



## AWARENESS OF INVESTOR TOWARDS CORPORATE GOVERNANCE

DR. NIDHI SHARMA\*; MISS. URVASHI GHAI\*\*

\*Reader, Department Accountancy & Law, Faculty of Commerce,  
Dayalbagh Educational Institute, Agra.

\*\*Research Scholar, Department Accountancy & Law, Faculty of Commerce,  
Dayalbagh Educational Institute, Agra.

### ABSTRACT

*Governance provides a roadmap for a corporation helping leaders of a company make decision based on the rules of law, benefits to stakeholders and practical process. It allows a company to set realistic goals and methodologies for attaining these goals. The fundamental objective of corporate governance is to enhance shareholders' value and protect the interests of other stakeholders by improving the corporate performance and Accountability. Hence, corporate governance based largely on trust – the trust by stakeholders, that revenue will be fairly shared and that those directly involved in running of the company.*

**KEYWORDS:** *Corporate Governance Practices, Empirical Study, SEBI's Clause 49, Listing Agreement, check list.*

### INTRODUCTION

Governance refers to the system of directing and controlling an organization. Thus, corporate governance is to find a way to maximize wealth creation over time. It leads to provide appropriate direction or set the goal for the company/organization through more transparency and disclosure of relevant facts and figures etc.

Corporate governance has been the most widely used term now days in corporate but it is more difficult to define good governance in the era of globalization. In addition to, the need for good corporate governance effective corporate management that includes a fair, efficient and transparent activities of companies to meet certain well defined targets, with a view to achieve long term strategic goal to satisfy shareholders, creditors and suppliers etc and it also complying with the legal and regulatory requirements. Basic philosophy of corporate governance is to achieve business excellence and enhance shareholder-value, while keeping

in view the need to balance the interests of all stakeholders. Corporate Governance enhances the reputation of a company and attracts the more investors. Therefore, it increases the market value of the company's share. It is also require form the point of view of investors and shareholders that they should be aware about the corporate governance practices prevailing in the company in which they are investing their funds, corporate governance is mandatory as per the SEBI Clause-49, and the on of the main aim of this clause is protection of the investors' interest. Corporate governance should have certain listed agreements such as Board of Directors' should be properly structure and consist of knowledge and experienced persons, Auditors should have act independently and professionally as well as company's shareholders should recognize the fact that they have to take a lead in protecting their interest. Therefore, there is a need to study that how much the investors are aware about the corporate governance practices as per the norms of SEBI, Clause-49. Then, only the usefulness of this clause can be estimated.

## **REVIEW OF LITERATURE**

Some studies have already been conducted in India and abroad covering different aspects of corporate governance practices in different fields. A brief overview of these studies has been given here in this section: J. Wolfensohn, June 21, 1999, conducted the study titled; "Corporate Governances about Promoting Corporate Fairness, Transparency and Accountability" according to analysis of data, the need of transparency & accountability of Board of Directors towards its share holders & investors cannot be ignored.<sup>1</sup> D, C. Hambrick, March 1999, conducted the study titled, "The Principle of Corporate Governance" according to analysis of data the researcher concluded that, the short term satisfaction of the shareholder that requires the contribution of all the other stakeholders, who in the long run, would create value for the company, be taken into accounts.<sup>2</sup> Y. V. Reddy, & R. W. Rebell 2007 the study titled, "Corporate Governance under Clause 49" the researcher attempts to identify and appreciate the relationship between corporate earnings, interest rate and market price. This study carried out on selected stocks which are actively traded on National Stock Exchange.<sup>3</sup>

## **OBJECTIVE OF STUDY**

The present paper is an attempt to analyze the investors' awareness towards Corporate Governance through check list as adopted by selected Indian IT companies as per the norms/guidelines of SEBI Clause-49 (as the listing agreements).

## **DATA COLLECTION AND METHODOLOGY**

The analysis for governance practices have been studied for the year 2008-09. This period of study has been taken as the period after the revised Clause 49. The information was gathered from both types of data, primary data i.e. from 60 respondents (self-constructed Questionnaire) and secondary data i.e. from Annual Reports of the companies and also the

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1J.Wolfensohn: "Corporate Governances about Promoting Corporate Fairness, Transparency and Accountability financial time U.K. June 21, 1999

2 D,C.Hambrick: "the principle of corporate governance" academy of management journal. USA

3 .Reddy Y.V., Rebell R.W.,"Corporate Earnings and Stock Returns"Indian Accounting Association,vol..xxxvii(2)-june 2007

websites of the companies, the national stock exchange and the Annual reports of the companies were used for the analysis. A Check list is also prepared to check the corporate governance practices based on selected information. On the other hand, the study has used some statistical techniques of Null hypothesis and Chi-square test. Null Hypothesis testing are carried out on the basis of investors' awareness regarding corporate governance of IT sector of India, that comes more in issues after the Satyam scam and investors become more possessive about it. Therefore, the study has constructed the following Null Hypothesis (Ho); Investors & Customers are Aware towards Corporate Governance.

