Grant Thornton
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Confederation of Indian Industry

Corporate governance practices review 2019

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Foreword from CII

The CII Code was the first and probably a unique instance where an industry association took the lead in prescribing corporate governance standards for listed companies.

Corporate governance guidelines - both mandated and voluntary - have evolved since 1998, thanks to the efforts of several committees appointed by the Ministry of Corporate Affairs (MCA) and SEBI. Indeed, it is fair to say that in terms of norms, guidelines and standards set for the board of directors, financial and non-financial disclosures and information to be shared by the management to stakeholders and the wider public, Indian corporate governance standards rank among the best in the world. The recent World Economic Forum study ranks India at the 15th place in terms of corporate governance, while it is ranked 2nd for shareholder governance. The Confederation of Indian Industry (CII) is privileged to have been a part of this movement.

For over two decades, CII has been at the forefront of the corporate governance movement in India. In April 1998, it released a task force report entitled 'Desirable Corporate Governance: A Code', which outlined a series of voluntary recommendations regarding best-in-class practices of corporate governance for listed companies. The CII Code was the first and probably a unique instance where an industry association took the lead in prescribing corporate governance standards for listed companies. In February 2009, CII set up a task force under late Mr. Naresh Chandra to recommend ways of further improving corporate governance standards and practices both in letter and spirit.

India saw several enhancements to its corporate governance framework on 01 April 2019, when the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018 came into effect. The amendments to Securities and Exchange Board of India (SEBI) listing regulations reflect the adoption of a slew of recommendations made by the Kotak Committee – a panel formed under the chairmanship of Uday Kotak with the purpose of improving corporate governance standards in India. Hence, the coming year will likely witness significant efforts from Indian companies in achieving compliance with the more stringent corporate governance requirements underway.

While these developments are impressive when viewed from the lens of corporate governance, they have in a way enhanced the regulatory burden on companies. In this context, CII, in partnership with Grant Thornton, has conducted the Survey on Corporate Governance practices to get an insight into the corporate governance practices in companies and the challenges faced by them in their implementation. The report has brought out some key insights that will enable further improvement in the corporate governance structure.

It is also emphasised that corporate governance has moved beyond voluntary implementation or compliance requirement; it has become a necessity to drive growth. Only those companies which have a good governance framework will be able to succeed and create long-term value for all their stakeholders. In a globalised world, there is a need for corporates to go beyond how business is done in India and be in sync with the international practices of corporate governance and adopt international best practices to stay competitive. Corporate governance has earned its place as an essential tool in the management and growth of companies, and will continue to grow in importance.

Mr. Gopal Mahadevan
Chairman, CII SR Economic Affairs, Taxation & Corporate Governance Sub-committee
Director & CFO, Ashok Leyland Ltd.

Foreword from Grant Thornton

As a firm helping clients across various industries unlock their potential for growth, we firmly believe that besides compliance, good corporate governance comes from within.

In India, the challenges around corporate governance have been debated for a long time now. In their own ways, both promoters and regulators have made efforts to push good corporate governance to bring the right level of transparency into the system. Needless to say, it is easier said than done. As a firm helping clients across various industries unlock their potential for growth, we firmly believe that besides compliance, good corporate governance comes from within. As part of a growing network of more than 135 countries, we are constantly bringing some of the best practices in corporate governance to our clients and industry at large. This is how we can help shape a Vibrant Bharat.

This 'Corporate governance practices review 2019' captures findings of a survey we conducted in association with CII, country's apex chamber which has been at the forefront of leading authentic conversations on corporate governance. 95% of respondents affirm that good corporate governance practices help organisations achieve better operational and financial results. 93% have identified culture as an important catalyst for implementing strong corporate governance. It must be noted that in the context of corporate governance, culture is not a softer aspect anymore. Rather, it is about the courage to do what is right and the courage to do that consistently.

It is also interesting to see that 75% of respondents would like to see mandatory corporate governance practices extended to unlisted companies. As more start-ups become open to this idea from an early stage, this will go a long way in ushering in a culture of transparency. The survey also throws light on the lack of measurability of corporate governance practices. There are also insights on the significance of promoting diversity on boards.

