Effectiveness of Various Aspects Of Corporate Governance – A Survey

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ABSTRACT
The Companies Act, 1956 is the principal landmark legislation that governs companies in India. The Act prescribes provisions for protection of the interests of the investors, creditors and public at large but at the same time permits the management to utilize its resources for optimum results and prosperity. In the functioning of corporate sector, along with freedom of operation of companies, protection of investors and shareholders are considered equally important. The Companies Act enables a statutory platform for essential Corporate Governance requirements essential for functioning of the companies with transparency and accountability, recognizing and protecting the interests of various stakeholders. In response to the changing business environment, the Companies Act, 1956 has been amended from time to time so as to provide more transparency in corporate governance and protect the interests of small investors, depositors and debenture holders, etc. Corporate Governance is the mechanisms by which the values, principles, policies and procedures of a corporation are inculcated and manifested. The Companies Act, 1956 has been amended from time to time in response to the demands of the corporate sector and sometimes to plug the holes detected by the administration in enforcing various provisions. The recent amendments constitute a good step towards improving corporate governance in this country.

Key Words: Company Law Reforms, Corporate Governance, Companies Act, Stakeholders

INTRODUCTION
The Companies Act, 1956 is the principal landmark legislation that governs companies in India. The Act prescribes provisions for protection of the interests of the investors, creditors and public at large but at the same time permits the management to utilize its resources for optimum results and prosperity. The corporate status of a business venture has led to the evolution of innovative culture in the field of economic development the world over. In the functioning of corporate sector, along with freedom of operation of companies, protection of investors and shareholders are considered equally important. The Companies Act enables a statutory platform for essential Corporate Governance requirements essential for functioning of the companies with transparency and accountability, recognizing and protecting the interests of various stakeholders. In response to the changing business environment, the Companies Act, 1956 has been amended from time to time so as to provide more transparency in corporate governance and protect the interests of small investors, depositors and debenture holders, etc.

Corporate Governance is the mechanisms by which the values, principles, policies and procedures of a corporation are inculcated and manifested. The essence of Corporate Governance lies in promoting and maintaining integrity, transparency and accountability in the higher echelons of management. Corporate governance is a system by which companies are directed and controlled and thus brought into sharp focus the role of board, shareholders and management. Corporate governance today is a strategic necessity where focus is on quality of governance. Corporate Governance practices have emerged as an integral element for doing business. It is not only a pre-requisite for facing intense competition for sustainable growth in the emerging global market scenario but is also an embodiment of the parameters of fairness, accountability, disclosures and transparency to maximize value for the stakeholders. Corporate Governance brings about equilibrium between the expectations of the owners, employees, customers and all other stakeholders. It builds continuing bonds with shareholders, employees, investors, depositors, borrowers, suppliers, customers and business constituents. Corporate Governance extends beyond corporate law. It fundamental objective is not mere fulfillment of the requirements of law but in ensuring commitment of the Board in managing the company in a transparent manner for maximizing stakeholder value. The real onus of achieving desired levels of Corporate Governance lies with corporate themselves and not in external measures. The Companies Act, 1956 has been amended from time to time in response to the demands of the corporate sector and sometimes to plug the holes detected by the administration in enforcing various provisions. The recent amendments constitute a good step towards improving corporate Governance in this country.
STATEMENT OF THE PROBLEM
Modern economy is witnessing the dominant role being played by companies as an important vehicle to accelerate the process of development. As the companies become a vehicle to accelerate the process of change, the company law, regulating and governing the behavior of the companies itself is undergoing major transformation world over. The company law in India has been undergoing a phase of transitions over the last 25 years. More than a dozen major legislative initiatives have been introduced or attempted in Indian company law, the prime mover for this high level of company laws reforms process has been the changing corporate landscape and internationalization of business. With the initiation of market oriented policies in July 1991, the government has expedited the process to modify the company law in like with policy objectives and to harmonize it with the international developments.

OBJECTIVES OF THE STUDY
1. To examine the key provisions of the present company law pertaining to Corporate Governance.
2. To elicit the opinions of the sample respondents (Professionals) about the effectiveness of various aspects of Corporate Governance.

NEED FOR THE STUDY
The reforms in company law has given an impetus to corporate governance frame work and related issues, which are not only important for companies to gain credibility and trust but also as part of their strategic management for survival, consolidation and growth in the emerging knowledge economy. Directors / Company Secretary’s are now encouraged to use the electronic media in a wider and cost effective way to provide information beyond the mandatory disclosure. There are also strong influences of institutional investors, pressing for more transparency, accuracy, authenticity in corporate reporting and governance structures of companies they invest. The regulators are also keeping pace with the expectation of the capital markets with the reforms in regulation in order to enhance investor confidence.

