally. In this environment, the manager or owner must be able to understand the political, social, economic, cultural, psychological and environmental. Therefore, it cannot be limited the performance evaluation only to economic and financial variables. This is based on a model of corporate governance as a competitive strategy.

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A STUDY OF GREEN INITIATIVES IN THE CORPORATE SECTOR

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ABSTRACT

The corporate sector contributes immensely to growth and development of countries world-wide and is accordingly generally considered as an engine of growth for an economy. So, the importance of corporate sector cannot be underestimated. Historically, the corporate form of business has emerged due to the limitation of capital in small business. The corporate form of business requires huge capital, given their scale of operations. For any size of business whether small or large, finance is the lifeblood. However, just raising of finance from stakeholders does not guarantee successful governance of companies unless capital that has been raised is put to the best possible use. Since funds are raised from stakeholders i.e., equity shareholders and others, it is the responsibility of companies to ensure that such funds are being properly utilized to yield adequate returns to the owners and other claimants. In the process of doing business, generating profits and deciding about its distribution and retention, companies have to adhere to myriad regulations. They have to focus not only on profitability but also on good governance extending to Corporate Social Responsibility and are expected do the business with sustainability (People, Planet and Profits). For successful governance, companies have to meet the expectations of all stakeholders i.e., shareholders, creditors, employees and so on, as well as regulators. So, challenges, risks and competition in business are increasing day by day, apart from compliance requirements with increased regulations, as mentioned above. In short, companies having raised public funds are responsible for their business practices and they are expected and also increasingly required by law to make disclosures relating to the said practices. Certain practices do not require disclosures for the time being or the practice is voluntary in nature which may be good for businesses, can also be followed by the companies. Such companies may be exemplary in the corporate sector and may demonstrate excellence in the corporate conduct. Moreover, companies are expected to be sustainable because the exploitation of resources, especially non-renewable sources poses rapidly leads the world towards a crisis with unknown consequences; further, sustainability also extends to preservation of the environment. Better resource management promotes environment protection, increases business sustainability and is also fruitful for the stakeholders. With the backdrop as described above, this paper dwells on green initiatives taken by companies in the corporate sector, particularly green initiatives in Corporate Governance, green initiatives in Business Responsibility Report and green initiatives in Corporate Social Responsibility. The sample for the study being the NIFTY 34companies listed on stock exchange. The data are collected from websites of selected companies. Evaluation of practices of green initiatives in the corporate sector is based on use of percent, Z test as statistical tool and graphs to depict trends. The study expects thata majority of companies are practicing green initiatives in the area of Corporate Governance, Business Responsibility Report and Corporate Social Responsibility which implies cost reduction for managers, inclusive growth for the economy and greater transparency for stakeholders. It will also enlighten on contemporary issues and challenges in the above mentioned areas.

Keywords: Green Initiatives, Claimants, Corporate Governance, Business Responsibility Report, Corporate Social Responsibility, Inclusive Growth, and Sustainability.

INTRODUCTION

Finance is life-blood of business. Access to finance is crucial aspect of capital market for companies who are in dire need of finance. Raising finance will be easy companies are fundamentally strong and listed on stock exchanges. Once companies become member of stock exchange, they have advantages of listing, for instance better liquidity of equity shares. After listing, companies have to comply with Listing Agreement regulations in agreement with stock exchanges. Companies reap myriad benefits of listing if capital market is properly regulated. Regulators viz., Securities and Exchange Board of India (SEBI) and Ministry of Corporate Affairs (MCA) have to ensure investors protection and transparency in capital market to promote conducive environment and promote capital market participation among investors on equitable basis. Along with this, regulators are now a day's emphasizing on sustainability because resources available to companies are limited. For example, recently, SEBI has inserted Clause 55 in the Listing Agreement for mandatory Business Responsibility Report(BRR) and the Companies Act, 2013 has included provisions for spending on Corporate Social Responsibility (CSR) which is yet to be implemented in the phased manner.

MANDATORY CORPORATE GOVERNANCE

Clause 49 of the Listing Agreement

CG regulations are the provisions of Clause 49 of the Listing Agreement. For companies which are listed, subject to fulfilling certain criteria as mentioned by stock exchanges, have to comply with mandatory provisions of the Clause 49,and their compliance with non-mandatory provisions is wilful. The compulsory provisions of the Corporate Governance(CG) as per the said clause are: (1) Board of Directors (2) Audit Committee (3) Subsidiary Companies (4) Disclosures (5) Chief Executive Officer (CEO) / Chief Finance Officer (CFO) Certification (6) Report onCorporate Governance and (7) Compliance. The non-mandatory provisionsof the clause are with respect to:(i) Chairman of the Board (ii) Remuneration Committee (iii)Shareholders Rights (iv) Postal Ballot (v) Audit Qualifications (vi) Training of Board Members (vii) Mechanism for Evaluating Non-Executive Board Members and (viii) Whistle-blower Policy (Clause 49 of Listing Agreement, http://www.nseindia.com).

REVOLUTIONARY REFORMS IN CORPORATE GOVERNANCE

The Companies Act, 2013

Reforms in CG enacted by the Companies Act, 2013 are revolutionary for CG. Though various provisions of CG the said Act are not yet implemented, provisions of appointment of Independent Directors U/s 149(5), Code for Independent Directors U/s 149(8), Class Action Suits U/s 245(1), Rotation of Audit Firm or Audit Partners 139(3) are noteworthy. If these provisions are enforced in true spirit, it will be revolutionary(Companies Act, 2013, www.icsi.in).

BUSINESS RESPONSIBILITY REPORT: A NECESSITY

SEBI has vide circular dated August 13, 2012 has mandated inclusion of BRR as a part of the Annual Report for top 100 (listed entities. Business Responsibility Report,http://www.bseindia.com) The requirement is in line with the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business notified by MCA, Government of India, in July, 2011. BRR is a disclosure of responsible business practices by a top listed company (including manufacturing, service, financial sector companies, holding or subsidiary company) to stakeholders. As companies haveobtained finance from the public, they are responsible for such disclosures and compliance. BRR contains a standardized format to report the actions undertaken by the companies. It provides basic information about the company, performance, processes and information on principles and core elements of the BRR. If an MNC has subsidiary in India which presents a single Global Reporting Initiative ('GRI') report, the subsidiary is required to prepare itsseparate BRR. In case of an Indian listed company that already publishes a GRI report for its operations and submits sustainability report to overseas regulatory agencies or stakeholders based on internationally accepted reporting frameworks need not prepare a separate report for this purpose butmay furnish the same to stakeholders along with the details of the framework under which their BRR has been prepared and a mapping of the principles (contained in guidelines of BRR,Section D and E) must necessarily be doneThese sections provide the minimum set of questions on which such mapping must necessarily be done. Section A, B and C of the BRR contain generic questions to be filled out by the companies. However the companies are advised to follow the format of BRR to facilitate comparability. They are expected to add tables, graphs etc. to capture the data which provide trends. The purpose is to enhance the quality of information.Principles in brief to assess compliance with BRR (Environmental, Social and Governance norms) are as follows: (Business Responsibility Report, http://www.sebi.com)

1. Businesses should conduct and govern themselves with Ethics, Transparency and Accountability. 2. Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle. 3. Businesses should promote the wellbeing of all employees. 4. Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized. 5. Businesses should respect and promote human rights. 6. Business should respect, protect, and make efforts to restore the environment. 7. Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner. 8. Businesses should support inclusive growth and equitable development. 9. Businesses should engage with and provide value to their customers and consumers in a responsible manner.

OBLIGATORY CORPORATE SOCIAL RESPONSIBILITY: SOON A REALITY

Announcement of implementation of CSR provisions of Companies Act, 2013 is not yet compulsory; henceas o n today, CSR is voluntary in nature. According to Section 135 of the Companies Act, 2013,every company having net worth of rupees 5,00 crore or more, or turnover of rupees 1,000 crore or more or a net profit of rupees 5 crore or more during any financial year shall constitute a CSR Committee of the Board comprising of three or more directors, of which at least one director shall be an Independent Director(Companies Act, 2013,www.icsi.in).The CSR Committee shall indicate the activities to be undertaken by the company as specified in Schedule VII of the said Act, viz., (*i*) eradicating extreme hunger and poverty; (*ii*) promotion of education; (*iii*) promoting gender equality and empowering women; (*iv*) reducing child mortality and improving maternal health; (*v*) combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases; (*vi*) ensuring environmental sustainability; (*vii*) employment enhancing vocational skills; (*viii*) social business projects; (*ix*) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, Other Backward Classes, minorities and women; and (*x*) other matters (Companies Act, 2013, www.icsi.in). Further, the CSR Committee will recommend CSR expenditure and monitor CSR Policy from time to time. The Board after considering such recommendation shall approve the CSR Policy and disclose it's contents and will also place it on the company's website. The Board shall ensure that the CSR activities included in CSR Policy are undertaken by the company. The Board shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company during the three immediately preceding financial years, to implement its CSR Policy while giving preference to the local area and areas around it for spending the amount earmarked for CSR activities. If the company fails to do so, the Board in its report shall specify the reasons of non-compliance. (here "average net profit" means profit calculated as per Section 198 of the Companies Act, 2013.).

GREEN INITIATIVES IN CORPORATE GOVERNANCE

MCA, Government of India, vide its Circular(s) Nos. 17 and 18 dated 21st April, 2011 and 29th April, 2011, respectively, has allowed companies to send Notices of General Meetings/other Notices, Audited Financial Statements, Directors' Report, Auditors' Report, etc., henceforth to their shareholders electronically as a part of its Green Initiative in CG(Annual Report of Hindalco Industries Limited, www.hindalco.com).

