



Corporate governance practices: Company perspective of selected listed companies in Tamil Nadu

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Abstract

This research paper outlines the impact of corporate governance practices with reference to the company perspective of the selected listed companies in Tamilnadu. Data collected from top 62 companies to know the relationship and its impact on the practice. Purposive sampling method was employed for the data collection. Chi square test, T.test and correlation method were used for the analysis and it relieved that there is a strong positive impact between the remuneration of directors and board composition. Further the CG practices can be evaluated by this way also and it can be used as a yard stick for the evaluation. This study has been conducted at an initial stage and it can be applied on macro level also.

Keywords: corporate governance, remuneration, board composition, CEO duality, listed companies

Introduction

Broad Outline

Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society" (Sir Adrian Cadbury in 'Global Corporate Governance Forum', World Bank, 2000). However, no systematic and comprehensive work has been found that collaborate all facts of corporate governance, to combat the most vital problem of the present times.

Statement of the problem

Corporate governance has also being widened to look at the relationship between the firm and all its stakeholders, instead of only its shareholders, since the firm operates as a unit of a bigger social entity. To this extent, one may expect to find a significantly higher impact of ownership variables on value or performance in firms that operate in very dynamic sectors than in basic industries. This argument needs to be empirically verified

Need for the study

In Indian context, most of the available literature deals with the theoretical aspects of this topic. There are sufficient no. of published articles which throw light on the SEBI committee's recommendations relating to the role of independent directors, size and composition of the board members, audit committee, internal control systems, etc. A very few studies such as Patiabandla (2001), Mohanty (2002), Dwivedi and Jain (2005), Phani *et al.* (2005), Prasanna (2005) and Mayur and Sarvanan (2006) studied the relationship between some of the corporate governance attributes such as share ownership by FIIs, Indian Institutional Investors, insider and outsider investors, independent directors, board size and its

composition and firm performance.

Review of literature

Sharma (2014) ^[1] made an analytical study of different codes for Corporate Governance recommended by different committees in India and their implementations in the financial sector and examined the Board Composition and Board Committees of the sample organizations to assess the adherence to good corporate governance by them. The suggestions given in the study were with regard to board composition, the concept of independent directors is not present in the existing government guidelines, therefore it is not applicable in the board of PNB and SBI, however the government should also encourage the role of independent directors in their policy because the board with majority of independent directors are not obliged either to the executive directors or the promoters of the company.

Gupta (2004) ^[2] made a comparison of the recommendations of different committees set up in India. He raised certain issues like non-audit assignments given to the auditors, the present remuneration structure framed by the directors, their professional competencies and busy schedule. It had been pointed out to deliberate upon these issues in-depth. The author suggested that present regulations should be made more realistic and practical and moreover a complete legal backing of committees' recommendations should be there.

Krishna Prasanna (2003) ^[3] suggested the following in here study that follow up action from SEBI and Stock Exchange is very vital in this context. There should be one more board committee "Ethics Committee" to check and ensure that the policy decisions of their boards thical in nature considering the interest of all stakeholders.

Neelamegam (2001) ^[4] Corporate governance is the term used to describe the way in which the company are directed and controlled and encompasses issues such as the responsibilities of directors and the relationship between shareholders, director and auditors. In a country like China where the

instruments of production are owned by the state, the shareholders as well as the board of directors are one and the same. Hence corporate governance reforms in China is still in its infancy and much remains to be done. It will be years before the necessary reforms are fully effective.

Ghosh (2000) [5] outlined the ten basic issues of the board which had impact on the quality of governance. The issues discussed included information, time and resources that directors were devoting for governance, their expertise, educational qualification of outside members on the board, separation of CEO and chairman, business ethics, interests of stockholders, short term and long term objectives, board culture and self evaluation of the board. The author had also focused on the need of self discipline among the members of the board.

Aim of the research

- To assess the current condition or situation of corporate governance in listed companies in Tamil Nadu
- To present the importance of firm’s performances and corporate governance in the listed companies in Tamil Nadu;
- To analyze the different factors and aspects related to corporate governance;

Hypotheses of the study

- H01: There is no significant association between sector and shareholder grievances.
- H02: There is no significant association between board composition and shareholder grievance.
- H03: There is no significant difference among remuneration committee on remuneration paid to directors.
- H04: There is no significant difference among CEO duality on remuneration paid to directors.

Research Area

Totally there are thirty two districts in Tamil Nadu. Tamil Nadu is selected because it benefits most from the local and national development center because the center normally pilots all innovation programs in this state. The Tamil Nadu further provides good context for implementation of corporate governance practices, since the application and awareness of corporate governance policies are wide in Tamil Nadu.