To verify the results scientifically null hypothesis have tested with the help of Chi-Square test to determine the validity of the assumption, Chi-square has applied and has been made under the following formula: -

$$\chi^2 = \sum \frac{(O-E)^2}{E} \quad - (I)$$

Where,

O = Observed frequency

E = expected or theoretical frequency.

### **SELECTION OF SAMPLE**

For the purpose of the study four IT Companies have been selected on the basis that these companies have more than Fifty- Hundred crores turn over in every year and listed in stock exchange.

### **ANALYSIS AND FINDINGS**

Governance is the acceptance by management of the inalienable rights of shareholders as the true owners of their corporation and to enhance investors' value and to protect their interest through improving the corporate performance and accountability. Investors are looking for newer areas and avenues for investing their funds with the safety of their funds rather than high returns.

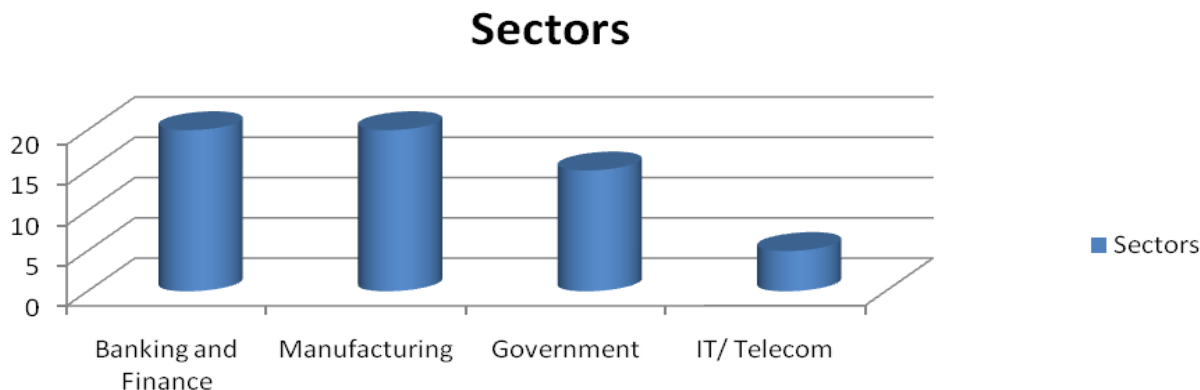


**INVESTOR SURVEY**

Survey was conducted with 60 respondents of the both genders across a variety of employment sectors using information technology. The questionnaire was designed to investigate investors’ perception towards corporate governance and the role of corporate governance in enhancing the companies. The backgrounds of respondents are mentioned below:

**TABLE: 1 RESPONDENTS’ BACKGROUND**

Employed at (Sector):	Actual %
Banking and Finance	20
Manufacturing	20
Government	15
IT/ Telecom	5
Total	60



After findings the result of Investor survey, To verify the results scientifically null hypothesis have tested with the help of Chi-Square test to determine the validity of the assumption to arranging the observed and expected frequency in the following table:

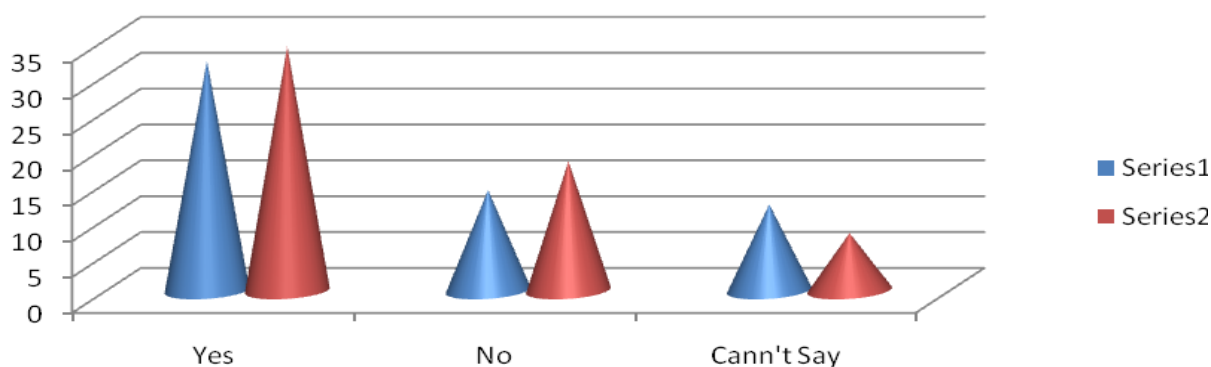
**TABLE: 2 SCIENTIFICALLY RESULTS OF NULL HYPOTHESIS**

O	E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> / E
32	33	1	.03
34	33	1	.03
16	15	1	.06
14	15	1	.06
12	12	0	0
12	12	0	0
$\Sigma(O-E)^2 / E$			0.18

Ho. - Corporate governance is useful for investors & customers.