Exhibit 1: Consequences of Green Initiatives in Corporate Governance - Excerpts from Annual Reports
Kotak Mahindra Bank Limited Guided by the Government of India - Ministry of Corporate Affairs' (MCA) green initiative, the Bank has communicated to all shareholders on adoption of electronic copies of the annual report instead of physical copies. • Environmental impact reduced due to the above green initiatives: • 79 tonnes of paper of saved • 236 tonnes of wood saved equivalent to saving 1,892 trees from being cut for paper • 60 lakh litres of water saved • 878 Mega Watt Hours (Mwh) of power saved • 203 tonnes of GHG (greenhouse gas) emissions avoided • 57 lakh litres of waste water (effl uent) avoided • 81 tonnes of solid waste avoided *Source: http://printgreener.com/old_site/earthday.html*
Source: Annual Report of Kotak Mahindra Bank Limited, 2012-13, p. 122, www.kotak.com
UltraTech Cement Limited Going green - - Reduces paper consumption. - Ensures prompt receipt of information. - Avoids loss in transit.
Source: Annual Report of UltraTech Cement Limited, 2012-13, p. 36, www.ultratechcement.com

GREEN INITIATIVES IN BUSINESS RESPONSIBILITY REPORT

There are mainly 9 principles to assess compliance with BRR. However, principle 2 and 6 are more relevant to green initiativesas mentioned above in BRR. In particular, they belong to environment protection and sustainable goods and services.

GREEN INITIATIVES IN CORPORATE SOCIAL RESPONSIBILITY

Though provisions of CSR of Companies Act, 2013 are not yet mandated , green initiativesin CSR for the purpose of this study means activity (*vi*), (*viii*) and (*x*)undertaken by the companies as per Schedule VII of the said Act, mentioned in obligatory CSR as above, provided activity (*viii*) and (*x*) are executed for environment and sustainability.

LITERATURE REVIEW

SEBI has recentlyinserted Clause 55 in the Listed Agreement mandating BRR. So there are hardly any studies related to green initiatives with respect to BRR in the corporate sector. Further, instances of studies exclusively on green initiatives in CG are rare. Apart from this, norms of CSR are not yet mandated though many companies follow CSR voluntarily. There is exists literature on CSR but focus of studies on green initiatives in CSR is almost negligible.

CURRENT RESEARCH GAP

There exists research gap with respect to study of green initiatives in the corporate sector, especially with reference to CG, BRR and CSR.

RATIONALE OF THE STUDY

Increasing focus of the regulators on environment and sustainability engenders the necessity to study Green Initiatives in the Corporate Sector as part of extant and ensuing reporting requirements. Further, as resources are depleting, environment is degrading, compliance with Green Initiatives makes business sustainable, protects environment which is need of the hour.

OBJECTIVES OF THE STUDY

1. To impart conceptual understanding of extant and ensuing CG, BRR and CSR regulations.
2. To study compliance with green initiatives in CG, BRR and CSR.
3. To point out issues in reporting practices.
4. To highlight the need for regulatory enforcements and compliance.

RESEARCH METHODOLOGY

Sampling Method

Purposive sampling techniqueis used for the sample. The sample companies are pertaining to different sectors comprising NIFTY Index.

Sample

Sample consists of 34 companies which were members of the stock exchange i.e., NIFTY Indexon July 23, 2013. Some companies comprising above Index were excluded on account of publically available information. One company was excluded as it followed calendar year.

Sample Period

The financial year 2012-13 is considered as the sample period.

Source of Data

Annual Reports are vital source for evaluating the disclosure and compliance by companies Karim A. K. (1996). Hence information from secondary data is gleaned from Annual Reports.

Tools of Data Analysis

Data collected and information gleaned is analysed with the help of classification, tabulation, per cent. Z test is also used as a test of proportion for the study.

Operational Definitions

Green Initiatives

Any initiative by the companies which in environmentally sustainable.

Corporate Sector

Companies which were members of the stock exchange i.e., NIFTY Indexon July 23, 2013.

Green Initiatives in Corporate Governance

Means sending all required information by the companies to shareholders electronically, if shareholders have registered their email addresses with the share transfer agent or the company.

Green Initiatives in Business Responsibility Report

Means compliance with principle 2 and 6 of BRR mentioned as follows.

2. Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.

6. Business should respect, protect, and make efforts to restore the environment.

Green Initiatives in Corporate Social Responsibility

Means compliance with following activities undertaken by the companies in pursuance of CSR Policy;

(*vi*) ensuring environmental sustainability;

(*viii*) social business projects (if related to the environmental sustainability) and

(*x*) other matters(if concerned with the environmental sustainability).

Sample Companies

Table 1: Companies that featured in NIFTY Index

Sr. No.	Company
1	Axis Bank Limited
2	Bajaj Auto Limited
3	Bank of Baroda
4	Bharti Airtel Limited
5	Bharat Heavy Electricals Limited
6	Bharat Petroleum Corporation Limited
7	Cairn India Limited
8	Cipla Limited
9	Coal India Limited
10	Dr. Reddy’s Laboratories Limited
11	GAIL (India) Limited

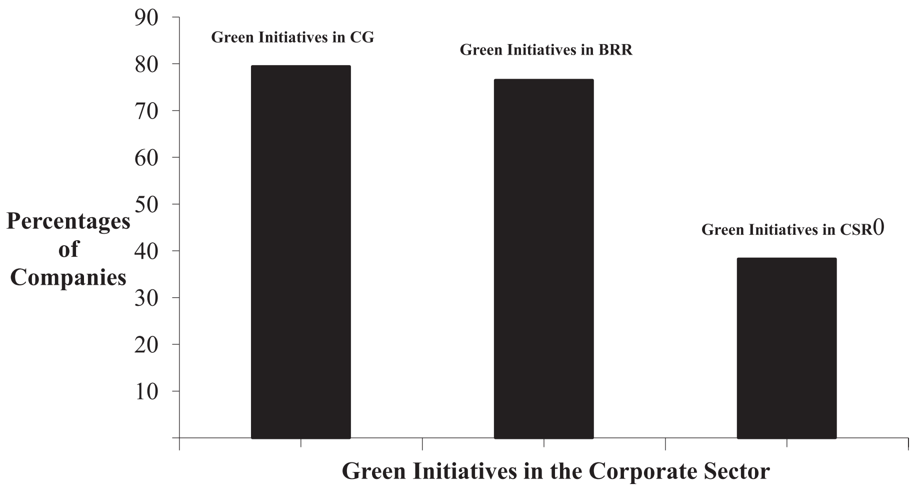
12	Grasim Industries Limited
13	HCL Technologies Limited
14	HDFC Bank Limited
15	Hero MotoCorp Ltd.
16	Hindalco Industries Limited
17	Hindustan Unilever Limited
18	Infosys Limited
19	Infrastructure Development Finance Company Limited
20	ITC Limited
21	Kotak Mahindra Bank Limited
22	Larsen & Toubro Limited
23	Lupin Limited
24	Maruti Suzuki India Limited
25	NTPC Limited
26	Power Grid Corporation of India Limited
27	Reliance Infrastructure Limited
28	Reliance Industries Limited
29	Sesa Goa Limited
30	Tata Motors Limited
31	The Tata Power Company Limited
32	Tata Steel Limited
33	Tata Consultancy Services Limited
34	UltraTech Cement Limited
Source: *The Economic Times*, Ahmedabad, 23rd July, 2013.	

Findings

As the study covers the year 2012-13, findings are presented as follows.

Table 2: Data on Green Initiatives in the Corporate Sector

Type of Green Initiative	**No. of Companies (%) for the year 2012-13**	
	Green Initiatives Undertaken	**Green Initiatives Not Undertaken**
Green Initiatives in CG	27 (79.41%)	7 (20.59%)
Green Initiatives in BRR	26 (76.47%)	8 (23.53%)
Green Initiatives in CSR	13 (38.24%)	21 (61.76%)
Source: Gleaned from Annual Reports.		



From the table and chart above, it is clear that adherence with Green Initiatives in CG are by 79.41% companies, while compliance with Green Initiatives in BRR is 76.47%. Green Initiatives in CSR practiced by companies is just 38.24%.

Statistical Tests

Seeing the nature of data gleaned from sample companies, it was decided to adopt Single-Sample Tests involving proportions. Z scores were calculated using the following formulaBlalock (1960).

$$Z = \frac{p_s - p_u}{\sqrt{p_u q_u / N}}$$

Where p_s= Percentage of actual number of companies demonstrating full compliance.

p_u = Percentage of standardr null hypotheses, i.e., a majority as meaning greater than 50 per cent, hence 0.501.

q_u = 1- p_u

N = Sample size

Significance Level and Critical Region: The significance level of 0.2 and a one-tailed test are selected.

Hypotheses Testing

The following null hypotheses are tested in pursuance of the objectives of the study.
H_1: There exists no compliance with mandatory provisions of Green Initiatives in CGin a majority of the companies. Computation of Test Statistic of H_1:

$$Z = \frac{0.2059 - 0.501}{\sqrt{[(0.501)(0.499)]/34}} = -3.44$$

For other hypotheses, the Z scores are computedin similar way.

Table 3: Z Score for H_1

Provision	Z Score
Green Initiatives in CG	-3.44
Source: Computed	

A normal distribution table will showthat probabilities of Z scores of- 3.44 are almost nil if the assumptions were true and as they are less than the significance level of 2 per cent, the null hypothesis is rejected. On the basis of the evidence at hand it can be established that there exists compliance with mandatory provisions of Green Initiatives in CG in a majority of the companies. H_2 :

There exists no compliance with mandatory provisions of Green Initiatives in BRR in a majority of the companies.

