



Corporate Disclosure Practices in Selected Indian Companies

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ABSTRACT

Corporate governance index has been accepted as an important measurement tool of CG practices adoption. There are several accepted ways to calculate CGI. In this paper an attempt of calculating CG scores has been made for thirty different companies selected on the basis of BSE-30 as on march 2013. The selected score has been calculated for seven years period i.e. 2005 to 2012. Corporate Governance index has also been calculated for the selected sample companies.

Key Words: Corporate Governance Index, Corporate Disclosure Practices

Section: 1 Introduction and Literature Review

The concept corporate governance involves a set of relationships amongst the company's management, its board of directors, its shareholders, its auditors and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as monitoring performance are determined. Thus, the key aspect of good corporate governance includes

- transparency of corporate structures and operations
- Disclosure of financial and non-financial information affecting interests of stakeholders
- the accountability of managers and the boards to shareholders
- corporate responsibility towards stakeholders

CG is not related to regulatory provision only such as listing agreement and other mandatory provisions but also several voluntary practices which increase the business value such as high business ethics, effective supervision and all other internal and external activities which increase stakeholder's value. Regulatory directives are not sufficient to create a transparent organisation. Organisation need to go beyond regulatory compliances and adopt a culture and process of self-regulation and imposition. Employee's needs, customer convenience, good relationships with several vendors, efforts in terms of better quality products, society's expectations and fulfilment of the same and innovation in all the activities has got importance over the given period of time and has become an integral part of CG practices.

There have been several studies covering different aspects of corporate governance. In this paper an attempt has been made to see, how disclosure practices and meeting of regulatory requirements have been adopted by different companies in Indian context and number of papers have been selected for the study and taken into account in chronological order. For this evaluation corporate governance assessment model developed by Bhasin M. and Manama A. (2009) have been used. The papers have been selected on the basis of studies covering CG disclosure practices or corporate governance ratings.

Drobotz (2003) have studied the relationship between firm value and Corporate Governance Ratings and found positive relation between corporate governance rating (CGR) and firm value and expected returns to be negatively correlated with CGR.

Gupta, Nair and Gogula (2003) have studied the CG reporting practices of selected Indian companies and analysed using content analysis and least square regression for data analysis. They observed variations in the reporting practices of the companies and found that there is no standard practise regarding the same.

Black et. al. (2006) concluded that firms having high governance score have a high market value. In expectation of the improvement in firm's performance, the stock price might also respond instantaneously to the news indicating better corporate governance.

Brown and Caylor (2006) In their study have identified seven corporate governance measures positively associated with value of firms by taking a sample of 2106 U.S. firms and have created the Governance Score index based on 51 criteria considering the data provided by ISS for 1868 U.S. companies in 2003.

Lafond (2006) studied the relation between corporate governance and credit ratings. They consider the GIM index and various board characteristics including board independence and compensation as separate governance measures.



Aggarwalet. al. (2008) determines the numbers of governance attributes with data available for each firm-year observation, and then define the governance index as the percentage of attributes a particular company has in place.

JayatiSarkar, SubrataSarkar (2010) In their study they have constructed a Corporate Governance Index for 500 large listed firms in the Indian corporate sector for the period 2003 to 2008. The empirical analysis shows that that good governance practices are rewarded by the market which provides an added incentive to companies to carry out governance reforms.

ArijitSen (2011) determined the extent to which Indian listed companies disclose their corporate governance. He concluded that there is a substantial scope for improvement in the corporate governance disclosure practices and the size of the company is a significant determinant of disclosures.

MehulRaithatha and VaradrajBapat (2012) In their study they have observed compliance of Corporate Governance requirements by Indian Companies. They have developed a model to calculate the Corporate Governance Score of companies and then it is related to company attributes like size, profitability, leverage, foreign ownership etc.

Mita and Arti (2012) the difference between governance regulations and implementation practices have been studied and it was found that regulations have been followed to an extent which is mandatory and cannot be escaped. If it would come to non-mandatory corporates do not prefer to follow. The study tried to highlight the areas of non-implementation.

Md. ShamimulHasan et.al (2013) investigated the influence of corporate governance on financial reporting disclosures. Their results show that corporate governance is significantly associated with the extent of financial reporting disclosures. External auditor, multi listing and profitability are significantly (5 per cent level) associated with overall financial reporting disclosures index.