Sampling method and Sample size

In this research study purposeful sampling method was used. There are several different purposeful sampling strategies, criterion sampling appears to be used most commonly in implementation research. Since the listed companies are selected for the particular reasons.

Determination of sample size

In fact, the top 100 companies selected, guaranteed assurance of those firms with highest performance with sufficient disclosures regarding best practice recommendations of CG. Finally it was possible to collect data from 62 companies only for the study.

Primary data collection

The questionnaire is designed for the evaluation of corporate

governance Components through survey method. The instrument will cover the 3 basic practices focused in the corporate governance. The dimensions corporate governance is:

- Board Effectiveness
- CEO Duality
- Directors Remuneration

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

Period of the study

The study covers a time period of two years

Analysis of data & Discussion

CHI square test influence of sector of companies on shareholder grievances

H01: There is no significant association between sector and shareholder grievances.

Table 1: Sector of companies

Sector	Frequency	Percentage
Private	25	40.3
Public	33	53.3
Semi	4	6.4
Total	62	100

Source: primary data

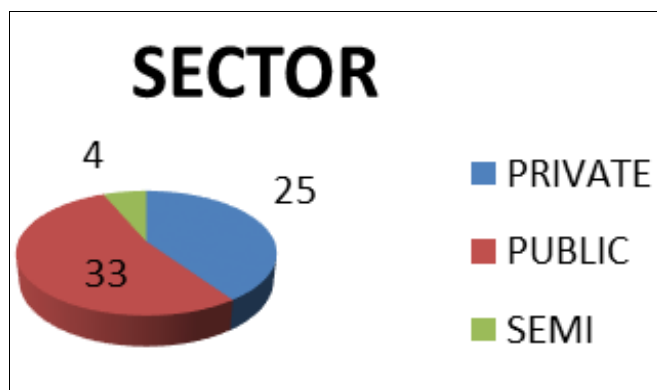


Fig 1

There are some commonly accepted key principles or elements of good governance that are applicable to both the public and private sectors. The three most common are accountability, transparency and recognition of stakeholder or shareholder rights. The above table and chart clearly depicts the sector wise classification of the respondent companies. Among the respondent companies majority (53.3%) were public and 40.3% were private companies where as 6.4% were neither public

Shareholder grievance committee

The Birla Committee recommended that a board committee under the chairmanship of a non-executive director should be formed to specifically look into the redressing of shareholder complaints like transfer of shares, non-receipt of annual reports

Table 2: Opnion on shareholder’s grivance committee

S. No	Opinion	S. Disagree		Disagree		Neutral		Agree		S.agree	
		F	%	F	%	F	%	F	%	F	%
1.	The chairman of SGC have to present in AGM of the financial year	2	3.2	1	1.6	13	21	38	60.3	8	12.9
2.	The complaints of SGC is resolved by the board effectively	0	0	1	1.6	11	17.7	45	71.6	5	8.1
3.	The existence of SGC helps in the implementation of CG practices	1	1.6	1	1.6	8	12.9	45	71.6	7	12.3

From the above table it is clear that out of 62 companies, 82% of the companies have shareholder grievance committee in their board. 60% of the companies agree that the chairman of SGC must be present in AGM, 72% of the companies agree that the complaints lodged by the shareholders were resolved effectively by the board and 72% of the companies agree that the existence of SGC helps in the implementation of CG practices.

Table 3: Opinion regarding shareholder grievances committee

Options	frequency	percentage
Yes	51	82.3
No	11	17.7

Source: Primary data

Cross Tabulationsector * Shareholder Grievances

Table 4

Sector	Shareholder grievances		Total
	Low level	High level	
Private	13	12	25
Public	5	28	33
Semi	1	3	4
Total	19	43	62

CHI Square test & correlation: Impact of sector of companies on

Table 5

Composition of The Board	Frequency	Percentage
	15	24.2
Directors experience more than one industry	22	35.5
Experienced Professional	25	40.3
Total	62	100

Shareholder Grievances

Table 6

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.327	2	0.016
Pearson's R	0.229		0.074

The chi square value is 10.327 and the significant value is 0.016, which is lesser than 0.05 and so it is significant. Hence we accept the alternate hypothesis and reject null hypothesis and conclude that there is association between sector and shareholder grievances. The R value is 0.229 which shows that there is a positive correlation between sector of companies and shareholder grievances.

Influence of board composition on shareholder grievance

H02: There is no significant association between board composition and shareholder grievance.