Table4: Z Score for H_2

Provision	Z Score
Green Initiatives in BRR	-3.10
Source: Computed	

A normal distribution table will showthat probabilities of Z scores-of 3.10 are 0.10 percentages if the assumptions were true and since they are less than the significance level of 2 per cent, the null hypothesis is rejected.

H_3 : There exists compliancewith non mandatory provisions ofGreen Initiatives in CSR in a majority of the companies.

Table 5: Z Scorefor H_3

Provision	Z Score
Green Initiatives in CSR	-1.38
Source: Computed	

A normal distribution table will showthat Z scores of- 1.38 would occur approximately 8.38 percentages of the time respectively by chance if the assumptions were true and as they are more than the significance level of 2 per cent, we fail to reject the null hypothesis. Hence, it can be established that evidence of compliance with non mandatory provisions of Green Initiatives in CSR a majority of the companies are not strong enough.

CONCLUSION

There exists compliance with mandatory provisions of Green Initiatives in CG and BRR in a a majority of the companies. However, evidence is not strong enough for compliance with non mandatory provisions of Green Initiatives in CSR a majority of the companies. The probable reasons are that CSR is not yet mandatory and even in complying CSR voluntarily; companies are allowed to spend on other activities (other than Green Initiatives in CSR).

MANAGERIAL IMPLICATIONS

Green Initiatives in CG if practicedimplies cost reduction for managers, speedy information to shareholders and also environment protection (Exhibit 1). As BRR has become mandatory, there is enhanced disclosure forstakeholders . However, there exists scope for improvement in presenting the BRR. Companies if do not present BRR as a part of Annual Report, can provide a link to their website in the Annual Report if they are adhering with GRI norms or adhering to other international regulations on sustainability, in such cases a mapping of BRR principles is to be done by companies in the Indian context. It is better if companies present BRR as a part of Annual Report as it will be easy for stakeholders to locate and understand which in turn will enhance the quality of information. Even if the link is provided, BRR must be put on the front page of the website by companies, otherwise it leads to inconsistencies in reporting practices and attention of the SEBI is drawn to the extent that if possible and subject to modifications in regulations, companies should not be allowed to provide a link and BRR must a part of Annual Report. All companies must attempt to achieve compliance instead of a majority with respect toGreen Initiatives in CG and BRR as such reporting requirements are mandatory.

CSR will be implemented soon in the phased manner and is believed an attempt for inclusive growth, will be proved only if there will be enforcements in true spirit. So corporate reporting environment has given many challenges for managers and will be a test of time in the days to come.

LIMITATIONS OF THE STUDY

Results of the study should be considered in the view of limitations such as estimation of errors, source and nature of data, judgment of the researcher,sample size, period of the study, sampling method.

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CORPORATE SOCIAL RESPONSIBILITY, GOVERNANCE - FRAUDS- ETHICS & SUSTAINABILITY

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ABSTRACT:
Life blood of business i.e. human resource, intellectual capital, finance, material etc are all the resources in absence of which no commercial activity have an initiation, growth and survival. Corporate around the world have an onus and pious responsibility to repay the society for every resources acquired for their profitable motive. Since decades this duty has not been fulfilled by the corporate of India, hence gradual introduction of laws to bind the companies to fulfil their responsibility, their duty towards the economy they form a huge pie, through introduction of Corporate Social Responsibility a mandate in Companies Act, 2013,Competition laws, Corporate Governance and various controlling mechanisms like, Accounting standards and introduction of IFRS, Role of Company Secretaries and change of face Cost Accountants as Cost and Management Accounts, a need of time, challenged with frauds, scams, unethical competitions and malpractices. Satyam, the face of Indian sunrise sector, and now identical to classic frauds of Indian corporate is only one instance to recall, but the Indian economy has been through various frauds in corporate, banking, insurance including the regulatory and depository body of India, i.e. the NSEL scam worth crores to name a few. These instances outshine with a basic understanding that with all the external control, India needs a strong youth brigade with an astounding morale, soul and determination to be true, fair and just in their practices, a valued education and social system.

Key words: Corporate responsibility , Ethical systems, Compliance, Frauds

Business organisation and its components:

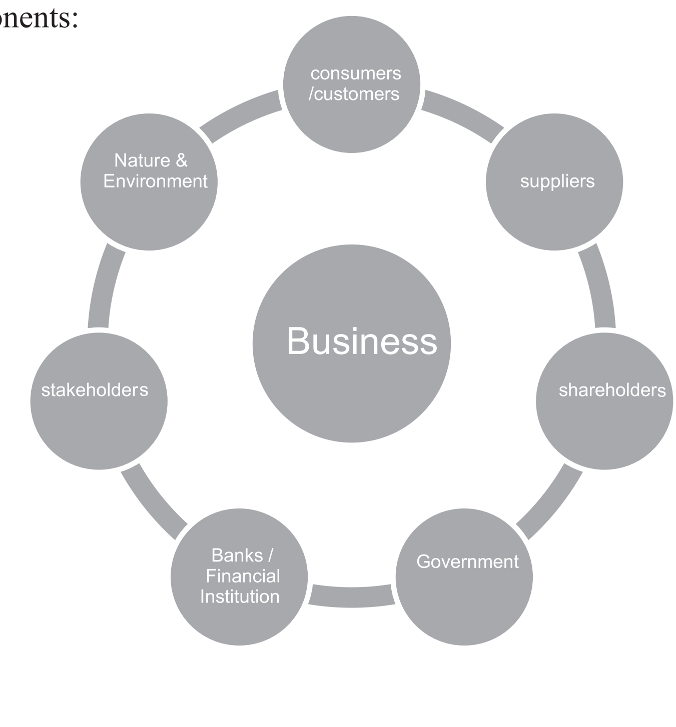


Figure 1.1, represents, the soul associates of the business and corporate in absence of whom the survival of the corporate giants is not possible, be it Indian corporate or Global Players. The roles these associates play are;

a. Consumers: The King. Their desires, demands, requirement and needs is the core for the business to initiate, exist, grow and survive on the basis of keen and deep insight and vision of the promoter to grasp, understand and analyse the consumers needs.

b. Suppliers: The backbone of business. The supplier all the necessities to run the business for satisfying the consumers needs.

c. Shareholder: The supplier of funds to the business. The largest expectant group around the globe from the existence of Corporate.

d. Banks & Financial Institutes: The existence of whom is the support system for existence, growth and expansion of business along with the existence of shareholders as a major supplier of funds.

e. Government: The indirect and direct governing authority over business through various policies, rules, regulations and guidelines issued from time to time to regulate the operations, activities and decisions of the business.

f. Stakeholders: The existence of all the living beings being a part of environment of business and whose existence and survival is affected by the existence of business as a backbone of economy.

g. Environment and Nature: The most actively passive contributor to business for various resources, ignored by the corporate community since ages is the environment and the nature, an essential requirement for survival of all. Over years benefits from them has been reaped in absence of realising the fact that long term damage to environment may prove to be lethal. Thus the results are broadly evident.

Corporate social responsibility is an activity corporate is performing since long. With the change in the local and global business phenomena, there is an increase in the expectation of the associates to the business. The following table shows the % of respondents and the expectation of respondents about the role business in society.

% of respondents	Expectation
31 %	Business should change the way they operate to align the greater social and environment needs
29 %	Business should not only support but advocate for change in larger social or environmental issues by increasing awareness by issues and donating product or service, money or volunteering.
21 %	Business should support larger social or environmental issues by donating product or service, money or volunteering.
13 %	Business may play a limited role in communities in which they are based but are not necessarily responsible for supporting social or environmental issues.
6 %	Business exist to make money for shareholder and are not responsible for supporting social or environmental issues.

{Source: cone communication/Echo Global CSR study 2013}

The 2013 Cone Communication/ Echo Global CSR study and conversations with global experts have made certain beliefs about CSR extremely clear. The question of CSR is no longer an event for society but an activity companies are performing as an advertisement and their brand promotion on a mass scale. However with the inclusion of mandatory CSR provision in the NEW Companies Act, 2013, CSR is no longer the option but a mandatory requirement to fulfil for legal compliance too. Awareness, education and enlighten consumers

have made it extremely clear that companies ROI and net profit are not the only criteria for determining the companies efficiency but how far has it is successful in achieving its moral responsibility towards the society and business associates are the barometer to determine the efficiency, strength and responsible attitude. Also the factors of measuring the CSR have been widened and are not limited to a few traditional ideas. The representation of changed face of CSR is:

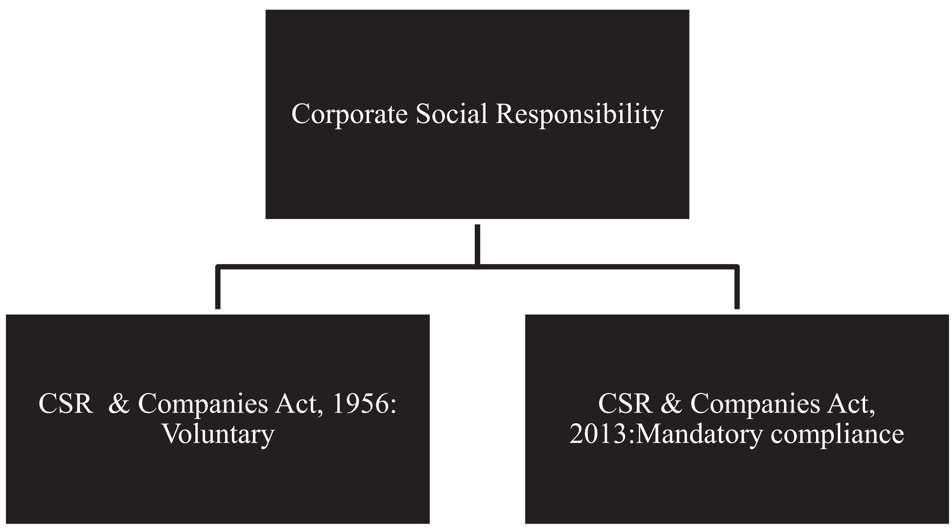


Figure 1.2: Corporate Social Responsibility: The change in face of CSR activities post introduction of Companies Act, 2013.

