Impact of Corporate Governance on Financial Performance of Nifty 50 Companies : An Empirical Analysis

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Abstract

This paper attempted to study the impact of corporate governance guidelines on the financial performance of the NIFTY 50 companies. The CG score of each company was calculated to know its impact on financial parameters. Correlation and regression analysis on the data collected highlighted that corporate governance had no significant impact on the profitability of the companies. It was also found that the existing set of laws did not significantly impact the performance of companies. Therefore, the policymakers were advised to make the laws more stringent so that the CG guidelines by the statute shall be followed by every company resulting in their better performance. Furthermore, the study proposed an increased focus on practices that, in turn, would enhance the sustainability of a business.

Keywords : **corporate governance, profitability, financial performance, NIFTY 50, CG score, Clause 49, listing agreement**

JEL Classification Codes : G300, G320, G380

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Corporate governance brings about a structure through which a company's objectives, means of achieving these objectives, and the ways of monitoring the performance are set. It is defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers" (Thapar & Sharma, 2017). The concept of corporate governance in India dates back to the early 90s at the time of globalization entailing transparency, accountability, and good performance from corporate executives.

One motivation behind the gained importance of corporate governance is the proliferation of scandals and scams. The occurrences of high-profile scams, like the Satyam scam and the Ketan Parikh scam, have drastically increased concerns about corporate governance. Secondly, the private market-based investment processes, which require good corporate governance, have become more significant than before in most economies. Finally, technological advancement, trade liberalization, and the opening of financial markets led to the allocation of capital between countries. This also validates the need for good corporate governance. Delegation of investment and cross-border investments also raised the need for compliance to corporate governance guidelines

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(Claessens, 2006). Thus, the area which was regulated by Clause 49 of the Listing Agreement has been replaced by the Companies Act 2013. Accordingly, now it is mandatory for the companies to adhere to the corporate governance mechanisms. Thus, it becomes all the more necessary to study the impact of corporate governance on financial performance, mainly profitability and returns available to shareholders of NIFTY 50 companies. Existing literature analyzed the impact of corporate governance on companies for the previous years. This study analyses the results of the latest year and aims to propose better corporate guidelines to be established in companies.

Theoretical Framework

Companies have started to take up the responsibilities beyond their economic activities but within the social sphere (Waddock, 2004). The agency theory brings into picture the opportunistic behavior of individuals where they want to maximize their personal interest resulting in a conflict between managers and stakeholders (Agrawal & Knoeber, 2013). Therefore, corporate governance aims at reducing the conflict between those who control and those who possess the residual claims in a firm (Epps & Cereola, 2008). Nowadays, companies apply corporate governance practices in their day-to-day operations. They are expected to have a detailed understanding and awareness of these practices in order to apply them effectively. It also plays a vital role in maintaining a corporate culture of consciousness, clearness, and openness. Different authors have considered different indicators to study firm performance. Based on the literature, two broad categories – accounting-based variables and market-based variables–were extensively said to have an impact on firm performance. Since the paper focuses on the impact of corporate governance on firm profitability, accounting-based variables were given more weightage. Thus, the independent variables, which are said to have an impact on firm performance, were net sales, net worth, market capitalization, share price, leverage, beta, earning per share (EPS), and dividend per share (DPS). In addition, age and size of the firm were considered as the control variables. Return on net worth (RONW) and profit-after-tax (PAT) were the dependent variables used to measure the firm performance.

Klein (1998) and Core et al. (1999) employed return on assets (ROA) as their operating performance indicator. On the contrary, Lo (2003) and Shrader et al. (1997) employed return on equity (ROE) as their operating performance indicator. Brown and Caylor (2009) and Epps and Cereola (2008) used both ROA and ROE as the indicators. For our study, RONW and PAT were taken as the indicators. RONW is defined as the earnings available after interest and other expenses divided by total equity shareholders' funds of the firm. It exhibits the profit or the return that a firm makes out of the money invested by its shareholders. On the other hand, the residual profit that a firm makes during a particular fiscal period is PAT. It is the earnings available to the firm after adjusting all the expenses including tax.