The Table of  $\chi^2$  for 2 d.f. at 5% level of significance is 7.81 and calculated value is 0.18. The calculated value of  $\chi^2$  is less than the table value. Therefore, the null hypothesis is accepted. Hence, we conclude that Investors & Customers are Aware towards Corporate Governance.

**TABLE: 3 RESPONDENTS' SURVEY RESULTS**



Effective corporate governance is the means which ensures investors' ownership of a company. Investors are looking for newer areas and avenues for investing their funds with the safety of their funds rather than high returns. Therefore strong and ethical corporate Governance is for the development of capital markets and is an important instrument of investors' confidence. A renewed focus on independent- audit, transparency and monitoring

will restore investor's confidence and obviate the need for legal regulatory interventions. Therefore Corporate Governance mainly consists of two elements:

- A Long-term relationship, which has to deal with internal stakeholders (promoters, members, workmen and executives) and External stakeholders (customers, lenders, vendors, bankers, community, Government and regulators).
- A transactional relationship involving to disclosure and authority.

**TABLE:4 CHECK LIST OF CORPORATE GOVERNANCE PRACTICES IN SELECTED IT COMPANIES**

Description	CNC Ltd.			FTS Ltd.			HCL Tech Ltd.			Hinduja TMT Ltd.		
APPLICABILITY	Y	N	NA	Y	N	NA	Y	N	NA	Y	N	NA
Whether the company is seeking listing for the first time?	✓	✗	✗	✓	✗	✗	✓	✗	✗	✓	✗	✗
Whether company is an existing listed one having paid up share capital of Rs.3 crores or net worth of Rs.25 crores at any time in the history of the company?	✓	✗	✗	✓	✗	✗	✓	✗	✗	✓	✗	✗
<b>BOARD OF DIRECTORS</b>												
<b>A. COMPOSITION OF THE BOARD</b>												
Is the ratio of non executive directors to executive directors fifty percent or more?	✓	✗	✗	✓	✗	✗	✓	✗	✗	✓	✗	✗
Whether the Chairman of the Board is a non-executive director?	✓	✗	✗	✗	✓	✗	✗	✓	✗	✗	✓	✗
<b>B. COMPENSATION OF NON-EXECUTIVE DIRECTORS'</b>												
Whether the Board of Directors have fixed any remuneration for non-executive and independent directors?	✗	✓	✗	✗	✓	✗	✗	✓	✗	✓	✗	✗
<b>C. MEETING OF BOARD</b>												
Had there been atleast four meetings of board during the	✓	✗	✗	✓	✗	✗	✓	✗	✗	✓	✗	✗

year?												
<b>D. CODE OF CONDUCT</b>												
Has the company laid down the “Code of conduct” for Board members and senior management?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
Whether the “Code of conduct” is posted on the website of the company?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
<b>AUDIT COMMITTEE</b>												
<b>A. COMPOSITION OF THE COMMITTEE</b>												
Does the committee have atleast three directors as members?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
Whether two-thirds of the members are independent directors?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
Whether the Chairman of the committee is an independent director?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
Did he answer shareholders queries?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
<b>B. MEETING OF COMMITTEE</b>												
Whether the committee has met regularly with the time gap between two meetings not more than four months?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
<b>E. DISCLOSURES</b>												
Whether the following disclosures have been made?												
1. Related party transactions	✓	x	x	✓	x	x	✓	x	x	✓	x	x
2. Accounting treatment	x	✓	x	✓	x	x	✓	x	x	✓	x	x
3. Risk management	✓	x	x	✓	x	x	✓	x	x	✓	x	x

4. Remuneration of directors	✓	x	x	✓	x	x	✓	x	x	✓	x	x
5. Management	✓	x	x	✓	x	x	✓	x	x	✓	x	x
<b>F.SHARE HOLDERS</b>												
Has the company been provided in notice/ Annual Report relating to appointment or re-appointment of a director	✓	x	x	✓	x	x	✓	x	x	✓	x	x
Has the company put the quarterly results and / or presentations made to the analyst, on the company's web-site?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
Has the committee considered investors complaint?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
<b>G. COMPLIANCE</b>												
Has company disclosed the compliance of mandatory requirements in corporate governance report?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
Has company disclosed the non mandatory requirements in corporate governance report?	x	✓	x	✓	x	x	x	✓	x	x	✓	x
Has the company submitted a quarterly compliance report duly signed by the compliance officer?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
Whether a separate section on corporate governance is provided in the Annual Report?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
Whether a detailed compliance report on corporate governance is included in Annual Report?	✓	x	x	✓	x	x	✓	x	x	✓	x	x
<b>CEO/CFO CERTIFICATION</b>												
Whether the company has certified with CEO/CFO certificate?	✓	x	x	✓	x	x	✓	x	x	✓	x	x



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