The change in the face of expectation of society through companies domain CSR is evident from the number of frauds and scams decoded, that challenged the concept of trust, faith and responsible true and fair behaviour in its operation has raised alarming doubts about the existence of, Are the companies actually repaying and rewarding the society through responsible behaviour? Is the fact, that economic development of the country is dependent on the , " Corporate" giants in India?

Yes, then what are the measuring standards to prove and justify their socially and morale behaviour. Regulators as SEBI, to regulate the markets, NSEL, Banks through the RBI Act, insurance through the IRDA Act, etc, laws can be mandatorily imposed but mandatory compliance is question of personal decision based on conscious and moral of individual.

According to study of Ernst & Young's, study on Fraud Investigation & Dispute Services, the financial services are the worst affected by frauds. The financial services sector was the worst hit, with more than 63% of the total fraud cases reported in 2011 12, followed by technology and transportation. In the financial services sector, banking was the major

victim with 84% of the total number of reported fraud cases. RBI reports the total losses due to frauds and scams being doubled in the past four years i.e. Losses incurred by banks due

to fraud increased by 88% in 2010-11 to exceed INR37.9 billion (more than INR20.1 billion in 2009–10). The Central Bureau of Investigation's (CBI's) Bank Securities and Fraud Cell registered criminal cases amounting to a total of INR40 billion in 2011, while fraud cases worth INR25 billion have already been registered

from January to July 2012[1]. With the mirror view image of growing and corrupt corporate sector, the next boiling issue is fraud committing agencies and the number of frauds against investors?

The study by Ernst & Young revealed that around 58% of frauds are committed by people below the age of 35 years, whereas 61% of reported frauds are committed by internal management operating at various managerial level.In this report, we elaborate on the fact that investors are the most adversely impacted by fraud, and the total value of fraud committed against them exceeds INR27 billion. The greed to earn high returns in a short time makes investors vulnerable to scams. In April 2011, the police unearthed a

major fraud against a multi level marketing company (MLM), which described itself as the country's "premier financial consultancy" firm and defrauded investors of INR10 billion by

promising a high return of 20% a month to them. Several other MLM companies are alleged to have defrauded investors of millions of rupees over the past few years[1].

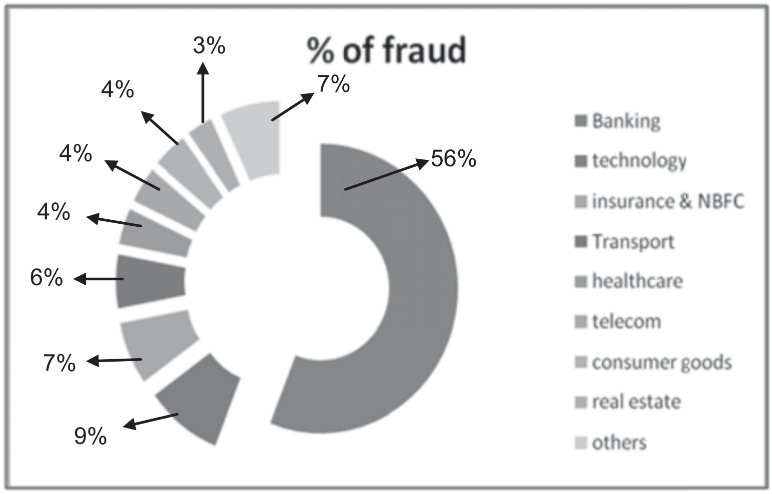
The following data represents the level of frauds in various industries and sector.
Cases by fraud value (INR) — 2011-12:

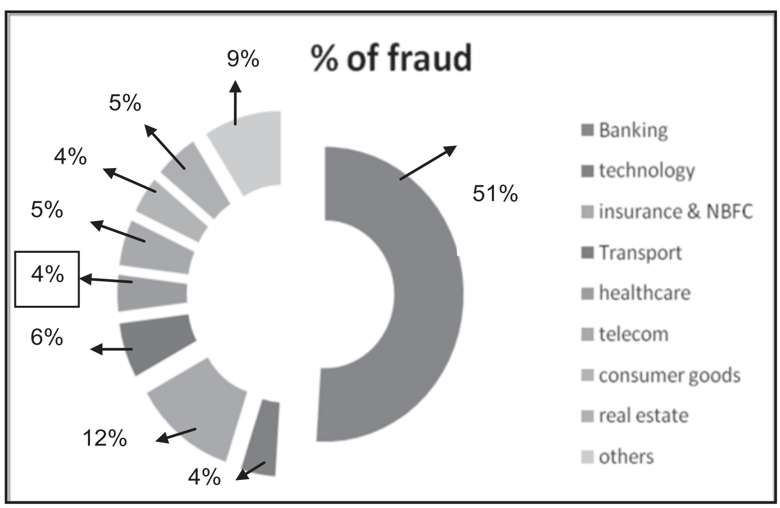
Value	No of cases	No of cases
	1H	2 H
1 or less than 1 million 18 14	18	14
1.01 to 10 million	35	36
10.01 to 100 million	20	24
100.01million and above	8	20
Total amount involved (INR RS)	27.9	38.1

{Source: India Fraud Indicator 2012, Increasing magnitude of fraud : A study by Ernst & Young's Fraud Investigation & Dispute Services}

Fraud cases by sector; classification — 2011-12
(Total Cases: 98)

[1] **India Fraud Indicator 2012,**Increasing magnitude of fraud
A study by Ernst & Young's
Fraud Investigation & Dispute Services





2H12 (Total Cases = 106)
* NBFC includes Non- Banking financial institutions and mutual fund institutes.
{Source: India Fraud Indicator 2012,Increasing magnitude of fraud :A study by Ernst & Young's Fraud, Investigation & Dispute Services}

Table 1: Bank Group wise fraud cases				
(No. of cases in absolute terms and amount involved in Rs. Crore)				
Bank Group	No. of cases	% to Total Cases	Amount Involved	% to Total Amount
Nationalised Banks including SBI Group	29653	17.53	24828.01	83.01
Old Pvt. Sector Banks	2271	1.34	1707.71	5.71
New Pvt. Sector Banks	91060	53.82	2140.48	7.16
Sub Total (Private Banks)	93331	55.16	3848.19	12.87
Foreign Banks	46206	27.31	1233.92	4.12
Total	169190	100	29910.12	100

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Table 4: Bank Group wise Advance Related Frauds (Rs. 1 Crore & above in value)										
(No. of cases in absolute terms and amount involved in Rs. Crore)										
	2009-10		2010-11		2011-12		2012-13		Cumulative total (As at end March 2013)	
Bank Group	No. of cases	Amount Involved	No. of cases	Amount Involved	No. of cases	Amount Involved	No. of cases	Amount Involved	No. of cases	Amount Involved
Nationalised Banks including SBI Group	152	736.14	201	1820.12	228	2961.45	309	6078.43	1792	14577.28
Old Private Sector Banks	16	99.10	20	289.31	14	63.31	12	49.87	149	767.75
New Private Sector Banks	10	63.38	18	234.18	12	75.68	24	67.47	363	1068.18
Sub-total	26	162.48	38	523.49	26	138.98	36	117.34	512	1835.93
Foreign Banks	4	45.26	3	33.20	19	83.51	4	16.75	456	277.05
Grand Total	182	943.87	242	2376.81	273	3183.94	349	6212.51	2760	16690.26

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TECHNOLOGY RELATED FRAUDS:

The substantially larger proportion of technology related frauds by number is only expected as there has been a remarkable shift in the service delivery model with greater technology integration in the financial services sector. Banks are increasingly nudging their customers to adopt newer service delivery platforms like mobile, internet and social media, for enhanced efficiency and cost-cutting. But while banks' customers have become tech-savvy and started using online banking services and products, evidence suggests that even fraudsters are devising newer ways of perpetrating frauds by exploiting the loopholes in technology systems and processes. There have been several instances of low value frauds wherein the fraudsters have employed hostile software programs or malware attacks, phishing, Vishing (voicemail), SMSishing (text messages), Whaling (targeted phishing on High Net worth Individuals) techniques apart from stealing confidential data to perpetrate frauds. Bank group wise detail of the number of technology related fraud cases with the amount involved therein over the last 4 years is as under:

5: Bank Group wise Technology Related Frauds

(No. of cases in absolute terms and amount involved in Rs. Crore)

	2009-10		2010-11		2011-12		2012-13		Cumulative total (As at end March 2013)	
Bank Group	No. of cases	Amount involved	No. of cases	Amount involved	No. of cases	Amount involved	No. of cases	Amount involved	No. of cases	Amount Involved
Nationalized Banks including SBI Group	118	1.82	143	3.39	172	7.26	190	9.85	824	25.60
Old Private Sector Banks	9	0.15	4	0.46	9	0.06	6	1.09	55	2.30
New Private Sector Banks	14387	34.53	9638	21.41	6552	16.54	3408	33.97	74321	183.48
Sub Total	14396	34.68	9642	21.87	6561	16.6	3414	35.06	75200	211.38
Foreign Banks	5273	26.88	4486	14.77	3315	14.60	5161	22.45	36455	145.95
Grand Total	19787	63.38	14271	40.03	10048	38.46	8765	67.36	111655	357.33