Literature has mixed opinions regarding the relationship between corporate governance practices and stock prices. Parlakkaya et al. (2015) opined that there exists no relation between corporate governance rating and stock prices when studied using panel data. In contrast, another study based on the Indian and South Korean companies stated that CG scores do have an impact on share prices of a company but to a very limited extent. The probable reasons for such an impact might be due to the differing mandatory disclosures and governance practices in these countries (Kowalewski, 2016). An empirically established argument by Malik (2012) showed that better governed companies usually exhibited better performance which thereby resulted in higher stock prices and vice- versa. In contradiction to this, Singh and Maurya (2018) came to the conclusion that firms which moved beyond minimum regulatory requirements relating to corporate governance caught the eye of the investors. The result varied in different countries due to the difference in legal provisions regarding shareholder rights protection (Dwivedi & Jain, 2005).

In a study conducted by Gupta and Sharma (2014), 73% of the companies abode by all the CG regulations. When the CG scores of the companies moved beyond 18, the company was said to prosper and earn better returns on debt as well as equity. At the same time, Gupta (2019) pointed out that all the Dutch companies were strictly abiding by the amended corporate governance code from 2008 with the widest possible acceptance. Further, board meetings and other board-related variables, such as board diversity and involvement of directors in company affairs, played a major positive role (Das & Dey, 2016). By performing panel data GMM, some researchers established that board size and audit committee meetings have a positive impact on ROA (Prusty & Al-ahdal, 2018). But not all researchers are of the same opinion. Ajanthan (2013) and Sharma and Singh (2018) provided evidence that there is no relationship between board variables such as board structure, board committee, and CEO duality and profitability variables. A study conducted with special reference to cement manufacturing firms stated that the number of independent directors in the board and audit committee positively affects the financial performance (Ullah et al, 2019). This proposition was, again, supported by another study by Kumar and Sudesh (2019). Their analysis showed that the number of independent directors shows a significant positive relation with the gross profit margin of the companies. On the contrary, another study conducted with reference to IT companies in India opined that these factors affected the ROA and ROE negatively (Prusty & Al-ahdal, 2018). Another variable that was taken into consideration by many authors was gender diversity. The presence of women board members was found to be a sign of balance to the board composition, thereby resulting in good corporate governance and firm's ethical behavior (Das & Dey, 2016). However, Hussain and Hadi (2017) argued that the gender diversity has no significant impact on corporate governance.

Empirical research by Cheung et al (2011) demonstrated that better CG scores positively impacted EPS, leverage, net worth, and size of the company. Firms whose operations are in par with the corporate governance practices over the years reflected an increase in their market valuation and vice-versa. The authors' focus was not only on the compliance of corporate governance practices but also on the quality in its compliance. Companies that had a good CG score showed higher net profit margin and earnings per share, implying a positive correlation between CG score and company performance (Adrian et al., 2013). This relationship was affirmed by the results of Maheshwari and Meena (2014). They showed that there exists a positive correlation between CG scores and sales figures of SBI. On a similar line, a study by Sharma and Singh (2018) demonstrated a positive relation as well as the good performance of companies adhering to corporate governance principles during the Subprime crisis. There were also pieces of evidence that good governance mitigated the adverse effect of the financial crisis on companies (Tshipa, 2017).

Thus, it can be concluded that the relationship between corporate governance and financial performance is dynamic. The majority of the studies have identified that there is a significant impact of corporate governance variables upon the financial performance of companies. Checking the same aspect for companies listed at NSE is novel. This study attempts to analyze the effect of corporate governance score (CG Score) on the performance of companies listed at NSE and also to identify the relative impact on each of the variables. In a lucid form, it focuses on whether there exists any positive correlation between corporate governance and financial performance of the companies in presence of control variables.

