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Empirical Analysis of Corporate Governance Practice among ITC Ltd.

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Abstract: It is the increasing role of foreign institutional investors (FIIs) in the emerging economics that has made the concept of corporate governance a relevant issue today. In the increasing close interaction of the economies of different countries lies the process of globalization. The increasing concern of FII's is that the enterprise in which they invest should not be effectively managed but should also observe the principle of corporate governance. The failure of corporate due lack of transparency, disclosure, and instances of falsification of accounts, and the effect of such undesirable practice in other companies has made this study the needful. The main objective of this study is to identify the role of corporate governance in Indian FMCG Sector particularly focusing on ITC Company, for this purpose data of last 3 years are taken as sample. The study is based on secondary source of data which were collected from companies' annual reports giving a separate chapter from corporate governance. This research paper mainly focus on SEBI 49 Clause of Corporate Governance with different committee recommendation on Corporate Governance.

Keywords: Corporate Governance, SEBI 49 Clause.

I. MEANING AND IMPORTANCE OF CORPORATE GOVERNANCE

In Indian context, the need for corporate governance has been crucial because of the scam occurring frequently since the emergence of the concept of the concept of liberalization. The market conditions are increasingly becoming complex in the light of global development and removals of barriers in duties. Corporate Governance is important for the following reasons.

Corporate Governance as "an internal system encompassing policies, processes, and people, which servers the need of shareholder and other stakeholders, by directing and controlling management activities with good business savvy, objective and integrity. Sound corporate governance is reliant on external marketplace commitment with healthy board culture which safeguards policies and processes".

The Cadbury report was to establish corporate standards to control and reports the functions of boards and on the role of auditors. The reports reviewed those aspects of corporate governance that are specifically related to financial reporting and accountability and recommendations

- Corporate governance is the system by which companies are directed and controlled.
- Board of director are responsible for the governance of their companies
- The shareholder role in governance is appointed the directors and the auditors and to satisfy themselves that an appropriate governance structure is place to protect their interest.
- The responsibilities of board include setting the company 's strategic aims providing the leadership to put them into effect, supervising the management of business and reporting to shareholder on their stewardship
- The board sections are subject to laws regulations and the shareholder approval in general meeting.

Thus the report views the enterprise as an entity under the custodianship of the board and goes on to put forward the recommended codes for who should do what and how . SEBI guidelines on corporate governance Issued 2000 Clause 49 suggested measure to improve governance standards and has since played a vital role in corporate governance.

The five broad functional aspects addressed under Clause 49 of the Indian listing agreement are.

- Clarifies the criteria for in dependent directors.
- Enhance the roles and responsibilities of the board.
- Improves the quality and quantity of financial disclosures
- Consolidate the roles and responsibilities of audit committee in all matters relating to internal controls and financial reporting

- Enhance the accounting of top management specifically the CEO and CFO.

Listed here are the commonly accepted principles of corporate governance in terms of core management practices.

- Right and equitable treatment of shareholder
- Interest of other stakeholders
- Role and responsibilities of the board
- Integrity and ethical behavior
- Disclosure and transparency

II. THE BOARD- THE KEY TO GOOD CORPORATE GOVERNANCE

An effective board of directors is the key to good corporate governance. The board of directors constitutes the representatives of the shareholders and is expected to provide corporate leadership and strategic and competent guidance, independent of the management of the company. In India the board of directors generally comprises promoters, directors, professional directors and institutional nominated directors.

Board Constitution

1. The board should be composed of qualified individuals of integrity with diversity of experience. At a minimum, qualified means a good working knowledge of corporate finance.
2. Each board member should be able to devote sufficient time to her duties and responsibilities.
3. The board should compose of a substantial number of independent directors. The board should disclose their criteria for independence to their shareholders and stakeholders.
4. The Board committee on compensation, audit, and nomination should consist only of independent directors. The executive session of the board should also comprise only independent directors.
5. For family owned business, outside directors are essential to ask the hard questions to family owners, where the relationship between the business and family.

III. LITERATURE REVIEW

Gupta and Parua attempted to find out the degree of compliance of the corporate governance codes by private sector Indian companies listed in BSE. Data regarding1245 companies for the year 2004-05 was taken for the study from CG report of these companies and 21 codes were selected for study. The compliance rate of the CG was first tested individually for each company. Further the mean compliance rate and variation among the companies from mean compliance rate were also tested. It was observed that more than 70% of the sample companies comply with 80% or more of codes.