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Year wise fraud cases reported by commercial banks
(As on March 31, 2013)

(No. of cases in absolute terms and amount involved in Rs. Crore)										
Amt Involved	< Rs 1 lakh		> 1 lakh and up to Rs 1 crore		> Rs 1 cr and up to Rs 50 crore		> Rs.50 crore		Total Fraud cases	
FY (Apr-Mar)	No. of cases	Total Amount	No. of cases	Total Amount	No. of cases	Total Amount	No. of cases	Total Amount	No. of cases	Total Amount
Pre- 2004	2292	4.24	819	96.65	613	2951.64	13	1244.26	3737	4296.80
2004-05	7553	12.50	2407	287.32	111	584.89	1	53.57	10072	938.29
2005-06	11395	18.63	2334	290.20	192	1009.23	2	135.47	13923	1453.53
2006-07	20415	31.22	3048	325.02	158	791.17	1	78.45	23622	1225.86
2007-08	17691	30.25	3381	383.98	177	662.31	-	-	21249	1076.54
2008-09	19485	33.85	4239	442.94	214	1129.56	3	305.33	23941	1911.68
2009-10	20072	30.36	4494	474.04	222	1129.28	3	404.13	24791	2037.81
2010-11	15284	26.09	4250	494.64	277	1515.15	16	1796.20	19827	3832.08
2011-12	10638	19.05	3751	509.17	327	2113.23	19	1850.08	14735	4491.54
2012-13	9060	22.11	3816	491.13	372	2798.00	45	5334.75	13293	8646.00
Total	133885	228.31	32539	3795.10	2663	14684.46	103	11202.25	169190	29910.12

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Bank Group wise fraud cases reported
(As on March 31, 2013)

(No. of cases in absolute terms and amount involved in Rs. Crore)										
Amt Involved	< Rs 1 lakh		> 1 lakh and up to Rs 1 crore		> Rs 1 cr and up to Rs 50 crore		> Rs.50 crore		Total Fraud cases	
Bank Group	No. of cases	Total Amount	No. of cases	Total Amount	No. of cases	Total Amount	No. of cases	Total Amount	No. of cases	Total Amount
Nationalised Banks including SBI Group	7622	31.97	19753	2847.11	2184	11867.24	94	10081.69	29653	24828.01
Old Pvt. Sector Banks	622	2.38	1463	225.09	181	1001.56	5	478.68	2271	1707.71
New Pvt. Sector Banks	83850	112.36	6984	510.18	225	1445.82	1	72.11	91060	2140.47
Sub Total (Private Banks)	84472	114.74	8447	735.27	406	2447.38	6	550.79	93331	3848.19
Foreign Banks	41791	81.60	4339	212.72	73	369.84	3	569.76	46206	1233.92
Grand Total	133885	228.31	32539	3795.10	2663	14684.46	103	11202.25	169190	29910.12

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The statistics above indicates a broad view of frauds committed in various sectors, segments and branches which would comprise of only a small percentage of total fraud committed. To recall the bright and fraudulent past through the telescopic lens of transparency and governance corporate follows are frauds in India and global, like, satyam, Adidas – Reebok, the Common Wealth games and On Mobile in India to LIBOR manipulation, security trading, over– riding international sanctions on the global front, globe has viewed more sophisticated and large frauds, the journey and road is never ending. The history of fraud to name a few are

- Bofors scam (1987) Rajiv Gandhi/ O Quattarochi Rs640m
- Fake stamp paper scam (1991 till 2001) A K Telgi Rs430bn
- Securities scam (1992) Harshad Mehta Rs40bn
- Bihar Fodder scam (1996) Lalu Prasad Yadav/ Jagganath Mishra Rs95bn
- Hawala Scandal (1996) Jain Brothers Rs8.1bn
- Bhansali Scam (1995) Chai Roop Bhansali Rs12bn
- UTI Scam (2000) PS Subramanyam Rs320m
- SBI Mutual fund scam (2001) Ketan Parekh Rs13.5bn
- IPO Scam (2006) Roopalben Panchal Rs610m
- Satyam scam (2009) Ramalinga Raju Rs240bn
- Madhu Koda scam (2009) Madhu Koda Rs40bn

Under the weakest political leadership of Congress Party headed by Dr. Manomohan Singh, it looks like the party was determined to break their previous record of scams and hence they set a new all time record of siphoning money from Public in the year 2010 as detailed below,

2G Wireless Spectrum Scam– to the sacking and subsequent arrest of Telecom Minister A Raja, Rs 1,760bn

Adarsh Housing Scam– Housing Tower in South Mumbai– Rs 250 bn– Apartments in the Adarsh Society, a dwelling reserved for war widows and veterans of the Kargil war were allocated to bureaucrats, politicians and civilians.

Commonwealth Games Scam– Congressman Suresh Kalmadi was thrown out of office of Sports Minister, accuses Delhi Chief Minister Sheila Dixit another Congress Leader together have siphoned the central treasury worth Rs 100 Bn

LIC Housing Finance scam – Officers of various public sector banks and financial institutions received bribes from the private financial services company Money Matters, which acted asan intermediary for corporate loans and other facilities from financial institutions – Rs 10 Bn

ISRO – S-band spectrum scam– Everybody from the Office of Prime Minister lied and covered up by scrapping the deal as the company involved was very weak, otherwise the potential of the spectrum being illegally sold was worth Rs 2 trillion.

Black Money in Swiss and Other Tax heavens – Rs 30,000 Crores unearthed till date, investigations are on.

Reliance Industries – Rs 20,000 Cr Ongoing

Rs 6.1 Lakhs Crores or USD 126 Bn [CAG Report] – Uncovered in March – 2012 - Final Report is Here and the Scandal Amount is Rs 1.86 Lakh Crore

– Rs 1,63,557 crores over 58 years Loss

Reliance Anil Ambani Group Benefited Rs 29,000 Crores – Courtesy : Congress Government's eGoM

The date above represents the quantum of fraud in various sectors in different sectors and segments.

The question is how and when they can be restricted, avoided or detected. Innumerable steps, laws, legislation, rules & regulations and instruments have been designed, drafted and implemented, but the result being disastrous, morally, socially, economically and financially.

According to Chartered Institute of Management Accountants,Fraud risk management , A guide to good practice, following are the key ingredients to anti fraud strategy are fraud prevention, fraud detection, fraud response and fraud deterrence.

Since ages Corporate Governance as a part of performance by companies as a noble cause under CSR was being expected to be carried out and performed by companies. However in absence of standards to measure CSR and compliance to corporate governance, the depth of its practice was always questionable. Corporate Governance has been talked off since ages as a morale and culture developing concept among corporate across the globe, but to a major extent left a marked its presence and existence by dead beliefs of corporate culture. Corporate culture goes down to be a well churned out mix of companies vision, mission, goals, value system and morale of the promoters flowing down through the strategic decision in the company. The change in the corporate culture is taking place due to change in the external appearance of corporate and the role expected to be played i.e.

Traditional organisation, pyramid shaped ⟹ customer oriented organisation, inverted pyramid ⟹ Customer centred.

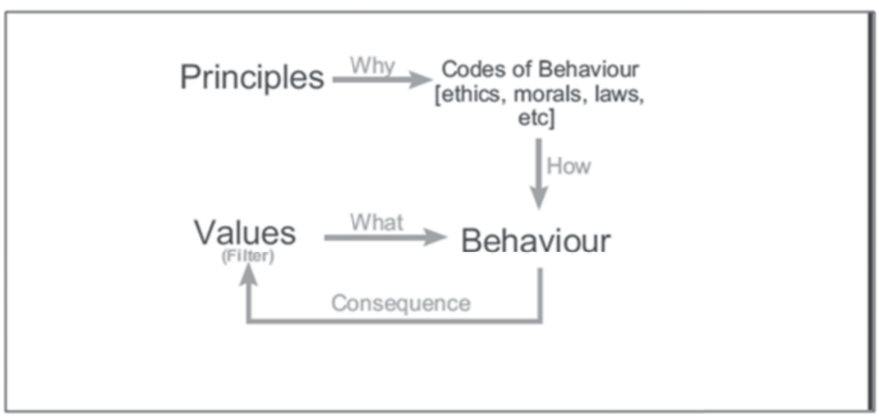
However to define culture is a pre requirement to measure it the same, but in absence of the same we move further to determine the origin for the concept of culture, which is the value system. India has a strong history of valuable teachings, values and culture depicted through epics like Bhagwad Gita, Ramayana, Mahabharata along with Vedas, Artha shastras etc.

The following table lists the prominent schools of thought in Ancient Indian ethos:

Scripture	Description
The Vedas	There are four Vedas. Rig-Veda, Yajur-Veda, Sama-Veda, and Atharva -Veda. The prime component of these Vedas is the understanding of concept of universe. An attempt to help achieve ones goals and objective – i.e. union of self (atman) and world (Brahma)
Upanishads	Upanishads forms the hard core soul of the individual, laying a path to connect individual self to the supreme power, the God, and rise over and above the desire and liking from the materialistic pleasure.
Bhagavad Gita	Krishna gathas, the rhymes and preaching's Are the fundamental pillars establishing a sound base for spirituality and ethics, pronounced through a dialogue between Lord Krishna and the warrior Arjuna who is at a great crisis of his life? The karma yoga, Bhakti yoga and the notion of three Gunas (sattwa, Rajas, Tamas) have a eminent implications in the context of ethical leadership, decision making and management, the area of concern where the concepts of CSR Corporate Governance and ethics are expected to be practiced.
Ramayana	It depicts the duties of relationships, portraying ideal characters like the ideal father, ideal servant, the ideal brother, the ideal wife and the Ideal king. Apart from this, the Ramayana also teaches how the temptation for lust can bring a powerful and well established man's dooms day.