Methodology

The study takes into consideration the financial performance of NIFTY 50 companies listed at NSE for the financial year 2019. Banking and insurance companies were excluded due to different guidelines. Eicher Motors was excluded as it follows calendar year as its financial year. Thus, sampled companies for the study totaled 42. The selected companies were analyzed in terms of their financial performance, board performance, and other related financial parameters during the year. The databases used to retrieve information on these variables include annual reports of the companies for the year 2019 (to calculate CG score), Ace Analyser, and ProwessIQ. The data collected was tested using different statistical techniques. Descriptive statistic was used to understand the features of the dataset. ADF was performed to test the stationarity of the data. The correlation of the data was

Table 1. ***Variables Used in the Study***

Variables	Acronyms	Variable Type	Definition
Net Sales	*NS*	Independent	Total sales of the company after adjusting sales return
Net Worth	*NW*	Independent	Owner's equity in the company
Market Capitalization	*MCap*	Independent	Market value of the company
Share Price	*SP*	Independent	Value of the company's share
Leverage	*Lev*	Independent	Debt/EBITDA
Beta		Independent	Risk of the company with respect to the market
EPS	*EPS*	Independent	Earnings per share
DPS	*DPS*	Independent	Dividend per share
Corporate Governance Score	*CG score*	Independent	Rating of corporate governance parameters
Age of the Company	*Age*	Control	Number of years since the company has been formed
Size of the Company	*Size*	Control	Total asset base of the company
Return on Net Worth	*RONW*	Dependent	Return on shareholder's funds/equity
Profit After Tax	*PAT*	Dependent	Net profit of the company after interest and tax

taken to identify the relationship between the variables. Regression technique helped to understand to what extent the dependent variables were affected by independent variables and in what manner. The details of variables considered for the study are presented in Table 1.

Test of Hypothesis

- **H_{01} :** There is no significant relationship between corporate governance and financial performance of companies.

- **H_{a1} :** There is a significant relationship between corporate governance and financial performance of companies.

Analysis and Results

Descriptive statistics for the entire data are computed on EViews to understand their statistical characteristics and is presented in Table 2. Out of the total 42 sampled companies, 30 companies have a CG score of 20 which is the maximum whereas Zee Entertainment Ltd had the minimum CG score of 16. Almost 70% of the companies abode by all the regulations in the Listing Agreement. The remaining 30% of the companies did not abide by the mandatory conditions like that of requirement of a woman director, presence of a risk management committee, and minimum board meeting requirements. The average CG score of the companies was 19.5 which is a good indicator of corporate governance practices followed by the companies listed at NSE. CG score was negatively skewed since most of the companies had a score of 20 which was greater than the average value of 19.5. The share prices of the companies especially GAIL and NTPC showed very less volatility. Both start-ups and old firms are listed at NSE which made it clear that the NIFTY 50 was not confined to a particular type or timespan.

ADF test depicts that all the variables are stationary which means the variables does not change over time. Correlation of all the variables is shown in Table 3. The results indicated that there is no case of multicollinearity. CG score was found to be negatively correlated with PAT and positively correlated with RONW. The reason can be attributed to the fact that when better corporate governance practices are followed in a company, the satisfied

Table 2. ***Descriptive Statistics of the Study Variables***

	Mean	Median	Max.	Min.	*SD*	Skewness	Kurtosis
PAT	7738.7	4735.6	35163	307.17	8393.76	1.66	5.24
RONW	18.46	15.24	79.06	–1.85	16.29	2.21	8.78
DPS	16.84	8.16	115	0	24.42	2.66	9.62
EPS	47.78	27.36	248.3	1.02	53.79	2.02	6.82
CG Score	19.5	20	20	16	0.94	–2.2	7.42
Leverage	2.23	1.31	17.18	0.08	2.85	3.64	19.02
Market Cap	151339.53	99349.87	1001704	26418.16	189946.0	3.145	13.22
Net Sales	71415.77	41016.02	522691.1	423.05	100686.9	3.07	12.72
NW	51633.96	32324.47	405322	3160.9	69715.69	3.48	17.28
Share Price	1697.81	541.6	14659.55	115.55	2793.91	3.08	13.25
Beta	0.87	0.78	1.93	–0.34	0.53	0.03	2.43
Age	54.95	44	153	12	30.77	1.18	4.28
Size	103440.1	55566.76	775745	3218.9	147252.9	2.82	12.05

