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An Empirical review of Corporate Governance and Disclosure practices in selected companies within the Energy Sector listed in the Nifty Energy Index

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ABSTRACT

Just a few days the practice of Corporate Governance transparency plays a key role in implementing new corporate ethics and legislation in the economic and business sectors. Corporate governance builds equity, openness, accountability to shareholders and therefore improves the firm's reputation. This study is focused on the review of the problem described in the Nifty Index (GAIL, ONGC and NTPC) relating to corporate governance in the Indian Corporate Energy field. For the study researcher's intent, prepare the index based on the mandatory and non-compulsory regulations issued by SEBI 2015 and Companies Act 2013. Through using the Index study, the Corporate Governance Disclosure practices can be contrasted between the companies analysed in the energy sector. Annual reports for the financial year 2018-2019 have been considered for the analysis purpose. 100 point scale index has been prepared to know the provisions, whether they are followed properly or not. Hypothesis has been verified by applying independent T test which is not accepted, so researcher find out that there is minor differences among the companies regarding disclosure practices. Nearly all companies reveal their all corporate governance parameters but GAIL scored the highest score among other companies. SEBI establishes strict day-to-day Corporate Governance system to prevent frauds and scams.

Keywords - Corporate Governance, Clause 49, SEBI, Companies Act 2013, NIFTY

1. INTRODUCTION

Corporate governance is the mechanism that directs and manages enterprises. This includes running the company according to stakeholder wishes. Board of directors and the higher level management has the interest in the stakeholder's value, so they actively carried out these guidelines towards the benefit creation of the stakeholder.

It's all about balancing individual and societal interests as well as economic and social ones. Corporate governance creates the connection link among the various stakeholders like- shareholders, board of directors, and management of the company by influencing the working conditions of the enterprises as well as the position of the enterprises. These regulations maintain the optimistic relationship among the stakeholders by increasing the accountability, transparency and responsibility as per standard results.

2. SEBI CLAUSE 49 AS WELL AS COMPANIES ACT 2013 GUIDELINES

In the Equity Listing Agreement (2000), SEBI preserved Clause 49, which now operates as a corporate governance framework in India, as a significant step towards amending the corporate governance guidelines. With clause 49 the provision was born that half of the directors on the board of a listed company have to be independent directors. Clause 49 of the Listing Agreement applies to companies wishing to be listed in the exchanges of stocks.

India has not yet been able to establish itself with the highest corporate governance standards. A specific segment on Corporate Governance also appeared in the Companies Law 2013. Relevant acts under this law were found within at least 11 heads, viz. Membership of the Board, Woman Chairman, Independent Officers, Training and Assessment Executives, Audit Committee, Selection and Remuneration Committee, affiliated companies, Internal Audit, SFIO, steering committee and Enforcement to include a rock-solid corporate governance system.

3. NATIONAL STOCK EXCHANGE (NIFTY INDEX)

Indian major trading floor, headquartered in Mumbai, Maharashtra, India, is the National Stock Exchange (NSE). NSE was formed in 1992 as the nation's first demutualized electronic exchange. NIFTY energy industry category comprises Petroleum, Gas, and Power companies. The Index includes 10 companies that are listed on India's National Stock Exchange (NSE). NIFTY Energy Index is determined using the free float market capitalization process.

4. REVIEW OF LITERATURE

Within this section, an effort has been made to examine numerous studies published by the expertise.