Good corporate governance in the changing business environment will always serve as a powerful tool for competitiveness and sustainability.

At Grant Thornton, we also believe that while compliance with laws and regulation must form a part of any governance framework, there is an opportunity for progressive boards to broadly work on better corporate governance practices. This includes promoting a culture of integrity and ethics, tapping into key stakeholder groups and creating enough scope for debate and dissent.

We hope India Inc. will find many actionable insights in this report and all the stakeholders will join hands for the economy's greater good.

Dinesh Anand
National Managing Partner, Risk
Grant Thornton India LLP

CII and Grant Thornton undertook a Corporate Governance Survey, which was divided into three themes:

- Current state of corporate governance practices
- Regulatory requirements
- Future of corporate governance

Survey highlights

Good corporate governance ensures corporate success

95%

affirm that Good Corporate Governance practices help organisations achieve better operational and financial results

Culture is a key building block of good corporate governance

93%

confirm that culture is an important catalyst to implementing strong corporate governance

Mandatory corporate governance practices for unlisted companies

75%

suggest that mandatory corporate governance practices should be extended to unlisted companies as well

Regulatory reforms to protect independent directors

74%

recommend a requirement to define/rationalise liabilities for independent directors

Lack of quantifiable performance metrics for corporate governance

55%

do not have quantifiable performance metrics/key performance indicators relating to corporate governance practices at their organisation

Use of technology in corporate governance

78%

believe that technology has played a pivotal role in improving corporate governance practices

Evolution of corporate governance

Background

Corporate governance was not in the agenda of Indian companies until the early 1990s. The fiscal crisis of 1991 and the resulting need to approach the International Monetary Fund induced the government to adopt reformative actions for economic stabilisation through liberalisation. As part of the reforms, various steps were undertaken by the government.

The Confederation of Indian Industry (CII) set up a taskforce in 1995 under the Chairman of Bajaj Group Rahul Bajaj to review corporate governance practices. In April 1998, the CII released the “Desirable Corporate Governance” code. This code looked into various facets of corporate governance and was the first to criticise nominee directors and suggest dilution of government stake in companies

Due to significant efforts taken by regulators and corporates, India is ranked 15th in terms of corporate governance according to a World Economic Forum study. Countries such as Singapore, Hong Kong, Canada, Israel and the United Kingdom are ranked higher. India is ranked second for shareholder governance.

> “As India aspires to reach its rightful position as a global leader, the focus will be on corporate India and on Indian markets. Corporate India has a key role in nation building and corporate governance is an integral part of the broader governance of the country.”
>
> **Uday Kotak**
> Chairman, Committee on Corporate Governance

India’s corporate governance journey

- **1998** — CII released the “Desirable Corporate Governance” code as an outcome to the taskforce under Rahul Bajaj
- **1999** — Kumar Mangalam Birla Committee report
- **2002** — Naresh Chandra Committee report
- **2003** — Narayana Murthy Committee report
- **2005** — J.J. Irani Committee report
- **2009** — Voluntary Guidelines issued by Ministry of Corporate Affairs
- **2013** — Corporate governance provisions in the Companies Act, 2013
- **2015** — SEBI LODR Regulations
- **2018** — Kotak Committee Recommendations

State of corporate governance: Key insights

Adoption of corporate governance practices

Corporate India's attention has evolved from simple 'management' to effective governance.

93% of the respondents believe that corporate governance practices are effective at their organisation

75% of the respondents believe that there has been a significant improvement in the corporate governance practices over the last three years

Strong corporate governance practices increase the levels of transparency and integrity, positively impact shareholder confidence and improve the reputation of an organisation.

95% of the respondents believe that good corporate governance practices help an organisation achieve better financial and operations results

Considering the positive impact on business operations, organisations are implementing good corporate governance practices over and above the regulatory requirements stipulated in various statutes.

72% of the participants believe that they have implemented corporate governance practices in addition to the stipulated regulations

What is corporate governance?