Table 3. ***Correlation Among the Study Variables***

	PAT	*RONW*
PAT	1	0.16
RONW	0.16	1
Beta	–0.14	–0.19
Net Worth	0.79	–0.23
EPS	0.01	0.18
DPS	–0.03	0.31
Net Sales	0.55	–0.04
Market Cap	0.67	0.22
Share Price	–0.19	0.2
Leverage	–0.07	–0.27
CG Score	–0.05	0.05
Age	–0.05	0.24
Size	0.74	–0.23

shareholders tend to invest more. This leads to better returns to the shareholders. Similarly, abiding by all the corporate governance practices will cause additional expenditure for the companies since they have to allocate more funds for the same which reduces their profitability. Beta had a negative correlation with RONW because when the share price of a company becomes more volatile, the risk associated with share increases, which further reduces the RONW. One of the reasons for the negative relation between leverage and PAT is the increase in the cost of capital due to an increase in debt. Moreover, since older firms have a preference towards old technology and methods of production, age exhibited a negative relation with PAT.

The regression result of all the variables is explained in Table 4. *F*-statistics was found to be significant for both the variables indicating that the model is appropriate. Here, 78.8% variation in PAT was explained by all the

Table 4. *Impact of the Study Variables on PAT and RONW*

VARIABLE	*PAT*	*RONW*
C	2810.41	1.454
	(–0.008)	(–0.201)
Size	0.093	0.044
	(–0.685)	(0.911)
Age	–0.09	–0.018
	(–0.247)	(–0.359)
Beta	–2572.933	0.31
	(–0.041)	(–0.528)
DPS	–0.047	0.49
	(–0.561)	(0.323)
EPS	0	0.35
	(–0.997)	(0.456)
Leverage	–0.064	–0.002
	(–0.418)	(–0.041)
Market Cap	0.03	–0.023
	(–0.794)	(–0.475)
NS	0.122	0.028
	(–0.205)	(0.55)
NW	0.107	0.003
	(0.00)	(0.949)
Share Price	–0.106	0.074
	(–0.171)	(1.614)
RONW	179.346	0.666
	(0.00)	(1.418)
CG Score	0.11	0.027
	(–0.144)	(0.577)
R	0.888	0.956
***R*-Squared**	0.788	0.913
Adjusted *R*-Squared	0.771	0.911
***F*-Stat**	47.119	420.412
Prob(*F*-Stat)	0	0
Durbin – Watson Stat	1.814	2.088
Multicollinearity	VIF below 10	VIF below 10

Note. *p*-values are given in the parentheses at the 5% level of significance.

financial variables including the CG score. The remaining 21.2% variation could be attributed to external factors such as government policies, changes in the external environment, etc. Similarly, 91.3% variation in RONW was explained by all independent variables and the remaining 8.7% change in RONW was owed to external factors. The assumption of autocorrelation was checked and satisfied through Durbin-Watson statistic. Also, there was no problem of multicollinearity.