- **Shilpa S. Motwani and Hemal B. Pandya (2013) -** this paper aim to study corporate governance practices for selected major industries in the Indian perspective over a five year period. A Corporate Governance Assessment Model has been used to evaluate the Corporate Governance Practices by different companies from different sectors. The average sector scores were determined for determining the overall sector - based changes. The corporate governance index was measured and analysed to promote comparison.
- **V R Sridhar and Dr. M.Sakthivel Murugan (2016) -** this article attempts to research the relationship between the corporate governance practices and selected companies' financial results. The study's overall conclusion revealed that corporate governance effectiveness is determining companies' financial performance.
- **Chahat Gupta (2017) -** researcher explains corporate governance is included in the profile of corporate competence as a distinctive characteristic and benchmark. This is an effort to build effective mechanisms that can direct and regulate corporate bodies by making them more accountable to shareholders in particular and to stakeholders at large. The present paper aims to examine the degree to which corporate governance activities are revealed among the biggest IT companies in India.
- **Kalashree, Dr. H. Rajashekar (2018) -** this research aimed to analyse pharmaceutical companies' governance activities against the disclosure requirements of clause 49. The survey comprised 35 mid cap companies and 18 large cap companies. The method of analysis includes getting scores for different standards for disclosure. There were differences in mandatory disclosure practices between mid -cap and large cap companies.
- **Nidhi Bansal, Anil K. Sharma (2019) –** This study reveals that India's new Companies Act 2013 has highlighted the role of an audit committee and remuneration committee within Indian firms. The findings for the post-enactment period of the current Companies Act, that is, 2014-2018, are verified. To investigate the relationship, the method of panelling is implemented with feasible generalized least squares.

5. OBJECTIVES OF THE STUDY

- To verify the enactment of the various provisions of Corporate Governance and Disclosure practices on the basis of the guidelines provided in the SEBI regulations 2015 and 2013 Companies Act 2013.
- To determine the company's disclosure status by conducting a comparative analysis among the companies (GAIL, ONGC and NTPC) on the basis of various Corporate Governance regulations provided in the various laws.

6. RESEARCH METHODOLOGY

This study looks at the three energy sector companies that are listed on NIFTY stock exchange under the Nifty Energy Index. Energy sector is the cornerstone of every economy, which is why the researcher finds this sector companies as the sample selection criteria. The three companies are considered as representative sample for the study researcher's intent and these companies are GAIL, ONGC and NTPC. Such companies are chosen based on market capitalization. For the purpose of the study the financial year 2018-19 has been taken into consideration. This study is based on the entirely on secondary data. All relevant information from the annual report has been retrieved to the updated company’s website. Many other information from different articles, studies etc. has been gathered.

7. HYPOTHESIS

H0: There is no significant difference in showing the Corporate Governance disclosure practices among the selected companies of the energy sector as per SEBI regulation.

H1: There is significant difference in showing the Corporate Governance disclosure practices among the selected companies of the energy sector as per SEBI regulation.

8. ANALYSIS OF THE DATA

This research review includes the Corporate Governance Compliance Practices between three NIFTY-listed energy sector companies for the 2018 - 2019 financial year. Various governance metrics have been taken for the purpose of the analysis to assess the efficiency of the organization. A 100-point index has been designed to determine how well these organizations obey the governance principle, whereby sufficient points weighing for governance metrics has been awarded according to their significance. Various amendments of the Companies Act 2013 and SEBI Guidelines 2015 identified these main governance criteria and the criterion for assessing governance. The parameters are selected on the basis of the book named “Corporate governance in India: An evaluation” written by S.C. Das. After determining total scores on the parameters given in table 1, companies will be graded on a five-point scale as given below. Score Result comprises- 90-100 at Excellent level, 75-89 at Very Good level, 60-74 at Good level, 50-59 at Satisfactory level and 0-49 at bad level.

TABLE 1: Criteria for Assessment of Energy Sector Companies Governance Parameters

S.NO.	GOVERNANCE PARAMETERS	GAIL	ONGC	NTPC	POINTS	TOTAL
1)	**Company's Philosophy Statement**	1	1	1	1	1
2)	**The Board membership and BOD meetings were held**					5
i)	Not below 50% of the administration having non-executive members.	1	1	1	1	
ii)	At least one woman director	1	1	1	1	
iii)	1/3 members support needed for the Non-executive head and 1/2 members support needed to the executive head.	1	1	1	1	
iv)	A minimum four meetings with the BOD in one year.	1	1	1	1	
v)	Record for attendance of BOD meetings	1	1	1	1	
3)	**Chairman and CEO Division**					5
i)	Head of the company as promoter	1	1	1	1	
ii)	Head of the company as Non-Promoter	1	1	1	1	
iii)	Non-Executive head as promoter	1	1	1	1	
iv)	Non-Executive head as non-promoter.	1	1	1	1	
v)	Non-Executive Independent Head	1	1	1	1	
4)	**Limitations regarding age and tenure of the Director**	2	2	2	2	2
5)	**Guidelines for the Independent Director (ID)**					6
i)	Independent Director description.	1	1	1	1	
ii)	Orientation program with the Details of training for the Independent Directors	1	1	1	1	
iii)	Separate meeting of the ID.	1	1	1	1	
iv)	Recruitment terms and conditions given on the company website as a selection criterion.	1	1	1	1	
v)	Formal letter of appointment of ID.	1	1	1	1	
vi)	Independent Directors Limit - As full time it should be 3 and as part time it should be 7.	1	1	1	1	
6)	**Benefit Disclosure:**					2
i)	Payment rule	1	1	1	1	
ii)	Earning to the directors	1	1	1	1	
7)	**All companies Administration**	2	2	2	2	2