Table 7

Composition of The Board	Frequency	Percentage
	15	24.2
Directors experience more than one industry	22	35.5
Experienced Professional	25	40.3
Total	62	100

Table 8: Board composition * shareholder grievances

Board composition	Shareholder grievance		Total
	Low level	High level	
Directors experience only one industry	6	9	15
Directors experience more than one Industry	7	15	22
Experienced professional	6	19	25
Total	19	43	62

CHI square test & correlation: impact of board composition on shareholder grievances

Table 9

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.434	3	0.698
Pearson's R	0.147		0.253

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

The R value is 0.147 which shows that there is a positive correlation between board composition and shareholder grievances.

T-Test

H03: There is no significant difference among remuneration committee on remuneration paid to directors.

Remuneration: companies are given flexibility in deciding the levels of remuneration for directors, It requires at least part of the director’s remuneration to be linked to corporate and individual performance. Regarding the remuneration paid to the directors the following opinions were noted. As per the requirements, the remuneration committee plays a major role in deciding the remuneration of executive directors. It also deals with share options and performance based compensation policies.

Table 10: Opinion regarding remuneration of directors

S. No	Opinion	S. disagree		Disagree		Neutral		Agree	
		F	%	F	%	F	%	F	%
1.	The company pays fair and equitable remuneration to the directors	1	1.6	3	4.8	10	16.1	38	61.3
2.	The company provides loan or use of company’s property to board members	1	1.6	13	21	24	38.7	18	29
3.	The company and the board are required to receive share owner approval for any share based remuneration plan	2	3.2	4	6.5	11	17.7	37	59.7
4.	The board reviews the compensation of members	5	8.1	5	8.1	15	24.1	27	43.5

The above table provides the summarized information on the opinion of the companies regarding the remuneration paid to directors. 61% of the companies agree that the company pays fair and equitable remuneration to the directors, 39% of the companies neither agree nor disagree that the company

provides loan or use of company’s property to board members and 44% of the companies agree that the remuneration paid to the directors were reviewed by the board. This is one of the task of the board to review the compensation paid to directors.

Table 11

Factors	t	df	Sig	Mean Difference	Lower	Upper
Remuneration	-0.231	60	0.818	-0.26383	1.1442	-2.55257

The above table shows the impact of remuneration committee on remuneration paid, which gives the value $t=-0.231$, $P=0.818$ and they differ significantly with respect to remuneration committee at 5% level. Since the significance value is greater than 0.05, the null hypothesis is accepted and it is found that there is no significant difference among remuneration committee on remuneration paid to directors.

remuneration paid to directors

CEO Duality: CEO duality refers to the situation when the CEO also holds the position of the chairman of the board. The board of directors is set up to monitor managers such as the CEO on the behalf of the shareholders. They design compensation contracts and hire and fire CEOs. A dual CEO benefits the firm if he or she works closely with the board to create value.

Influence of CEO duality on remuneration

H04: There is no significant difference among CEO duality on

Table 12: CEO Duality

Variables	Options	Frequency	Percentage
Compliance Officer of the Company	Company Secretary	27	43.5
	CEO	11	17.7
	Chairman of Board	8	12.9
	Board of directors	2	3.3
	Auditor	7	11.3
	Any other person	7	11.3
	Total	62	100
CEO Duality must for CG	Yes	43	69.4
	No	19	30.6
	Total	62	100
Responsible Person for Non-Compliance	Company Secretary	8	12.9
	Board of Directors	54	87.1
	Total	62	100.0

From the above tables it is noted that in 27 companies takes the position of compliance officer, out of the total respondents 43 companies have the opinion that CEO duality is must for CG and Board of Directors were held responsible for the noncompliance of duties.

value is greater than 0.05, the null hypothesis is accepted and it is found that there is no significant difference among CEO duality on remuneration paid to directors.

Table 13

Factors	t	df	Sig	Mean Difference	Lower	Upper
Remuneration	1.323	42	0.193	5.06977	3.83222	-2.66397

The above table shows the impact of CEO duality on remuneration paid to directors, which gives the value $t=1.323$, $P=0.193$ and they differ significantly with respect to shareholder committee at 5% level. Since the significance

Conclusion

The descriptive results of this study have shown that the director’s remuneration and board composition of the companies also depend on the performance of the listed companies. Hence, the directors are more likely to adopt those practices which result in higher performance of the listed companies. However, in broader perspective, it is noteworthy that such as per the survey results certain factor that are having a strong impact on corporate governance practices. The descriptive results have also noticed that 87% survey

respondents suggested that board of directors were held responsible for the noncompliance of corporate governance practices. In the same vein, the statistical results have also supported this stance.

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