The results indicated that CG score showed a positive, but non-significant relationship with PAT as well as RONW. So, it can be concluded that corporate governance does not have a significant impact on profitability as well as RONW with respect to the Nifty 50 companies thereby accepting the null hypothesis H_{01} and rejecting the alternate hypothesis H_{a1}. Negative impact was observed for age and leverage on the measures of profitability and RONW. The reason can be associated with the use of old technology by older firms that reduce its growth potential. Moreover, the use of more debt leads to higher cost of capital and lower profits. Although the previous literature in this field suggested that corporate governance strongly affects the profitability of companies (Patro & Pattanayak, 2017), our study concluded that corporate governance is only one of the many factors which impacted the profitability positively and non-significantly for the NIFTY 50 companies. In conclusion, while the Companies Act 2013 made it compulsory for all the listed companies to comply with Clause 49 of the Listing Agreement; the results from the study indicated that the companies were able to gain but not to a great extent.

Research Implications

Corporate governance practices may differ from economy to economy. So, the impact of corporate governance practices on a firm's profitability also varies from economy to economy. Many studies have identified a positive association between corporate governance practices and profitability of a company. But, from this particular study, it has been concluded that corporate governance practices affect the performance only to a limited extent.

The existing set of laws does not have a significant impact on the performance of companies. Therefore, it is advisable to make the laws more stringent so that the CG guidelines by the statute shall be followed by every company resulting in better performance. Furthermore, emphasis should be given to practices that increase the sustainability of a business. Policies that enhance corporate entrepreneurship, innovation, and entrepreneurial orientation should be undertaken by the business (Claessens, 2006).

Limitations of the Study and Scope for Further Research

Dwivedi and Jain (2005) opined that the relationship between corporate governance practices and firm's profitability varies from country to country based on different factors. This study did not undertake any extensive research and was confined to only companies listed at NSE for a relatively short period of one year i.e., 2019. Hence, future researchers may analyze the relationship between CG practices and company performance in different situations and markets other than the NSE covering a longer time-span. Furthermore, future studies can be carried out to understand the other factors responsible for making a difference in the company's performance. However, this particular constraint will not invalidate the findings of the study but rather pave way for further researches.

Authors' Contribution

Dr. Suresh G. worked on the conceptualization and methodology design. Amala Maria Jose worked on the analysis and original draft preparation and management of data. Meenu Treesa Jose worked upon the data collection, data cleaning, coding, tabulating, writing, and re-editing the original draft based on the comments from experts and management of data.

Conflict of Interest

The authors certify that they have no affiliation with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

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Appendix

List of Nifty 50 Stocks

Industry	Company Name	Symbol	Weightage (%)
Automobile	Baja Auto	BAJAJ-AUTO.NS	0.83
	Hero MotoCorp	HEROMOTOCO.NS	0.64
	Eicher Motors	EICHERMOTORS.NS	0.64
	Mahindra & Mahindra	M&M.NS	1.02
	Maruti Suzuki India	MARUTI.NS	1.94
	Tata Motors	TATAMOTORS.NS	0.58
Banking	Axis Bank	AXISBANK.NS	3.31
	HDFC Bank	HDFCBANK.NS	11.08
	ICICI Bank	ICICIBANK.NS	6.66
	Induslnd Bank	INDUSINDBK.NS	1.9
	Kotak Mahindra Bank	KOTAKBANK.NS	4.34
	State Bank of India	SBIN.NS	2.64
	Yes Bank	YESBANK.NS	0.29
Financial Services	Bajaj Finance	BAJFINANCE.NS	1.95
	Bajaj Finserv	BAJAJFINSV.NS	1.11
	HDFC	HDFC.NS	7.97
Cement	Grasim Industries	GRASIM.NS	0.62
	UltraTech Cement	ULTRACEMCO.NS	0.96
Information Technology	HCL Technologies	HCLTECH.NS	1.23
	Infosys	INFY.NS	5.13
	Tata Consultancy Services	TCS.NS	4.34
	Tech Mahindra	TECHM.NS	0.95
	Wipro	WIPRO.NS	0.71
Consumer Goods	Hindustan Unilever	HINDUNILVR.NS	2.92
	ITC limited	ITC.NS	4.14
	Britannia Industries	BRITANNIA.NS	0.72
	Titan Company	TITAN.NS	0.97
	Asian Paints	ASIANPAINT.NS	1.55
Food Processing	Nestle India	NESTLEIND.NS	1.04
Engineering	Larsen & Toubro	LT.NS	3.31
Metals and Mining	Coal India	COALINDIA.NS	0.74
	Vedanta		0.53
	JSW Steel	JSWSTEEL.NS	0.53
	Hindalco Industries	HINDALCO.NS	0.59
	Tata Steel	TATASTEEL.NS	0.65
Energy	ONGC	ONGC.NS	0.83
	NTPC	NTPC.NS	1.02
	Power Grid Corporation of India	POWERGRID.NS	0.92
	BPCL	BPCL.NS	0.83