Corporate governance is the set of processes, policies and practices that affect the way a company is directed, administered and controlled. Corporate governance also includes relationships among many stakeholders and the goals for which the company is governed.

Corporate governance enablers

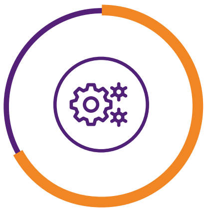
- Accounting and financial controls
- Internal audit and assurance
- Regulatory compliances and reporting
- Risk management and IT security
- Right organisation approach and structure

Good governance is about doing the right thing. The long-term viability and success of the enterprise are significantly attributed to being fair to key stakeholders – customers, employees, investors, suppliers, communities and wider society.

Adoption of corporate governance practices

Risk management and internal control should be incorporated within the company's management and governance processes and not treated as a separate compliance exercise.

96% respondents affirm that being compliance-driven and process-driven has had a positive impact on their organisation

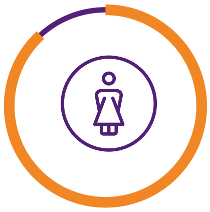


68% respondents believe that their organisation is well prepared to manage its mission-critical risks

With the number of first-generation and start-up companies increasing, it is vital to instill the importance of good governance and good conduct in them. Training sessions on corporate governance should have modules on good conduct which will ensure sustained and profitable growth for corporates.

Gender diversity

Greater diversity is widely held to drive greater performance. Clearly, there are dynamics reinforcing the status quo and driving boards to perpetuate their existing composition.



88% of the respondents affirm that their organisation has a women director on their board

Appointing a women director is a regulatory requirement for listed companies.

83% of the respondents from non-listed organisations affirm that women directors are present on their board

In addition, the requirement is to maintain one women director on the board.

60% of the respondents affirmed that less than 20% of the Board was comprised of Women.

Majority of the companies are ensuring gender diversity at the board only to meet the compliance requirements at this stage. There is a long way to go to address gender diversity both in letter and spirit.

The requirement to have niche technical skills in woman candidates was viewed as the biggest challenge in ensuring board diversity and gender balance by the respondents.

Corporate governance challenges

Respondents view four major challenges in implementing corporate governance practices:

- Training and awareness
- Key performance indicators
- Plethora of laws
- Cost of implementation

Training and awareness

Awareness plays a vital role and is an enabler in implementing corporate governance practices.

58% of respondents believe that there are no formal training programmes at their organisation covering corporate governance for the board of directors and key managerial personnel

Key performance indicators

In order to evaluate a company's performance against the corporate governance standards, it is important for the company to devise key performance indicators

55% of respondents confirm that there are no defined quantifiable performance metrics/key performance indicators relating to corporate governance at their organisation.

Plethora of laws

In India, there are various regulations enforcing corporate governance practices in companies.

37% of respondents view plethora of laws relating to corporate governance as a challenge

Cost of implementation

While corporate governance practices are mandated through regulatory requirements, companies incur cost to implement these practices and view cost as a major challenge

33% of respondents view cost of implementation as a major challenge in implementing corporate governance practices

Regulatory scenario: Key insights

The corporate governance practices of Indian listed companies are driven by a combination of mandatory requirements and voluntary guidelines. At the core, the Companies Act is the governing legislation. The Ministry of Corporate Affairs (MCA) periodically issues rules, circulars and guidelines on corporate governance practices.

In March 2019, MCA released the National Guidelines for Responsible Business Conduct (NGRBC), which gives a set of nine principles that enunciate business and human rights and sustainable development goals as a responsibility of the board. These guidelines are currently recommendatory in nature.

Listed companies in India are regulated by SEBI and are subject to the regulations, rules and circulars issued by it. The primary regulations include SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015, which impose a range of substantive requirements on listed companies relating to disclosure requirements, rights of shareholders and the responsibilities of the board. Further, certain industry-specific regulators such as the Reserve Bank of India (RBI) and the Insurance Regulatory and Development Authority of India (IRDAI) also prescribe governance norms on corporate governance.