After studying the available literature it has been observed the concept of Corporate Governance is at the stage where further scope for its development and improvement is possible. This has served as motivation to further investigate the concept and to study corporate governance practices in Indian context for selected leading sectors over the period of seven years. For evaluating the Corporate Governance Practices by different companies of different sectors, a Corporate Governance Assessment Model has been used. Average scores for sectors have been calculated to judge the overall changes. To facilitate the comparison corporate governance index has been calculated and analysed.

Section: 2 Research Methodology

2.1 Objectives: The broad objectives of this paper are:

- To find the disclosure pattern of selected Indian companies
- To study the Corporate Governance disclosure practices in selected leading sectors of India over the period of seven years which have been depicted by average CG score and CG Index.
- To see the pattern of average score and CG Index of the selected sectors which highlights the changes in Corporate Governance disclosure practices over the period of seven years.

2.2 Selection of Sample: This study aims to show the corporate governance practices in India, seven different leading sectors are chosen as samples representatives. From each sector sample leading companies have been chosen. The total sample consists of thirty listed companies from different sectors. The sample companies are those listed on Bombay Stock Exchange (BSE) as on March, 2013. The selection of these companies is made on the ground that they are big players in respective sectors and their scripts influence the decision of investors to invest.

2.3 Source of Data: The research is based on the secondary data of publically listed company's annual report obtained from the official websites of the selected companies. Also information have been obtained from PROWESS (Release 4.1) maintained by Delhi School of Economics and FMS, Delhi University.

2.4 Period of the Study: This study aims to judge the CG performance over a period of seven years (i.e. from the year 2005 to 2012) for selected Indian companies.

Section: 3 Data Collection And Analysis

Sector Wise Analysis (CG Index and Industry Average): For calculation of CG score set pattern of disclosure index has been used and total score has been calculated by allocating points to given parameters. In this section of the study, average score obtained by different industries over the period of seven years is shown and corporate governance index has been calculated to see the trend in the total CG score.

Average Score = Total Score of all the companies in the sector in one year/Total number of companies

Corporate Governance Index = Current year average/base year average (*) 100

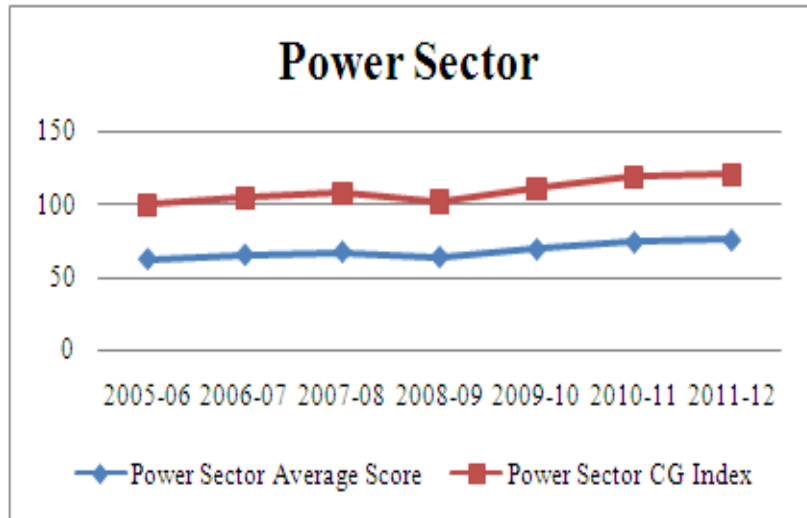
CG index represents the growth rate over the period of given time. With the help of CG index, it can be identified that by how much percentage the given score has changed. In the following tables and graphs, different sectors, average scores and CG index has been shown.

The selected CG index is the representative of extent of implementation of disclosure practices broadly classified in Group I disclosures, Board committee disclosures, Disclosure and transparency section, Stakeholder's interest and group II disclosures. The information provided by respective companies has been incorporated at the relevant places. The respective average scores and CG Index sector wise is shown in the following tables:

Power Sector CG Disclosure

Table – 1

Year	Average Score	CG Index
2005-06	62.22	100
2006-07	65.22	104.82
2007-08	67.33	108.21
2008-09	63.66	102.31
2009-10	69.22	111.25
2010-11	74.22	119.28
2011-12	75.77	120.17



Average Disclosure Score

And CG Index (2005-12)