	Indian Oil Corporation	IOC.NS	0.65
	Reliance Industries	RELIANCE.NS	10.68
	GAIL India	GAIL.NS	0.47
Chemical	UPL	UPL.NS	0.63
Pharma	Cipla	CIPLA.NS	0.48
	Dr. Reddy's Laboratories	DRREDDY.NS	0.71
	Sun Pharmaceutical	SUNPHARMA.NS	1
Infrastructure	Adani Ports	ADANIPORTS.NS	0.6
Media and Entertainment	Zee Entertainment	ZEEL.NS	0.36
Telecom	Bharti Infratel	INFRATEL.NS	0.47
	Bharti Airtel	BHARTIARTL.NS	1.69

Source : NSE (https://www.nseindia.com)

Calculation of CG Score

The annual report of all the 42 companies, which constituted the sample, was analyzed properly for the calculation of the CG score. For this, the Business Responsibility Report of these companies was examined. Each sub-clause of clause 49 of Listing Agreement was awarded one point each after excluding those sub-clauses which are applicable only to certain specific companies. This included sub-clauses such as Subsidiary Companies [Clause 49(V)], Related Party Transactions [Clause 49(VII)], Disclosure of Related Party Transactions and Proceeds from public issues, right issues, preferential issues etc. [Clause 49(VIII)]. Finally, a total of 20 sub-clauses were finalized for the purpose of calculation of CG score. A company was allotted one point in case of compliance and zero otherwise. If a company complied with all the requirements of clause 49, they were to be awarded the maximum score of 20. Clauses that were used for the calculation of CG score are listed in the Corporate Governance Parameters.

Corporate Governance Parameters

Clause 49 of the Listing Agreement handles all the corporate governance practices/guidelines which are now aligned with Companies Act, 2013. These guidelines are as follows:

Clause 49(I) Principles

(a) Rights of shareholders: The Listing Agreement mentions certain rights of the shareholders which must be met by the company such as the opportunity to attend and vote in general meetings, being informed about fundamental corporate changes, equitable treatment of all shareholders, etc.

(b) Role of stakeholders in corporate governance: the stakeholders must be recognized and respected. Also, they should be informed about every process of corporate governance.

(c) Disclosure and transparency: Disclosures regarding accounting, financial and non-financial matters must be made.

(d) Duties/Responsibilities of the board: It specifies all the duties as well as responsibilities of the board to ensure proper compliance of corporate governance guidelines.

Clause 49(II) Board of Directors

(a) Composition: It requires an optimum composition of executive and non-executive directors with at least 50% of non-executive directors and at least one woman director compulsorily.

(b) Independent Directors: Independent director shall be any non-executive director other than the nominee director. He should not be the promoter or any person having a pecuniary interest in the company.

(i) Limit on Membership: A person cannot be an independent director of more than 7 companies or whole time director of more than 3 companies.

(ii) Maximum Tenure- Independent Director can hold office for a maximum period of 5 years and can be appointed for one more term.

(iii) Formal Letter for Appointment

(iv) Performance

(v) Separate meeting of Independent Director

(vi) Training

(c) Non-executive Director's Compensation and Remuneration : Remuneration shall be fixed by the board with prior approval in general meeting.