Corporate governance practices of Indian listed companies are also nudged by market forces such as investor expectations, proxy voting guidelines and recommendations, governance scorecard criteria and international best practices that are voluntarily adopted by boards to unlock governance premium to share value. 72% of the participants believe that they have implemented corporate governance practices over and above the stipulated regulations.

SEBI formed the Kotak Committee to identify and recommend good corporate governance practices. In May 2018, certain recommendations were approved and adopted.

Kotak Committee Recommendations

Composition of the board

- Minimum six directors
- At least one independent woman director
- Maximum number of directorships capped to 8
- Role of chairperson and managing director to be separated
- Competencies/expertise of directors to be disclosed
- Independence of directors - Promoter/relatives not to be independent directors in each other's companies

Monitoring group entities and related parties

- Governance unit or governance committee to monitor large number of unlisted subsidiaries
- Material related party transactions to be approved by shareholders
- At least one independent director on the board of a listed entity to be the director of unlisted material subsidiary
- Shareholder's approval required if total remuneration exceeds INR 5 crore or 2.5% of profit to a single executive promoter director, whichever is higher, or 5% of profit to all executive promoter directors

Accounting and disclosure

- Disclosure of consolidated financial results mandatory for all the listed entities on a quarterly basis
- Disclosure of cash flow statement on a half-yearly basis mandatory for all listed entities
- Limited review/audit of at least 80% of financial information of the group
- Mandatory disclosures of quantification of audit qualifications
- Disclose the list of all credit ratings obtained along with any revisions in corporate governance section of its annual report
- Disclose certain key financial ratios in the section of management, discussion and analysis in the annual report

In India, 90% of the companies are unlisted. Clause 49 of the listing agreement is limited to listed companies. In promoter-driven companies, control and management depend upon the promoters of the company.

Corporate governance challenges

The general belief is that the plethora of laws are one of the biggest challenges in implementing good corporate governance practices.

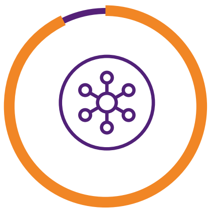
42% of the respondents believe that current regulations are inadequate

31% believe that a reduction in the compliance will enhance corporate governance

There is a clear trend demonstrating a strong need to improve and simplify corporate governance regulations.

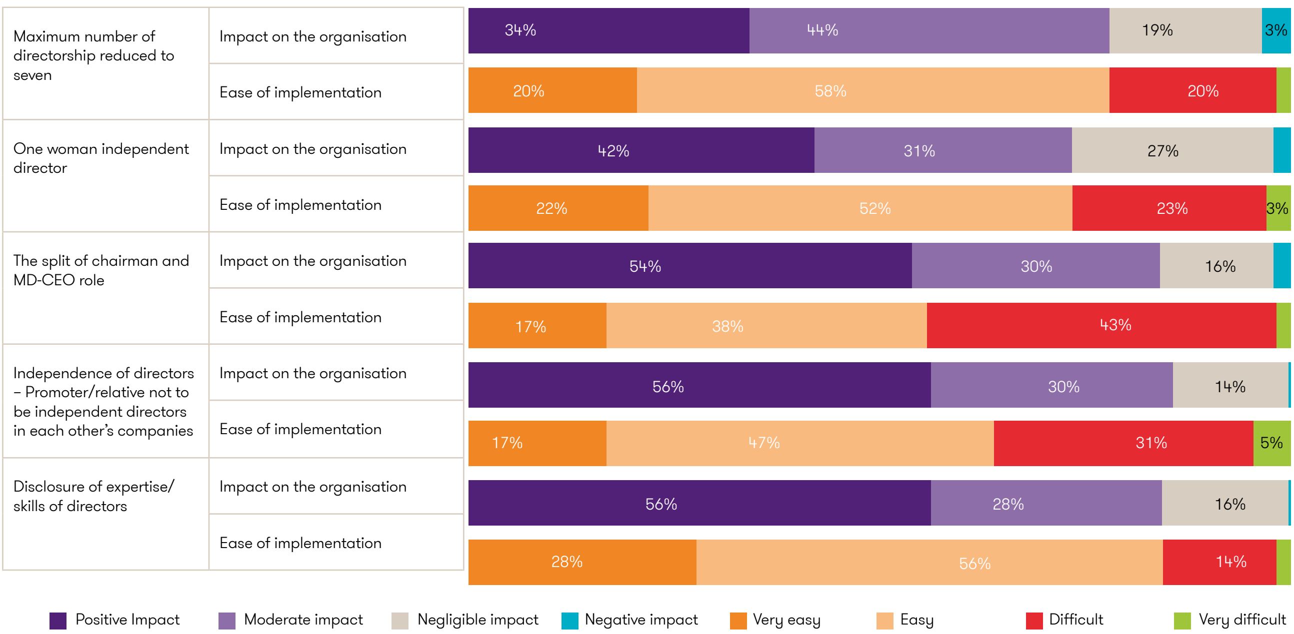
Majority of the regulatory requirements are mandatory only for listed companies.