	status:					
8)	**Code of Conduct**					2
i)	Details regarding the standards of ethics	1	1	1	1	
ii)	Conformity acknowledgement	1	1	1	1	
9)	**Post board meeting follow-up of Board procedure method and compliances.**	--	2	--	2	2
10) A)	**Board Committees :** **AUDIT COMMITTEE :**					8
i)	Accountability in committee structure.(Skilled and Independent)	1	1	1	1	
ii)	Acknowledgement of the committee's minimum provision of Independent Directors No. (Three director minimum and 2/3 member ID minimum)	1	1	1	1	
iii)	Required to comply at least 4 meetings as mandatory standard with the executive board members.	1	1	1	1	
iv)	Committee information on literacy & financial skills.	1	1	1	1	
v)	Data on involvement in committee meetings by Finance Head, Legal Examiners, Main Internal Accountants and other invited individuals.	1	1	1	1	
vi)	License & tenure conditions of audit committee.	2	2	2	2	
vii)	Disclosure of Committee report	1	1	1	1	
B)	**NOMINATION AND REMUNERATION COMMITTEE :**					6
i)	Committee Establishment	`1	1	1	1	
ii)	Committee meetings details	1	1	1	1	
iii)	At least 3 members required as Non-Executive Directors in the committee	1	1	1	1	
iv)	Keeping independent director as committee head according to the rule	1	1	1	1	
v)	Meetings Participation details	1	1	1	1	
vi)	Disclosure of Committee report.	1	1	1	1	
C)	**SHAREHOLDERS'/STAKEHOLDERS' RELATIONSHIP COMMITTEE :**					5

i)	Clarity in board layout	1	1	1	1	
ii)	Produced and removed-item details about existence of concern & questions accordingly.	1	1	1	1	
iii)	Number of committee meetings details	1	1	1	1	
iv)	Details on decisions made and survey of investors / shareholders	1	1	1	1	
v)	Statement of board reporting	1	1	1	1	
D)	**Risk Management Committee:**					2
i)	Setting up of committee	1	1	1	1	
ii)	Constitution acknowledgement of policy document	1	1	1	1	
E)	**Added Board:**					4
i)	Board on health & welfare and the climate	1	1	1	1	
ii)	CSR and Sustainable Development Committee	1	1	1	1	
iii)	Investment group	---	1	--	1	
iv)	Other panel	--	--	--	1	
11)	**Reporting and Accountability:**					24
i)	Failing to comply in the past 3 years in relation to capital market problems.	2	2	2	2	
ii)	Managing Hazard statements	2	2	2	2	
iii)	Data regarding Risk Management	2	2	2	2	
iv)	Considerable party agreement which can interfere with the company's interests	2	2	2	2	
v)	Risk Assessment Report released	1	1	1	1	
vi)	Management decisions and review	2	2	2	2	
vii)	**Details of the stakeholders**	4	4	4	4	
viii)	Ownership status	2	2	2	2	
ix)	Qualifying audit	2	2	2	2	
x)	Professional development Members of the Group	2	2	2	2	
xi)	Assessment of non-executive heads	2	2	2	2	
xii)	Resignation of Director with reason	1	1	1	1	
12)	**Public Meetings:** • **Meetings held timing and place** • **Special Resolution** • **Voting Procedure**	3	3	3	3	3