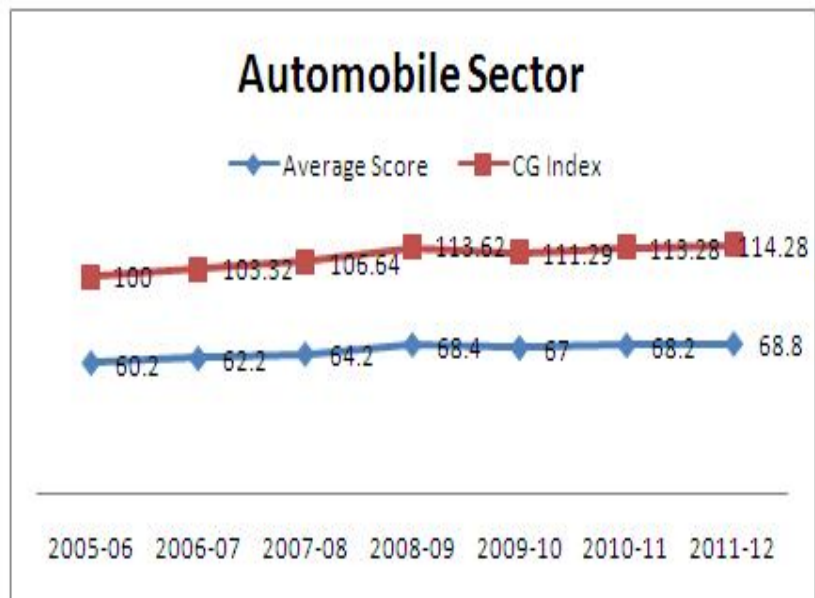
Table 1 and figure 1 is showing average CG score of power sector where nine companies from top BSE 30 have been taken. The average CG score of power sector is 62.22 and have increased up to 75.77 over the period of seven years and this increase is gradual except in the year 2008-09 when it has gone down. In this sector, it shows 20.17% increase over the period of seven years.

Figure – 1 (Power Sector Score Chart 2005-12)

Automobile Sector CG Disclosure

Table – 2

Year	Average Score	CG Index
2005-06	60.2	100
2006-07	62.2	103.32
2007-08	64.2	106.64
2008-09	68.4	113.62
2009-10	67	111.29
2010-11	68.2	113.28
2011-12	68.8	114.28



Average Disclosure Score

And CG Index (2005-12)

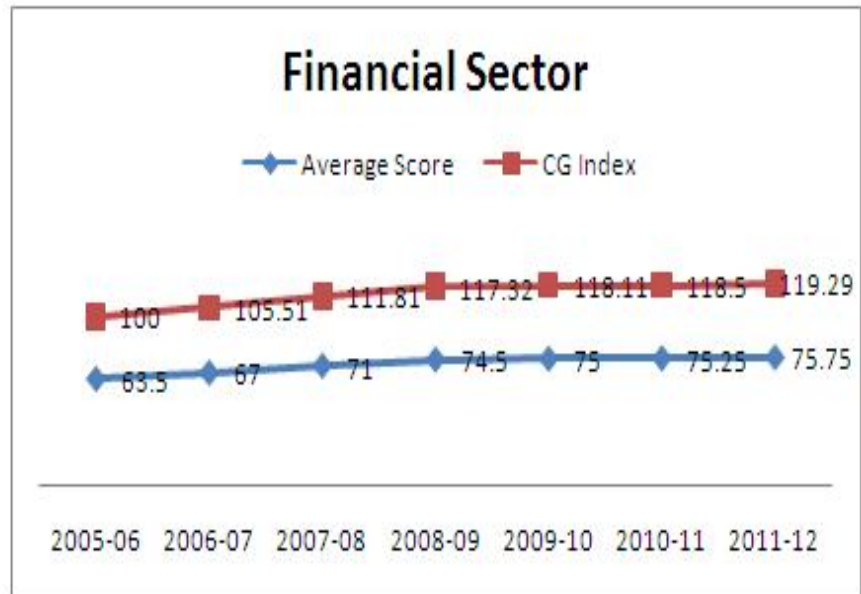
In the automobile sector, there is a steady increase over the given period where total increase over the seven year period is seen 14.28%. Also, in this sector, average of five leading companies has been taken into account, the change in the score is seen in the year 2008-09 and it remains stable for next four years.