Vidhi Chhaochharia and Luc Laeven (2007) shows, governance provisions adopted by firms beyond those imposed by regulations and common practices among firms in the country have a strong, a positive effect on firm valuation. The study showed that, despite the costs associated with improving corporate governance at the firm level, many firms choose to adopt governance provisions beyond what considered the norm in the country, and these improvements in corporate governance have a positive effect on firm valuation.

Leora F. Klapper and Inessa Love (2002) of the World Bank showed that better corporate governance is highly correlated with better operating performance and market valuation. They provide the evidence that firm level corporate governance provisions matter more in countries with weak legal environments. The results suggest that firms can partially compensate for ineffective laws and enforcement by establishing good corporate governance and providing credible and investor protection.

IV. METHODOLOGY

1. Objective of the study:

1. To Study the Concept of Corporate Governance in FMCG Sector in India.
2. To Study to what extent selected company compliance with Corporate Governance Practice in India.
3. To study the guidelines issued by SEBI in the context of Corporate Governance Practice in India.

2. Source of Data:

This Research Paper "Comparative Analysis of Corporate Governance Practice among ITC & is based on secondary source of data which were collected from companies' annual reports giving a separate chapter from corporate governance. For this purpose of the research paper, one major player in FMCG sector ITC ltd was taken for study. The time period of this study was three years from 2011 to 2014.

V. ITC LTD'S PHILOSOPHY ON CORPORATE GOVERNANCE

- The cornerstones of ITC's governance philosophy are trusteeship, transparency, ethical corporate citizenship, empowerment, control and accountability.
- Inherent in the concept of trusteeship is the responsibility to ensure equity, namely, that the rights of all shareholders, large or small, are protected.
- ITC believes that the governance process should ensure that resources are utilized in a manner that meets stakeholders' aspirations and societal expectations. This belief is reflected in the Company's deep commitment to contribute to the "triple bottom line", namely the conservation and development of the nation's economic, social and environmental capital
- The CSR and Sustainability Committee provide strategic direction to the Company towards fulfilling its triple bottom line objectives.
- The structure, processes and practices of governance are designed to support effective management of multiple businesses while retaining focus on each one of them.

VI. MANDATORY RECOMMENDATION OF SEBI'S COMMITTEE ON CORPORATE GOVERNANCE

1. The Board of Directors of company shall have on optimum combination of executive and non executive directors with not less than fifty percent of the board of directors as compare of non executive directors.

ITC (No. of Non Executive Director)		
2011 -12	**2012-13**	**2013-14**
9 Members (out of 16 Members)	7 Members (out of 14 Members)	11 Members (out of 18 Members)

From the above we can see that ITC Ltd having an optimum combination of executive and nonexecutive directors with not less than fifty percent of the board of directors comprising of non-executive directors. ITC Ltd having more than 65% of the board of directors comprising of non-executive directors.

2. The board shall meet at least four times a year, with a maximum time gap of four months between any two meetings.

ITC (No. of Times in year)		
2011 -12	**2012-13**	**2013-14**
7 Times	7 Times	6 Times

The company following this mandatory recommendation, here the company goes beyond the mandatory requirements in fulfilling the corporate governance objectives Committees or Chairman of more than four times meets with gaps of four months in between two months held meeting across year.

3. A director shall not be a member in more than 10 committees or act as chairman of more than five committees across all companies in which he is director.

ITC (No. of Non Executive Director)		
2011 -12	**2012-13**	**2013-14**
6 Members (out of 16 Members)	6 Members (out of 14 Members)	3 Members (out of 18 Members)

The company following this mandatory recommendation, in fact company go beyond the mandatory requirements in fulfilling the corporate governance objectives Committees or Chairman of more than five Committees across all the public companies in which he is a Director.

4. There shall be a separate section on corporate governance in the annual reports of company with a detail compliance report on corporate governance.

ITC Ltd having separate sections of corporate Governance in their Annual reports with detail compliance report on corporate Governance also both the companies have mentioned non mandatory report that would help shareholders and other outsiders.

5. The audit committee should meet at least four times in year and not more than four months shall elapse between two meetings.