In a globally competitive and technology driven business environment, while corporates require greater autonomy of operation and opportunity for self-regulation with optimal compliance costs, there is a need to bring about transparency through better disclosures and greater responsibility on the part of corporate owners and managements for improved compliance. It is also increasingly being recognized that the framework for regulation of corporate entities has to be in tune with the emerging economic scenario, encourage good corporate governance practices and enable protection of the interests of the investors and other stakeholders. The present study examines how far the Company Law Reforms with regard to Corporate Governance really improve the effectiveness of corporations and their accountability to ensure good Corporate Governance and enlarge investor protection.

HPOTHESES
- There is no significant difference between the respondents in different age group in the respect of their agreeability on the various aspects relating to general information on Corporate Governance.
- There is no significant difference between the respondents in different Gender group in the respect of their agreeability on the various aspects relating to general information on other Corporate Governance.
- There is no significant difference between the respondents in different Qualification group in the respect of their agreeability on the various aspects relating to general information on Corporate Governance.

METHODOLOGY
In view of the nature of data collected from the sample of respondents and from the secondary sources presented in this research report ‘descriptive research’ is considered to be the most appropriate for the present study. Hence the study is descriptive and analytical. The research problem and interview schedule have been formulated and framed accordingly. The suggestions of the study emerge from the inference drawn from the sample survey of the respondents in Tamil Nadu state and their opinions.

Selection of Sample
To obtain the views of experts in Company Law, a sample of 200 respondents were chosen which includes Company Secretaries in whole-time employment, Company Secretaries in Practice, Chartered Accountants and experts in law from Tamilnadu. Area sampling technique was followed to select the respondents from Chennai, Madurai, Coimbatore, Salem and Trichirapalli.

PRIMARY DATA
The present study is an empirical one based on sample survey method. The data required for the study were collected through a structured Interview Schedule.

SECONDARY DATA
The study also depended on secondary data. The data relating to legal aspects were collected from bare Acts, standard textbooks on Company Law, business
Journals, newspapers, reports from Ministry of Corporate Affairs, SEBI.

GEOGRAPHICAL AREA
The State of Tamil Nadu has been chosen for the study. It is one of the two States having two Registrar of Companies in India in view of large number of companies located in these two States. Areas were chosen based on the concentration of companies in the State.

DATA ANALYSIS
The analysis of data of the study is presented based on the response of 200 respondents selected from Tamil Nadu. The response of the respondents was analyzed using the following tools in tune with the objectives of the study.

- Percentage Analysis
- Chi-Square Analysis
- Five Point Scaling Technique
- Analysis of Variance
- Average Score Analysis

DATA ANALYSIS AND INTERPRETATION

Percentage Analysis
The Table 1 describes the distribution of the respondents based on their agreeability towards various aspects relating to general information on corporate governance.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Aspects</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness.</td>
<td>119 (59.5)</td>
<td>72 (36)</td>
<td>4 (2)</td>
<td>5 (2.5)</td>
<td>0 (0)</td>
</tr>
<tr>
<td>2</td>
<td>There is substantial erosion of trust of investors and regulators which forces companies to adopt good governance principles.</td>
<td>65 (32.5)</td>
<td>96 (48)</td>
<td>24 (12)</td>
<td>15 (7.5)</td>
<td>0 (0)</td>
</tr>
<tr>
<td>3</td>
<td>Postal Ballot System for certain resolutions has been made mandatory for listed companies for effective participation of shareholders for good governance.</td>
<td>87 (43.5)</td>
<td>88 (44)</td>
<td>17 (8.5)</td>
<td>6 (3)</td>
<td>2 (1)</td>
</tr>
<tr>
<td>4</td>
<td>It is necessary in the interest of good corporate governance practice that notice of a board meeting contains an agenda and the directors are provided with a detailed explanatory notes.</td>
<td>101 (50.5)</td>
<td>92 (46)</td>
<td>4 (2)</td>
<td>3 (1.5)</td>
<td>0 (0)</td>
</tr>
<tr>
<td>5</td>
<td>Limiting the number of Directorship’s of an individual paves way for good corporate governance.</td>
<td>91 (45.5)</td>
<td>75 (37.5)</td>
<td>24 (12)</td>
<td>8 (4)</td>
<td>2 (1)</td>
</tr>
<tr>
<td>6</td>
<td>There is a pressing need of coordination between the Ministry of Corporate Affairs and SEBI in regard to matters relating to corporate governance.</td>
<td>88 (44)</td>
<td>93 (46.5)</td>
<td>18 (9)</td>
<td>1 (0.5)</td>
<td>0 (0)</td>
</tr>
<tr>
<td>7</td>
<td>Whistle Blowing is a tool for improved corporate governance.</td>
<td>56 (28)</td>
<td>82 (41)</td>
<td>44 (22)</td>
<td>17 (8.5)</td>
<td>1 (0.5)</td>
</tr>
</tbody>
</table>