Figure – 2 (Automobile Sector Score Chart 2005-12)

Financial Sector CG Disclosure

Table – 3

Year	Average Score	CG Index
2005-06	63.5	100
2006-07	67	105.51
2007-08	71	111.81
2008-09	74.5	117.32
2009-10	75	118.11
2010-11	75.25	118.5
2011-12	75.75	119.29



Average Disclosure Score

Figure – 3 (Financial Sector Score Chart 2005-12)

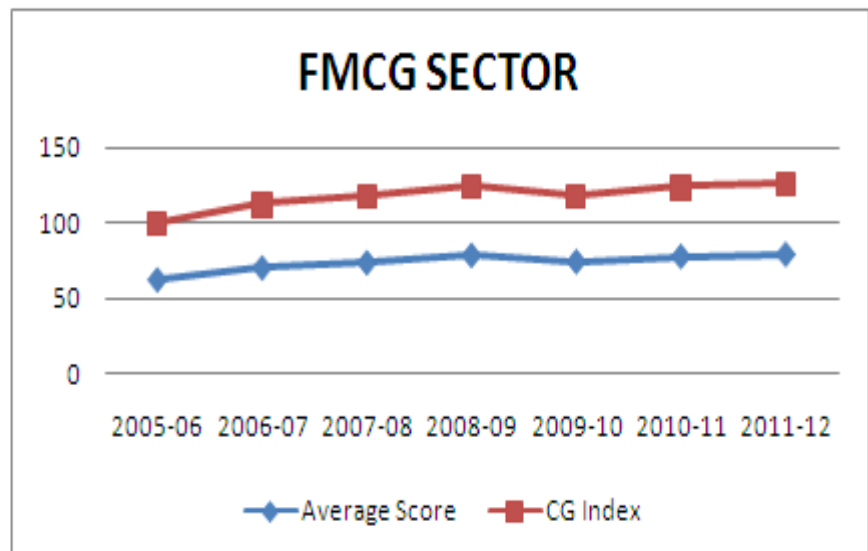
And CG Index (2005-12)

In the financial sector, the change in the CG score is more in the first three years i.e.; almost 6% increase in every year and afterwards the rate of increase is slow limited to 1 to 1.5% only. The overall increase/growth rate is 19.29% over the period of selected seven years

FMCG Sector CG Disclosure

Table – 4

Year	Average Score	CG Index
2005-06	62.66	100
2006-07	70.33	112.24
2007-08	73.66	117.55
2008-09	78.33	125
2009-10	74.33	118.62
2010-11	77.66	123.93
2011-12	79	126.07



Average Disclosure Score

Figure – 4 (FMCG Sector Score Chart 2005-12)

And CG Index (2005-12)

Among all the sectors, this sector has shown the major increase over the period of seven years. The CG score for this sector has recorded the growth of more than 26% in the given period. These changes have shown a down trend in the year 2009-10 and further an increase in the next two years. Compared to the base year, this sector shows the major increase

Pharmaceutical Sector CG Disclosure

Table - 5

Year	Average Score	CG Index
2005-06	59.33	100
2006-07	64.66	108.98
2007-08	59.33	100
2008-09	60.33	101.68
2009-10	63	106.18
2010-11	62.66	105.61
2011-12	64	107.87

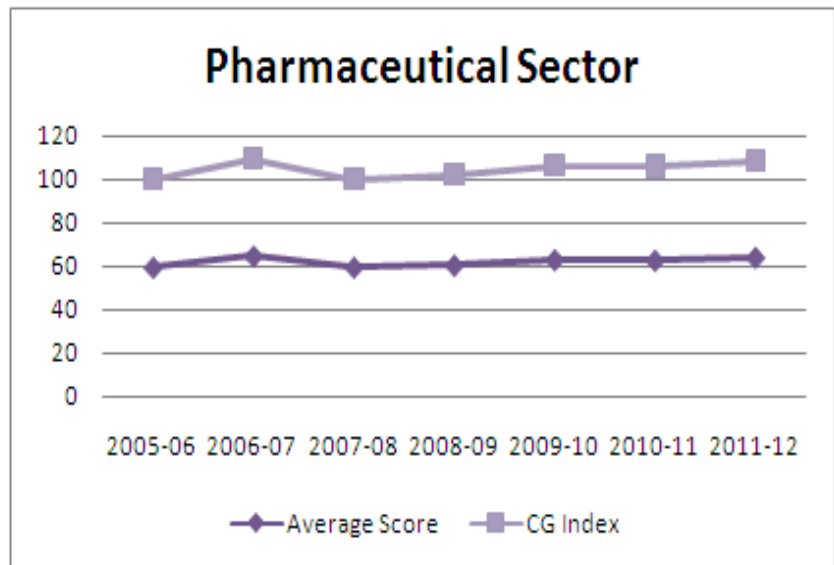


Figure - 5 (Pharmaceutical Sector Score Chart 2005-12)

Average Disclosure Score

And CG Index (2005-12)

In the pharmaceutical sector, top three companies from BSE 30 have been taken into account. In this sector respective growth rate is around 8% over the period of seven years. It is seen that there is increase in the second year but, gain it fell down and then increased slowly over the period of seven years.