ITC (No. of Times in year)		
2011 -12	**2012-13**	**2013-14**
10 Times	9 Times	8 Times

Here from the table it's shown that company followed guideline of meet audit committee at least four times meets with gaps of four months in between two months held meeting across year.

6. Remuneration policy

ITC's remuneration strategy aims at attracting and retaining high calibre talent. The remuneration policy, therefore, is market-led and takes into account the competitive circumstance of each business so as to attract and retain quality talent and leverage performance significantly.

VII. REMUNERATION OF DIRECTORS 2011-12

- The Chairman and Executive Directors are entitled to performance bonus for each financial year up to a maximum of 200% and 150% of their consolidated salary, respectively, and as may be determined by the recommendation Board.
- Non-Executive Directors are entitled to remuneration by way of commission for each financial year, up to a maximum of Rs.6,00,000/- individually, as approved by the Shareholders.
- Non-Executive Directors are also entitled to sitting fees for attending meetings of the Board and Committees thereof, the quantum of which is determined by the Board, within the limit approved by the Shareholders. The sitting fees, as determined by the Board, are presently Rs. 20,000/- for attending each meeting of the Board, Audit Committee, Compensation Committee, Nominations Committee and Sustainability Committee and Rs.5,000/- for each meeting of the Investor Services Committee. Non-Executive Directors are also entitled to coverage under Personal Accident Insurance.

VIII. REMUNERATION OF DIRECTORS 2012-13

- The Chairman and Executive Directors are entitled to performance bonus for each financial year up to a maximum of 200% and 150% of their consolidated salary, respectively, and as may be determined by the Board on the recommendation of the Compensation Committee. Such remuneration is linked to the performance of the Company inasmuch as the performance bonus is based on various qualitative and quantitative performance criteria.
- Non-Executive Directors are entitled to remuneration by way of commission for each financial year, up to a maximum of Rs.6,00,000/- individually, as approved by the Shareholders.
- Non-Executive Directors are also entitled to sitting fees for attending meetings of the Board and Committees thereof, the quantum of which is determined by the Board, within the limit approved by the Shareholders. The sitting fees, as determined by the Board, are presently Rs. 20,000/- for attending each meeting of the Board, Audit Committee, Compensation Committee, Nominations Committee and Sustainability Committee and Rs.5,000/- for each meeting of the Investor Services Committee. Non-Executive Directors are also entitled to coverage under Personal Accident Insurance.

IX. REMUNERATION OF DIRECTORS 2013-14

Remuneration of the Chairman and other Executive Directors is determined by the Board, on the recommendation of the Nomination & Compensation Committee; remuneration of the Directors is subject to the approval of the Shareholders.

- The Chairman and Executive Directors are entitled to performance bonus for each financial year up to a maximum of 200% and 150% of their consolidated salary.
- Non-Executive Directors are entitled to remuneration by way of commission for each financial year ranging from Rs.12, 00, 000/- to Rs.20, 00, 000/- individually, as approved by the Shareholders.
- Non-Executive Directors are also entitled to sitting fees for attending meetings of the Board and Committees The sitting fees, as determined by the Board, were Rs.20,000/- for attending each meeting of the Board, Audit Committee, Compensation Committee.
- Nominations Committee and Sustainability Committee and Rs.5, 000/- for each meeting of the Investor Services Committee. Effective 25th April, 2014, the sitting fees for Non-Executive Directors have been increased by the Board (within the enhanced limit now permitted under the Companies Act, 2013) to Rs.1, 00, 000/- for each meeting of the Board, Rs.50,000

Here from above finding it's prove that in year 2011-12 and 2012-13 Remuneration of directors was same there was no change in Remunerations Policy While there was change in remuneration policy in year 2014.

X. FINDINGS

Here the company is following guidelines issued by SEBI Clause 49 in context of Corporate Governance.
ITC have the companies have identified the role of corporate governance.

XI. CONCLUSION

With the way that businesses are run today, it can be difficult for a corporation to become successful just by having a high level of profit. Due to the fact that a corporation is also evaluated based on its image, corporate governance is established to help ensure that image remains clean. Making sure there is a high level of awareness, ethical behavior, and understanding of what the public wants is all encompassed in corporate governance. With corporate governance, the corporation takes more responsibility for its actions, and also allows it to keep tabs on what is going on as well as helps those in charge remain more aware of the public image of the corporation.

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