Buddhism	Lord Gautam Buddha gave the world with four fundamental noble truths. They are (i) Suffering exists; (ii) There is a cause of the suffering; (iii) Suffering can be eradicated; (iv) There is a means for eradication of that suffering. His practice establishes the fact that everything on earth is non – permanent and everything on earth has an "anatta". Buddha also gave the world the eight fold path to liberation from all suffering.

With the ocean of values imbibed in the civilization and culture of India, the point to identify is the failure to practice the same in their life and societal as well as professional phenomena.
The answer somewhere is the education system that play an eminent role in structuring the future in all the spheres of life. The figure indicates the relationship between values, morals, ethics and behaviours.



Source: Newwiz3_ch 1_value_ethics_principles_pdf

Value based education comprises of independent terms, values and education. The understanding to these terms is difficult. Defining values, their source , their quality are all components of human behaviour. But the question is where does an individual acquires it from?

The sourceof values are paren ts, relatives, neighbours, societal members and the various institutes and organisation. According to Morris Massey, values form during three significant periods: • imprint period - from birth to 7 years • modeling period - from 8 to 13 years •

socialization period - from 13 to 21 years

Personal values provide an internal reference for what is good, beneficial, important, useful, beautiful, desirable, constructive, etc. Values generate behavior and help solve common human problems for survival by comparative rankings of value, the results of which provide answers to questions of why people do what they do and in what order they choose to do them.

Individual culture emphasize values which their members broadly share. Values relate to the norms of culture, but they are more global and abstract than norms. Norms provide rules for behavior in specific situations, while values identify what should be judged as. While norms are standards, patterns, rules and guides of expected behavior, values are abstract concepts of what is important and worthwhile. "Over the last three decades, traditional-age college students have shown an increased interest in personal well-being and a decreased interest in the welfare of others. Values seemed to have changed, affecting the beliefs, and attitudes of the students.[2]

The prioritised institute /organisation in the individual's reign of survival are the schooling and the family environment. The tender infant has a higher capability of acceptance that establishes the strong pillars of his adolescent i.e maturity. Deciding the difference between true/ false and in the presence/ existence of set of factors cultivates the habit of practicing intellectual development and analytical skill. Thus, leading to a better quality of human beings and a responsible individual.

For me, education is a noble medium of communicating the same through various sources i.e. parents, society, organisation and institute sat large. Education can never be restricted to practice of communication within four walls to group of students only. The wide domain of education has an inbuilt capability of accepting all the modes of communication that ranges from ancient Gurukul system, structured class room orientation, practical instruments of teaching i.e. role play, cases, visual/audio mode, simulation etc. The bottom line objective of all these activities is experience learning oriented towards attainment of materialistic desires.

The education system today operates as a processing unit to produce successful leaders to be the best policy makers, followers and implementers, in absence of human values and ethics. The Indian epics have since ancient times proved the importance of value system and ethics and their eminence in their professional practice. Mahabharata, one of the greatest Indian epic and teachings of lord Krishna to Arjuna in the battle field, Arjuna, seeing himself facing his great grandfather and his teacher on the other side, has doubts about the battle and he fails to lift his Gāndeeva bow. Krishna wakes him up to his call of duty in the famous battle field.

The world is witnessing a miserable twisting and turning circumstances due to evil impacts of unfortunate practices like discrimination, minority, untouchability, corruption, fraud, scams, unethical behaviour and practices and a society with no values like respect, honesty, compassion, care, humility and responsibility.

The life is today based on 'Win – Win – Win'. Family success, professional success and the societal success, popularly replicating the much propounded 'Maslow's Need Hierarchy'.

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[2] **Value (personal and cultural),From Wikipedia, the free encyclopedia.**

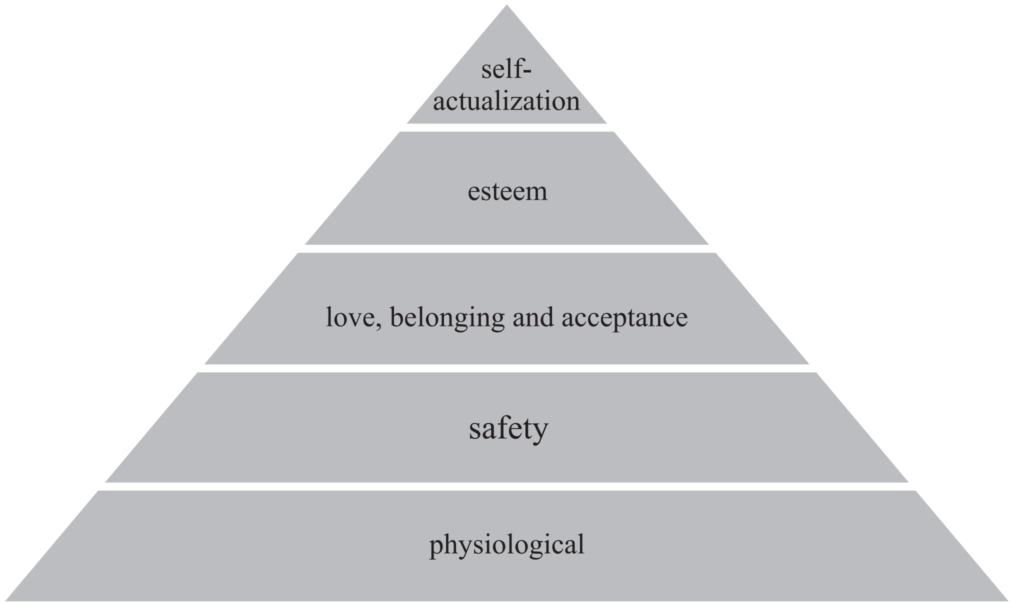

Figure 1.3: Maslow's need hierarchy.

- Self actualization indicates characteristics i.e. morality, creativity, spontaneity, problem solving, lack of prejudice and acceptance of facts.
- Esteem needs includes self esteem, confidence, achievement, respect by others and for others.
- Love, belonging/acceptance: family, friendship and other needs.
- Safety: security of body, of employment, of resources, of morality of family, health and property.
- Physiological: breathing, food, water, sleep etc i.e the basic necessities for survival.

To conclude concept of morality is also talked of and discussed at various hierarchical level as a fundamental human quality, wherein values, morals, ethics, preaching and teaching are amongst the included concept. Even the ancient theories of study on human behaviour and need to survive and grow underlined the fact that success in absence of values, life in absence of ethics and morale and the rule the world by force and unethical practice indicates a complete destruction of oneself and the most valuable gift of the universe which is life as human beings. Thus a change and makeover in the education system and including values over and above monetary and materialistic desires will enable to give a new look to the globe.

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CORPORATE GOVERNANCE CRISIS AT NATIONAL SPOT EXCHANGE LIMITED (NSEL)

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ABSTRACT

This case study is on the recent scam of National Spot Exchange Ltd. that hit the Indian capital market during the current financial year. The case study is aimed at studying irregularities and major corporate governance lapses that led to the Scam. It also throws light on modality of the scam and major loopholes in our regulatory system.NSEL crisis has in fact opened a Pandora's Box. It presents an example of bad strategy and poor corporate governance. The NSEL corporate governance system failed to address the issue of conflict of interest. In an over-regulated country, this is an example of absence of proper regulation.There was utter lack of transparency, integrity, competence, compliance with law and ethics.This crisis is a great learning for regulator, investors as well as exchanges. A commodity spot exchange is neither allowed to offer forward contracts nor settle contracts beyond 11 days (T+11). However, the NSEL was doing both.Theexchange was carrying on contracts without underlying assets in its warehouse and buyers were being given fake ware house certificates of the commodities which they were buying. T+36 settlement cycles gave an opportunity to investors to earn high return by lending money to commodity traders who preferred hassle-free process for raising funds to support working capital needs.Exchange became a bank for few traders. It was pure funding activity. Traders used to get easy access to capital without banking hassles.Infact, NSEL was taking advantage of a regulatory gap. Being a spot exchange NSEL was regulated by the Agricultural Produce Market Committee (APMC), a board set up by state governments and Forward Contract Regulatory Act (FCRA) rules. Spot trades are not regulated by the Forward Markets Commission (FMC).There is an immediate need to regulate exchanges on a comprehensive basis. In addition, the government needs to ensure that blatant speculative activities are not allowed through exchange platforms especially in case of commodities.

Key Words: Corporate Governance, Spot exchange, Forward Contract, Settlement Cycle etc.

INTRODUCTION

It's a story that had moved at blinding speed in Indian Capital Market.This little-known story somewhat captures the DNA of an organisation that is at the centre of a Rs 5,500-crore scam. A man who once dreamt of becoming a technology partner of NASDAQ is now desperately trying to hold on to his business empire. The poster boy of the business community in Mumbai, JigneshShah has built an empire of nine exchanges in India and overseas within a decade and a half. The NSEL fiasco, though, has badly dented his credibility and casts a long shadow over his other businesses. Was it ignorance, avarice or a game fraught with risk? The NSEL scam has hit the financial community hard and raised questions on the governance of exchanges and brokers and the concept of a commodity exchange itself.