Information Technology Sector CG Disclosure

Table - 6

Year	Average Score	CG Index
2005-06	69	100
2006-07	66	95.65
2007-08	74.66	108.2
2008-09	80.33	116.42
2009-10	77	111.59
2010-11	79.33	114.97
2011-12	78	113.04

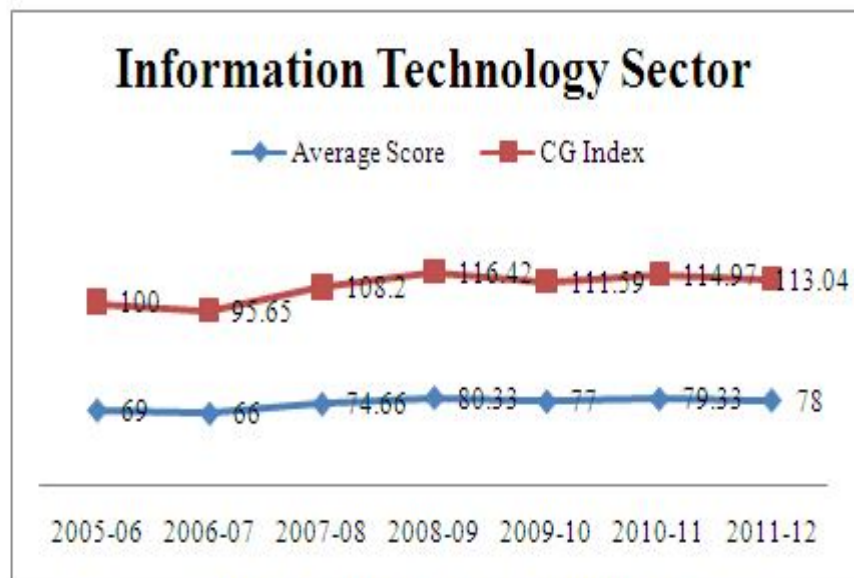


Figure - 6 (IT Sector Score Chart 2005-12)

Average Disclosure Score

And CG Index (2005-12)

In IT sector, top three leading companies have been taken as representative companies. The CG score shows a decreasing trend in the second year 2006-07 and fifth year 2009-10. Overall increase of 13% is seen in the growth rate during the period of given seven years.

Construction Sector CG Disclosure

Table – 7

Year	Average Score	CG Index
2005-06	54.5	100
2006-07	55	100.9
2007-08	54.5	100
2008-09	61	111.92
2009-10	65	119.26
2010-11	71	130.27
2011-12	67	122.93

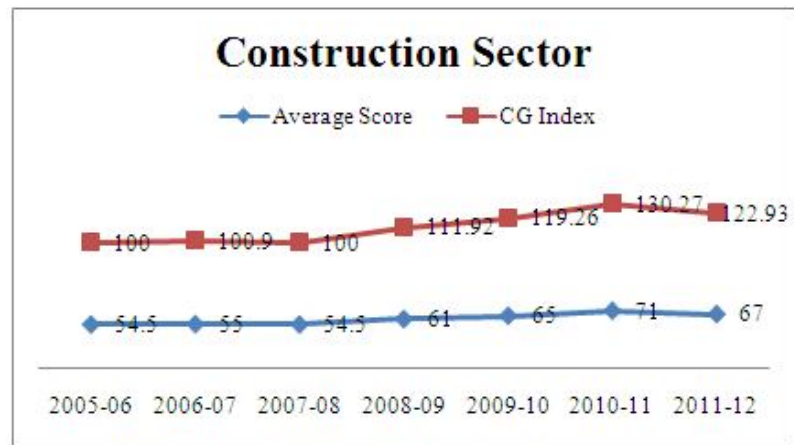


Figure – 7 (Power Sector Score Chart 2005-12)

Average Disclosure Score

And CG Index (2005-12)

The growth rate change in the construction sector over the given period is high i.e. 23% approximately. This change in the growth rate is seen after 2007-08 from where the increasing trend continued for three years and then again a downfall was there in the year 2011-12. More detailed study can be done to observe the changing behaviour in the growth rate in the given period.