Note: The value given in brackets are in Percentage
Source: primary data

It is found from the Table that 119 (59.5%) of the respondents strongly agree towards “Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness” followed by and 101(50.5%) towards “It is necessary in the interest of good corporate governance practice that
notice of a Board meeting contains an agenda and the directors are provided with a detailed explanatory notes.” and 91 (45.5%) towards Limiting the number of Directorship’s of an individual paves way for good corporate governance. “so on relating to general information on corporate governance.

It is concluded that majority (59.5%) of respondents strongly agree towards “Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness” on general information on Corporate Governance.

It is concluded that majority (59.5%) of respondents strongly agree towards “Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness” on general information on Corporate Governance.

**Chi- Square Analysis**

**Personal factors and General Information on Corporate Governance**

Hypothesis: The personal factors of the respondents have no significant influence on the agreeability relating to various aspects on general information on Corporate Governance.

The Table 2 describes the personal factors, Chi-square values, p values and their significance on the agreeability relating to general information on Corporate Governance.

<table>
<thead>
<tr>
<th>Personal Factors</th>
<th>Chi-square values</th>
<th>P values</th>
<th>Significant / Not significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (yrs)</td>
<td>3.842</td>
<td>0.871</td>
<td>NS</td>
</tr>
<tr>
<td>Gender</td>
<td>4.767</td>
<td>0.312</td>
<td>NS</td>
</tr>
<tr>
<td>Position</td>
<td>2.439</td>
<td>0.965</td>
<td>NS</td>
</tr>
<tr>
<td>Experience</td>
<td>1.32</td>
<td>0.517</td>
<td>NS</td>
</tr>
<tr>
<td>Monthly Income (Rs.)</td>
<td>7.963</td>
<td>0.241</td>
<td>NS</td>
</tr>
<tr>
<td>Profession</td>
<td>10.64</td>
<td>0.386</td>
<td>NS</td>
</tr>
</tbody>
</table>

S-Significant (p values ≤ 0.05) NS- Not Significant (p values ≥ 0.05)

It is found from the Table 2 that the hypothesis is accepted (Not Significant) in all the cases. It is concluded that the respondents have no significant influence in the agreeability towards the general information on corporate governance.

**ANALYSIS OF VARIANCE**

The technique of analysis of variance is the extension of t-test used to test the equality of several means. In this study this technique is employed to test whether there exists any significant difference between the respondents on each category in respect of response of the respondents relating to Company Law Reforms in India.

**AGE**

**GENERAL INFORMATION ON CORPORATE GOVERNANCE**

HYPOTHESIS: There is no significant difference between the respondents in different age group in the respect of their agreeability on the various aspects relating to general information on Corporate Governance.

The Table given below describes the results of ANOVA in terms of source of variations, sum of squares, degrees of freedom, mean sum of squares, F ratio and its significance in respect of awareness of the respondents in the different age group relating to general information on Corporate Governance.

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>Sum Of Squares</th>
<th>Degrees of Freedom</th>
<th>Mean Sum of Squares</th>
<th>F Ratio</th>
<th>P Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>17.600</td>
<td>4</td>
<td>4.400</td>
<td>0.427</td>
<td>0.789</td>
</tr>
<tr>
<td>Within Groups</td>
<td>2009.355</td>
<td>195</td>
<td>10.304</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2026.955</td>
<td>199</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

S – Significant (P Value < 0.05) ; NS – Not Significant (P Value > 0.05)

It is found from the Table 3 that the hypothesis is accepted (Not Significant)

It is concluded that there is no significant difference between the respondents in different age group in the respect of their agreeability on the various aspects relating to general information on Corporate Governance

**GENDER**

**GENERAL INFORMATION ON CORPORATE GOVERNANCE**

HYPOTHESIS: There is no significant difference between the respondents in different Gender group in the respect of their agreeability on the various aspects relating to general information on Corporate Governance.