(d) Other Provision of Board and Committees :

(i) The board meetings shall happen at least 4 times a year with maximum time gap of 120 days.

(ii) A director cannot be a member of more than 10 committees.

(e) Code of Conduct: Board members should comply with the code of conduct laid down by the board.

(f) Whistle Blower Policy: Vigil mechanism should be placed in the company and the same should be published on the company website.

Clause 49(III) Audit Committee

(a) This committee should have at least 3 directors and 2/3rd must be independent directors. All members must be financially literate.

(b) The Chairman should be an independent director and should attend the Annual General Meeting.

(c) This committee should conduct at least 4 meetings in a year with a time gap not more than 120 days. Quorum should be at least 2 members or 1/3rd of the committee's members whichever is higher with the presence of at least 2 independent directors.

(d) This committee has the power to investigate any issue within its boundary, to get expert legal advice, to acquire information from its employees etc.

(e) The role of this committee includes choosing the accounting policies and principles, supervising the financial reporting and disclosure process as well as the internal control process, examine the risk management policies etc.

Clause 49(IV) Nomination and Remuneration Committee

This committee should have at least 3 directors, half of the members being independent directors and all non-executive members. Its role is to formulate the remuneration policy, decide the criteria for determining qualification, and also formulate criteria for who deserves to be a director.

Clause 49(V) Subsidiary Companies

In order to have a control over the subsidiary company, the audit committee reviews its financial performance. At least one independent director of the holding company will be appointed as the director of the subsidiary company. When 20% of the consolidated net worth is invested in a company or 20% of the consolidated income comes from that company, it becomes a subsidiary.

Clause 49(VI) Risk Management

This provision requires all listed companies lay down procedures regarding risk management, assessment and minimisation procedure. The company should also constitute a committee for the same.

Clause 49(VII) Related Party Transactions

All Related Party Transactions should have the prior approval from the audit committee as well as from the shareholders through a special resolution where these shareholders are asked to vote. The parties are said to be related when one party has a control over the other and can also influence them.

Clause 49(VIII) Disclosures

Management of the company should make necessary disclosure of all material facts that are supposed to be known by the stakeholders. Disclosures can be on the following matters:

(a) Related Party Transactions: The policy of the company regarding its dealings with the related party must be shown in the annual report as well as the website of the company.

(b) Disclosure of Accounting Treatment: If the company is using any accounting treatment different from that of normal treatment, then the same must be mentioned stating the reason.

(c) Remuneration of Directors: Disclosures should include any remuneration, perquisite and facilities paid or payable to the directors as well as any contract or agreement entered into with them.

(d) Management: Management discussion and analysis report shall be a part of the Annual Report which should mention regarding the industry structure, opportunities and threats, product wise performance, transactions in which the directors has a personal interest etc.

(e) Shareholders: The annual report of the company should include details regarding appointment or re-appointment of any directors along with his/her resume and area of expertise.

(f) Proceeds from public issues, rights issue, preferential issues, etc.: A quarterly or annual disclosure must be made regarding the application of process from public issue, preferential issue or rights issue.

Clause 49(IX) CEO/CFO Certification

The CEO/CFO of a company should certify that the financial statements have been reviewed by them and that it does not include any material misstatements. He should also specify whether there is any change in internal control system or accounting policies of the company.

Clause 49(X) Report on Corporate Governance

Disclosures regarding the compliance of corporate governance must be given in a separate section in the annual report of a company. Any non-compliance of any of the mandatory requirements shall be mentioned separately. A quarterly compliance report shall also be given to the stock exchange within 15 days from the date of closure.

Clause 49(XI) Compliance

The company should obtain a certificate of compliance from the auditors or company secretary which states that it has complied with the provisions of clause 49 of the listing agreement. It gets annexed to the Directors report and is also sent to the stock exchange along with the annual report.

About the Authors

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