Telecom Sector CG Disclosure

Table – 8

Year	Average Score	CG Index
2005-06	59	100
2006-07	65	110.1
2007-08	72	122
2008-09	74	125
2009-10	70	118
2010-11	77	130
2011-12	76	128.81

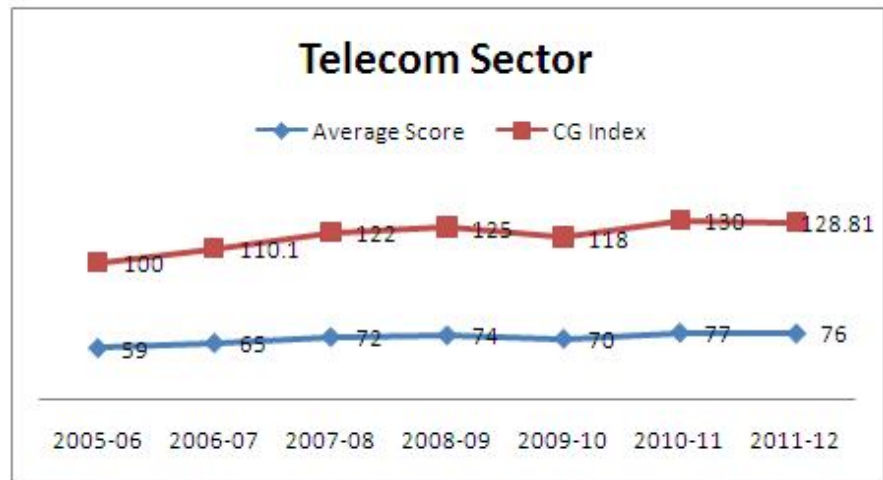


Figure – 8 (Power Sector Score Chart 2005-12)

Average Disclosure Score

And CG Index (2005-12)

As a sample selection of BSE 30 as on March 2013, comprises of only one company of this sector. The comparison has not been done in terms of growth rate. In this case, the company is showing the highest increased value as compared to other sectors but being an individual company its impact has not been compared with the other sectors.

3. Conclusion

To summarise the discussion of all the sectors it is seen that there is increase in the average score and in CG index as well in case of all the companies. In power sector, this increase is 20% following an increasing pattern in first and last three years with a downfall in the fourth year. In case of automobile sector this increase was near 14%. Financial sector comprises four companies and showing CG score increase almost 20%. FMCG sector is showing the highest increase of 26% as compare to all other sectors. The increase is seen all over the years except 2009-10. however the pharmaceutical sector records the lowest % increase over the seven years restricted to 7% only. In Information technology sector, the overall growth rate is near 13% but the change is in fluctuating pattern all over the seven years. In case of construction sector in the year 2005-06, the average score is considered the lowest among all the given sectors; however the CG index has followed the increasing trend all over the years and recorded the growth rate of 22%. At the end telecom

sector is represented by only one company in the sector so it is not compared with other sectors, though it is showing increase more than 28 % as per given CG index.

After studying the reports of the selected companies for the selected seven years the following important points have been observed:

- Information related to mandatory norms is same over the years and the same form of minimum information has been presented in the reports over the given period of time. After 2008 some changes have been observed in way of presenting the required information. These changes incorporated in form of improved presentation and more details about different parameters.
- Most of the companies are following same pattern, same information over a period of time, no effort is seen in terms of any improvement.

From the given regulatory parameters the following details of corporate governance practices seems to be more appropriate:

- ✚ Regulatory directives are not sufficient to create a transparent organisation. It need to go beyond regulatory compliances and to adopt a culture and process of self-regulation.
- ✚ CG practices refers to the blend of law, regulation and voluntary practices that helps the organisation to perform efficiently and ethically by taking care of interest of all stakeholders and respect for the interest of the society as a whole. It has been observed during the study that companies focus have been shifted to the stakeholders interest disclosures over the years. The importance of voluntary practices has been recognized with high business ethics, effective supervision and enhancement of value of all stakeholders. Innovation and customer convenience has got importance over a period of time and has become an integral part of CG practices.

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