The Table given below describes the results of ANOVA in terms of source of variations, sum of squares, degrees of freedom, mean sum of squares, F ratio and its significance in respect of awareness of the respondents in the different Gender group relating to general information on Corporate Governance.
The Table 4 describes the results of ANOVA in terms of source of variations, sum of squares, degrees of freedom, mean sum of squares, F ratio and its significance in respect of awareness of the respondents in the different gender group relating to general information on other Corporate Governance.

Table 4: Results of ANOVA – General information on Corporate Governance - Gender

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>Sum Of Squares</th>
<th>Degrees of Freedom</th>
<th>Mean Sum of Squares</th>
<th>F Ratio</th>
<th>P Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>14.292</td>
<td>1</td>
<td>14.292</td>
<td>1.406</td>
<td>0.237</td>
</tr>
<tr>
<td>Within Groups</td>
<td>2012.663</td>
<td>198</td>
<td>10.165</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2026.955</td>
<td>199</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

S – Significant ( P Value < 0.05) ; NS – Not Significant ( P Value > 0.05 )

It is found from the Table 4 that the hypothesis is accepted (Not Significant)
It is concluded that there is no significant difference between the respondents in different Gender group in the respect of their agreeability on the various aspects relating to general information on Corporate Governance.

QUALIFICATION GENERAL INFORMATION ON CORPORATE GOVERNANCE
HYPOTHESIS: There is no significant difference between the respondents in different Qualification group in the respect of their agreeability on the various aspects relating to general information on other Corporate Governance.

The Table 5 describes the results of ANOVA in terms of source of variations, sum of squares, degrees of freedom, mean sum of squares, F ratio and its significance in respect of awareness of the respondents in the different qualification group relating to general information on other Corporate Governance.

Table 5: Results of ANOVA – General Information on Corporate Governance - Qualification

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>Sum Of Squares</th>
<th>Degrees of Freedom</th>
<th>Mean Sum of Squares</th>
<th>F Ratio</th>
<th>P Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>84.426</td>
<td>5</td>
<td>16.885</td>
<td>1.675</td>
<td>0.140</td>
</tr>
<tr>
<td>Within Groups</td>
<td>3327.000</td>
<td>330</td>
<td>10.082</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3411.426</td>
<td>335</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

S – Significant ( P Value < 0.05) ; NS – Not Significant ( P Value > 0.05 )

It is found from the Table 5 that the hypothesis is accepted (Not Significant)
It is concluded that there is no significant difference between the respondents in different Qualification group in the respect of their agreeability on the various aspects relating to general information on other Corporate Governance.

FINDINGS
The findings of the study are given below in a capsular form:
❖ Maximum (40%) of the respondents are in the position of top management.
❖ Majority (53%) of the respondents are in the experience category of 10-20 years.
❖ Maximum (48.5%) of the respondents are in the income group of Rs.50,000 and above
❖ Majority (59.5%) of respondents strongly agree towards “Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness” on general information on Corporate governance.
❖ The respondents have no significant influence in the agreeability towards the general information on corporate governance.
❖ There is no significant difference between the respondents in different age group in the respect of their agreeability on the various aspects relating to general information on Corporate Governance.

❖ Maximum of 35% respondents of each are in the age group of 30-40 and 40-50 years.
❖ Majority (82%) of the respondents are male.
❖ Most (44%) of the respondents have ACS qualification.
There is no significant difference between the respondents in different Gender group in the respect of their agreeability on the various aspects relating to general information on Corporate Governance.

There is no significant difference between the respondents in different Qualification group in the respect of their agreeability on the various aspects relating to general information on Corporate Governance.

The majority of the respondents have given very high level of agreeability towards “Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness” and low level of agreeability towards “Whistle Blowing is a tool for improved corporate governance”

CONCLUSION
The Companies Act, 1956 has been amended from time to time in response to the demands of the corporate sector and sometimes to plug the holes detected by the administration in enforcing various provisions. If appropriate improvements in administration, especially in the attitude of officials and computerization of records are brought about, India can really boast of having conducive conditions for good and sound corporate governance, which will no doubt attract large investments both from within the country and abroad. Thus, the Companies Act, 1956 in India, is always a step ahead of other corporate and economic legislations towards ensuring the good corporate Governance in the liberalized global economy. The recent amendments constitute a good step towards improving corporate governance in this country.

BIBLIOGRAPHY