Recently India’s largest spot exchange for spot trading in commodities, The National Spot Exchange Ltd. halted trading in major commodities, citing a sharp fall in trading volume due to large scale irregularities going on in the exchange. Followed by it government banned spot trading in the remaining commodities such as gold and silver.

Spot Exchange is an electronic marketplace for buying or selling large quantities of commodities such as sugar, rice, cotton bales, steel and copper. Farmers or other sellers of the particular commodity bring their goods to a warehouse operated by the spot exchange, which checks them for quality and weight and issues a warehouse receipt. The seller then places this receipt online on the exchange, and buyers from all over India can bid for the receipt, which is an entitlement to the goods. When seller sells on the exchange, the warehouse receipt is transferred to the buyer; this receipt entitles the buyer to take the goods out of the warehouse, or if he chooses, to retain the goods there (to sell them later) by paying the warehouse rental charges. Sellers thus get a wider number of potential buyers than in a physical market or bazaar, where buyers are limited to the people physically present. Those who buy the commodity through the spot exchange can show the warehouse receipt to the exchange and collect the specific commodity in their city by providing details contained on the receipt.

The work of a commodity exchange doesn’t end here. The exchange needs to assure both the parties that the transaction will be settled and in case of a default from either parties the responsibility lies with the exchange to sell the goods lying in its warehouse and make up for the loss and vice versa if the seller is at default.

India has three national-level commodity spot exchanges, all headquartered in Mumbai. The largest, as measured by the value of commodities traded, was the National Spot Exchange Ltd., founded by Financial Technologies. It accounted for more than 90% of the total trading volume among spot exchanges in India. The other spot exchanges are NCDEX Spot Exchange, founded by the National Commodity and Derivatives Exchange and Reliance Spot Exchange, founded by Indian billionaire Anil Ambani’s Reliance Capital.

There are rules governing commodity trading, which is regulated firmly by the Forward Market Commission (FMC). Under the Forward Contracts Regulation Act, any contract that is called “spot” must be settled within 11 days— that is, both delivery of goods and transfer of money must happen within 11 days (called “T+11”). The 11 days give the buyer and seller time to complete the contract. Thus, this would then not become a "forward" contract. Spot contracts, by their nature, were deemed to be out of FMC regulation by a small notification in 2007 by the Department of Consumer Affairs. This exemption was given specifically for one-day duration contracts – or, technically those contracts that complete both delivery of goods and transfer of money within two days, called "T+2".

National Spot Exchange Ltd.(NSEL) is a joint venture of Financial Technologies of India ltd(FTIL) and National Agricultural Cooperative Marketing Federation of India(NAFED). NSEL was incorporated as a company limited by shares under the Companies Act, 195 in May 2005. The Exchange commenced operations in October 2008 and has around 800 members currently. It provides customized solution to farmers, traders, processors, exporters, importers, arbitrageurs, investors and other stakeholders pertaining to commodity procurement, storage, marketing, warehouse receipt financing, etc.Membership is necessary to be able to sell or buy commodities on this exchange.The exchange allowed trading of 52 commodities, and was providing the delivery service for the goods in 16 states including Gujarat, Maharashtra and Madhya Pradesh. Jignesh Shah is the founder and promoter of Financial Technologies Ltd.

REVIEW OF LITERATURE

Chandra (1991), in a study on the proper functioning of the securities markets, examined the government policy of favouring the small shareholders in terms of allotment of shares. The study argued that, such a policy suffered from several lacunae such as higher issue and servicing costs and lesser vigilance about the functioning of companies, because of inadequate knowledge. The study suggested that there was a need to eliminate the bias as that would lead to a better functioning of the Capital Market and would strengthen investors' protection. With proportional allocation being advocated by SEBI, a shift in the policy was evident. However, there appeared to be some re-thinking on the proportional allocation after the recent experiences which clearly demonstrate that such a policy could result in a highly skewed ownership patterns.

Barua and Varma (1993), in a study, examined the impact of the scam and found out that it resulted in a sharp fall in the share prices. The index fell from 4500 to 2500, representing a loss of Rs. 100,000 crores in market capitalization. Though one may be tempted to blame the steep decline in prices on the scam, but they think that the reason for this fall was not the scam directly. It found out that the scam resulted in the withdrawal of about Rs. 3,500 crore from the market, which for a market of the size of Rs. 250,000 crores (at an index level ofmisappropriation of funds to the tune of over Rs. 3500 crore (about $ 1.2 billion). The scam had engulfed top executives of large nationalized banks, foreign banks, financial institutions, brokers, bureaucrats and politicians. The functioning of the money market and the stock market had been thrown into disarray. The scam had generated such immense public interest that it had become a permanent feature on the front pages of newspapers. A large number of agencies, namely, the Reserve Bank of India (RBI), the Central Bureau of Investigation (Indian CBI), the Income Tax Department, the Directorate of Enforcement and the Joint Parliamentary Committee (JPC) all set out to investigate the various aspects of the scam. The government set up the Janakiraman Committee to probe the scam, which broke out between April, 1991, and June, 1992. At least 10 commercial banks were involved, including the Standard Chartered Bank, the SBI and National Housing Bank (an RBI subsidiary).

Dhillon (1993), in a doctoral dissertation examined the regulatory policies of the Bombay Stock Exchange (BSE) over a four year period (July 1986 June 1990). The findings showed that regulatory authorities decided changes in their margin policy on the basis of market activity. It found out that the margins were prompted by changes in settlement returns, price volatility, trading volume and open positions. The Granger causality results showed that there was limited causality in the reverse direction: margin changes did not affect returns, and had only a limited impact on price volatility, trading volume and open positions. The event study methodology applied to daily margins showed similar results, except that daily margin on sellers did not appear to be affected by the market variables. Further, there was also evidence of under margining leading to excessively levered positions, thereby increasing the insolvency risk. The results revealed that regulations through this instrument had only a marginal impact on the dual objectives of controlling market activities and insolvency risk.

Varma (2009), in a study, Satyam Fraud: The Regulatory Response stated that a major fraud was an opportunity to push through important reforms which would otherwise be resisted by powerful vested interests. It stated that this opportunity was missed in India. Point out that the initial regulatory response to the Satyam fraud was swift and appropriate, but this momentum was lost very quickly. Those who hoped for comprehensive and decisive reforms had been disappointed. This means the Corporate Governance principles only rely mainly on the SEBI clause 49 for enforcement.

DESIGN / METHODOLOGY / APPROACH

This case study is aimed at studying irregularities and major corporate governance lapses that led to the Scam. It also throws light on modality of the scam and major loopholes in our regulatory system. This case study also identifies the impact of scam on various stakeholders. This case study is based on secondary data collected from various sources. It also discusses the major areas of lapses in Corporate Governance practices at NSEL.The required secondary data is collected from news published in news papers, Economic Times, Business Standard, Times of India and other news papers, from the articles published in magazines, Outlook, Business Today, Business Line etc., and websites www.business-standard.com, www.thehindu.com, www.timesofindia.indiatimes.com, businesstoday.intoday.in etc.

WHAT WENT WRONG?

To understand the gist of the scam lets go with an example. What if I you parked your vehicle in your friend's parking. Are you sure he won't use it? Or maybe if you are out of town he may even run it as a taxi? Who knows, if he is smart he might do any of these things. You can never find a ''free parking'' zone. The same was the case here, the transactions were said to be executed fairly and the commodities were said to be ''in the warehouse''. Which was not the case, the exchange was carrying on contracts without underlying assets and buyers were being given fake ware house certificates of the commodities which they were buying.The deliveries were taking place on t+35 basis. NSEL was carrying out a lot of activities it wasn't authorised to, like for instance NSEL was also transacting on e-contract basis without permission.

A few years ago, the National Spot Exchange started allowing members to trade in some commodity contracts without having to take delivery. In other words, traders could enter into a contract to buy and sell a commodity, but could reverse that after a period of time if they wanted.

Traders had anywhere between 11 days and 36 days to settle a trade. This allowed people to re-trade without taking delivery of the goods.National Spot Exchange had several contracts where settlement was done beyond eleven days. In fact, some worked to a T+25 and T+35 day settlement cycle. In comparison, in India’s two other spot exchanges it is compulsory that a commodity be delivered for every contract.Instead of just making T+2 contracts, the spot exchange designed multiple contracts. Some of them were T+2 settled, making them ‘spot’ in nature. Others were the same product but settled after 25 to 35 days, called T+25, or T+36 contracts. This was illegal– such contracts are forward contracts and NSEL was not authorized to execute these, but it did. And no one stopped it.

According to the rule, all spot contracts should settle within 11 days ie (T+10 basis; trading plus 10 days). However, NSEL was offering contracts over T+10 settlement cycle. It allowed buyers who could not pay for commodities they bought more time and sellers who could not deliver commodities sold on time. This amounted to forward trading, which is in violation of NSEL’s mandate. But interestingly, these longer-term contracts became very popular.The T+ 25 and T+36 settlement cycles gave an opportunity to investors to earn high return by lending money to commodity traders who preferred hassle-free process for raising funds to support working capital needs.

And the concept got worse. NSEL sold what seemed to be ‘arbitrage’. You could ‘buy’ the T+2 contract and ‘sell’ the T+25 contract and the difference in prices gave you nearly 15 percent per year, annualized. Let's take an example of the commodity "Paddy Basmati". There are many contracts running on it. T+2 is trading on Rs. 2,780 and T+35 is trading on Rs. 2,829.7. The price difference is due factors like time value of money, seasonal cycles, etc. A long-term contract is usually higher priced than a short term contract. The trade involved a simple arbitrage of buying the T+2 contract and selling the T+35 contract. So, you basically bought the T+2 contract at Rs. 2,780 and took delivery on the 2nd day, stored it in the NSEL warehouse and delivered it to the person to whom you sold the T+35 contract on the 35th Day for Rs. 2,829.7. In this way you made a cool 13.5% annualised return which was in every way totally RISK-FREE and No long-term capital gains tax, commodity transaction tax or stamp duty had to be paid.