13)	**Knowledge Sharing and way of communication**	2	2	2	2	2
14)	**Whistle-blower procedure & monitoring system**	2	2	2	2	2
15)	**Executive Report**	2	2	2	2	2
16)	**Accreditation with Certification of Corporate Governance and Auditors:**					5
17)	**Rules and regulations for preventing insider trading**	5	5	5	5	5
18)	**Documentation of interested parties:**					5
i)	Health & Welfare measures	1	1	1	1	
ii)	Personnel Management	1	1	--	1	
iii)	Social Responsibility of Companies	1	1	1	1	
iv)	Relations with the labour	--	--	--	1	
v)	Details of above policies	--	--	--	1	
	TOTAL	94	97	93	100	100

Sources: Annual Reports of Sampled Companies.

9. FINDINGS

The index table revealed the following points:

- The Board of Directors of all three companies shall be properly formed with an appropriate balance between all forms of directors.
- BOD will reach a total of four times with a maximum gap of 120 days according to SEBI's Regulations Business. It is also governed by all three firms.
- In their relevant annual reports, all reviewed businesses presented details of the ID training programme.
- Only the post board meetings of the ONGC have a system of monitoring and board conformance.
- Companies shall report the remuneration of their directors in compliance with the SEBI Regulation. It also has Remuneration policies for the remuneration of the Director.
- Organizations shall provide descriptions of the AGM and the relevant resolution adopted in the 3AGM.

10. COMPARISON AMONG THE ENERGY COMPANIES

According to SEBI Regulations 2015 scores were calculated for all three ENERGY companies i.e., with their subdivisions of corporate governance disclosure practices. GAIL, ONGC and NTPC follow the requirements they set. The use of IBM SPSS22 independent t-tests was used to check whether these three companies show consistency with the Corporate Governance Disclosure Practices. Table -1 contains the data summary

TABLE-2: Descriptive Statistics

	Energy	N	Mean	Std. Deviation	Std. Error Mean
ONGC	1	58	.9310	.25561	.03356
	2	16	1.8750	.50000	.12500
GAIL	1	58	.9483	.22340	.02933
	2	16	2.0000	.00000	.00000
NTPC	1	58	.9138	.28312	.03718
	2	16	1.8750	.50000	.12500

INTERPRETATION- From the above table ONGC mean is 93%, Gail mean is 94% and NTPC mean is 91% which shows that the disclosure of corporate governance is above 90% which is beneficial to the stakeholders for building trust.

TABLE-3: T TEST TABLE

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig. P VALUE	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
ONGC	Equal variances assumed	1.798	.184	-10.375	72	.000	-.94397	.09098

	Equal variances not assumed			-7.293	17.217	.000	-.94397	.12943
GAIL	Equal variances assumed	3.800	.055	-18.737	72	.000	-1.05172	.05613
	Equal variances not assumed			-35.853	57.000	.000	-1.05172	.02933
NTPC	Equal variances assumed	.888	.349	-10.014	72	.000	-.96121	.09599
	Equal variances not assumed			-7.371	17.734	.000	-.96121	.13041

INTERPRETATION: From the table above, it is inferred that p-value is greater than 0.05 for all energy firms. Here, the null hypothesis is not accepted i.e. it should be rejected, so the study discovered that there is a substantial difference in showing the Corporate Governance disclosure practices among all the specified energy sector companies as per the SEBI guideline. This implies that all three ENERGY companies show compliance with the Corporate Governance Disclosure Practices listed in the SEBI Regulation 2015 in the year 2018-19 at a level of 5 percent significance and with 72 degrees of freedom.

11. CONCLUSION

It can be inferred from the above review and interpretation that businesses in the Energy Sector have outstanding corporate governance practices. P-value has proved alternative hypothesis. Also, the terms and conditions of the Independent Director's appointment are published in the three companies' annual reports. The three entities had legislative committees which are complied with the necessary provisions of Clause 49 of the Listing Agreement. Nonetheless, all businesses do good corporate governance practices, but SEBI should take more rigorous measures to prevent some kind of fraud and fair stock market trading in order to preserve shareholders value and greater transparency in business operations. Good regulation and a business climate free of corruption are necessary for effective disclosure in Corporate Governance. In the event of the lack of compliance with required governance practices, a penalty should be given.

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