What happened next was that the brokers of the NSEL started selling this product to investor's by assuring them of returns more than that of what the banks could offer. Once the investors realised the potential of these trades, they undertook bigger contracts and on a regular basis. Brokers peddled this product to their customers for over two years. The number of customers ballooned to over 15,000, each of whom put in at least Rs 2 lakh to get their ‘superior’ returns. The brokers and NSEL generated high revenues due to these trades for 2 years. The NSEL turnover rose to over Rs 3 lakh crore from a meagre Rs 2182 crore in 2009, its first year of operation. The profits of NSEL shot up from Rs. 30 Crores per year to Rs. 120 crores per year. The price gap between the contracts continued and thus commodity prices also started moving up.

Who was on the other side? That’s the question that no one seems to be asking. Was the arbitrage genuine? It appears not. The contracts were always sold in pairs. Brokers have reported that no one was allowed by the exchange to just take one side of any contract – you always had to have a ‘buy’ on the near contract and a ‘sell’ on the far side. This is hardly possible in a real market, so it points to the fact that these contracts were always executed in pairs.

It turns out now that those on the other side were just 24 members of the exchange, called Planters or Processors or Borrowers. These members owned plants that processed commodities – or, at least, they said they did. For instance, NK Proteins owned a plant to process castor seeds in Kadi, Gujarat. The contract – the Kadi Castor Seeds contract – was settled at an NSEL warehouse located inside the Kadi plant of NK Proteins. Processors like NK Proteins (and there were 23 other such members) were on the other side of the trade. They would sell at T+2 and buy back at T+23, offering huge returns.

The fact that the contracts were executed in pairs indicates a financing program. Something is placed as collateral to borrow money for a short period of time. This used to be commonly known as "badla financing" in the pre-2000 stock exchanges, where shares were collateral. (Badla is banned now; the financing has moved to the futures market.)

Let's say I am a plant owner, and I can't get a loan from a bank. I can effectively borrow from you at 15-18 percent – much cheaper than I can borrow from banks. And if I'm smart, I know that the goods I sell you will remain at a warehouse inside my premises, so why not cheat a little and tell you that yes, I've added more goods to your warehouse, and you, on the other end of the phone agree. In this situation I can invent stock that doesn't exist and borrow against it for 15 days; for the interest, I might pay some out, but immediately get it back in a new contract when I add even more imaginary stock.

The modality is simple. The investor (say, Y) enters into buy and sell contracts with a trader (say, Z) simultaneously or at a short interval. The buy contract is settled on the third day. Y pays the price to Z and takes ownership of the commodity through the transfer of the warehouse receipt. The commodity remains in the warehouse. The sell contract is settled on the 37th day. Z pays the price to Y and takes back the ownership of the commodity. Thus, the lending by Y is secured by collateral of the commodity in the warehouse. The spread between the buying price and the selling price is the income for Y. Z arranges the fund to pay Y in the second leg of the transaction by selling the commodity to an ultimate user or by arranging finance from another investor. In this arrangement, Z is likely to default if he is unable to liquidate the stock in the warehouse or unable to find another investor.

Exchange became a bank for few traders. It was pure funding activity. Traders used to get easy access to capital without banking hassles. It helped them to invest more. This was the Ponzi nature of the game. Indeed, it turned out that some of these companies had poor balance sheets incapable of handling such large loans – loans of the size of Rs 900 crore. And the exchange did nothing.

Most 'investors' rolled over their contracts. That is, when the contract was unwound after T+35, they would enter a fresh round of T+2 (buy) and T+35 (Sell). Meaning, the interest received was also ploughed back into further purchases; a 'borrower', on the other hand, was pretending to pay interest, but was simply creating warehouse receipts for the interest and trading them on the exchange, while rolling over the contract forever.

In fact, NSEL was taking advantage of a regulatory gap. Being a spot exchange NSEL was regulated by the Agricultural Produce Market Committee (APMC), a board set up by state governments and Forward Contract Regulatory Act (FCRA) rules.Spot trades are not regulated by the Forward Markets Commission (FMC). Under the guise of spot trading, NSEL was offering forward trading facility to investors without proper margin and settlement systems. NSEL was operating unregulated as it didn't come under the scrutiny of the Forwards Market Commission (FMC) because of it being a Spot market.

Last year, India’s Consumer Affairs Ministry, which oversees the spot exchanges, ordered a probe into the contracts being traded on the National Spot Exchange. The government felt that allowing any delivery settlement beyond 11 days was akin to futures trading, which can often be driven by speculators rather than by genuine buyers and sellers. Ministry found that the contracts that were settled after 11 days ormore were basically used for speculation. The Forward Market Commission also found that there was short selling in some of these contracts where an individual sold the contract without actually owning the underlying commodity. Settlement beyond 11 days and short trades were both not permitted by regulators on spot market transactions.

Ministry ordered the National Spot Exchange to stop issuing new contracts that settled after 11 days and move all of its existing contracts to ‘trade-for-trade’, meaning every trade has to be settled the same day and couldn’t be netted out. Consequently the Spot Exchange stopped issuing contracts that could be completed more than 11 days after the trade.NSEL issued a directive to its members that all contracts have to be settled within 11 days or a (T+10) basis and that too on payment against delivery basis.It also restricted traders from putting buy or sell trades at the same time to square off the exposure to the market.

The new rules led to a sharp decline in trading volumes on the exchange as traders failed to roll-over positions and demanded settlement of trades. The lack of a rollover shuttered the exchange. When the ‘borrowers’ were told that they had to pay back all the money, they simply could not (or didn’t want to). And it turns out they don’t seem to have the goods to back it up either. At this point, the exchange should have stood guarantee. That’s the role of an exchange. But because it didn’t get paid from the borrowers, it didn’t have the capacity to pay. Daily trading value on the spot exchange halved to around three billion rupees ($49.5 million) in the last two weeks of July, according to the exchange website. Followed by it the exchange suspended trading in most of the contracts, for an indefinite period. The total value of suspended contracts was 55 billion rupees, according to the exchange. NSEL deferred settlement by 5 months because it needed time to estimate the total amount required for the payouts. Soon, news broke out that there was no stock in the godowns of NSEL and the buyers were being given fake ware house certificates of the commodities which they were buying. There was neither the money nor the underlying ‘spot’ goods to settle trades by over 15,000 investors.As none takes delivery of goods and this was just pure speculation, this went totally unnoticed.

HOW AND WHO WAS MAKING THE MONEY?

In high profile NSEL scam the high net worth investors and speculators were using the forward contracts to make money. Spot exchanges were allowed to conduct forward trading in one-day contracts (where an individual can keep the contract open for two days), through a special Government notification in early 2008. NSEL used this exemption to launch one-day forward contracts with a settlement cycle of 20-30 days. But this exemption on forward trades came with the condition that the respective exchanges should not allow short selling that was happening at NSEL.

The forward contracts first involved a set of commodity stockists selling warehouse receipts to investors for an immediate payment. They also entered into a buyback arrangement whereby the investor would sell back the commodity to the stockist after a 25 day or 35 day period, with a 'return' element of 12-14 per cent. Thus the stockist received financing while the investor got his return. But this soon morphed into a system where speculators actually sold commodities without proof of underlying stock and entered into similar buybacks arrangements. They drew in affluent investors who didn't understand the markets but lent money to fund such trades.

As most of these trades happened in commodities such as raw wool and castorseed that were not widely traded, there was limited public information on them which investors could rely on to check if these trades were indeed working.

LIES, DECEIT AND AN INCESTUOUS WEB

The exchange started to lie. The CEO, AnjaniSinha said on August 1st that they had a 'Settlement Guarantee Fund' of over Rs 800 crore plus they had all the stocks in the NSEL warehouses. In a few days they changed that position, stating they had only Rs 60 crore in cash and the rest of the 'guarantee fund' was in stock. All entities were supposed to put a tiny amount – up to 5 percent – as margin until trade completion. This, too, was unavailable for some reason. And then, after telling everyone that they would get their money back, the NSEL management said they had to auction stock to get the money. Soon, even that avenue was gone as there wasn't any stock.

Jignesh Shah, the founder of FinTech, which promoted the exchange, said in a press conference that they would have a high-powered committee, including an ex-SEBI chief, a senior police officer and the like, to ensure settlements happen. As it turns out, the committee was useless in actually enforcing the contracts.

NSEL next created a complex settlement program. After a few days, NSEL management offered a 'settlement calendar' stretching 30 weeks where people would be paid back Rs 174 crore per week for 20 weeks, Rs 86 crore a week after that, and a big balloon payment at the end.

NSEL couldn't even make the first week's payments properly – it paid up just half. In the second week, to fend off investor aggression, FinTech dipped into its resources and paid Rs 177 crore to those with less than Rs 10 lakh outstanding. There have been three payments till now – of Rs 92 crore, Rs 190 crore (including small investor payouts) and then, this week on Tuesday, 3rd September, Rs 15 crore. But in the settlement program, NSEL had promised to pay Rs 174 crore on each of these three Tuesdays.

In the middle of all of this, it turned out that many of NSEL's 24 Processor members were related to each other. One of the biggest borrowers, NK Proteins, is owned by the son-in-law of NSEL's chairman Shankarlal Guru. Then there was Indian Bullion Market Association, owned primarily by NSEL, which participated as a member, allowing parties in the bullion space to buy through them.