75% of the respondents believe that regulatory requirements relating to corporate governance practices are to be extended to unlisted companies as well



95% of the respondents believe that industry-specific regulators like SEBI, RBI, IRDAI, etc., have a key role to play in corporate governance.

Kotak Committee Recommendations - Overall, 81% of the respondents believe that the Recommendations had a good impact and 71% of the respondents confirm that the Recommendations were easy to implement.



Future of corporate governance: Key insights

Corporate governance and independent directors

Independent directors are one of the crucial parties in implementing corporate governance practices. As per NSE Infobase, there has been a steep increase in the number of resignations of independent directors over the last two years. 51% of the independent directors who resigned did not quote any reasons/did not choose to be re-appointed.

It is not an uncommon practice for independent directors to quit before the end of their tenure, due to heavy personal liabilities under various regulations.

There various other regulations such as Insolvency and Bankruptcy Code, 2016, the Prevention of Money Laundering Act, 2002, etc., which have penal consequences on a director for non compliances. Recent decisions of the Supreme Court of India, including the freezing of personal assets of independent directors for defaults by the company, have driven the proactive adoption of stronger governance practices.

71% of the respondents believe that there is a need for rationalisation of liabilities through implementation of appropriate regulations relating to independent directors

Culture, innovation and digital strategy take centre stage

More than 70% of the respondents affirmed that culture, innovation and digital strategy are the key focus of board meeting discussions.

Culture: One definition of corporate culture is that it is a combination of values, attitudes and behaviour that a company exhibits in its operations and its relations with those affected by its conduct, e.g., employees, customers, suppliers and wider society. What is undeniable, though, is that around the world, the issue of corporate culture is receiving increased regulatory attention as a foundation of good governance.

As a result, the issue has arguably never been as high up the business agenda as it is today. SEBI guidelines also recommended that boards set a corporate culture and values which should be followed by the company.

93% of the respondents see culture as an important success factor to implementing strong corporate governance practices

Innovation and digital strategy: Innovation and digital strategy are key to implementing and improving corporate governance practices.

75% of the respondents are using technology to implement corporate governance practices

Illustrative uses of technology in corporate governance:

- E-board meetings
- Board evaluations
- Voting and resolutions
- Compliance management solutions
- Electronic board portals and management systems
- Protection of unpublished price-sensitive information

Conclusion

While there is a strong need to increase regulatory requirements for corporate governance, regulations need to be simplified and rationalised. Culture and technology have taken the centre stage and are the key to implementing and improving corporate governance practices.

The importance of corporate governance is increasing in today's corporate environment at multiple levels. Stakeholders realise the need and benefits of good corporate governance practices. While revenue and profits are key to business success, stakeholders now understand that good governance practices increase stakeholder value, ultimately leading to value maximisation and increasing share prices.

While corporate governance was more of a compliance requirement for listed companies mandated by SEBI and other regulated statutes, unlisted companies have also shown a great improvement in the space of corporate governance. Over the past three years, companies acknowledge the necessity of good corporate governance practices in the overall growth and hence have devoted adequate time and efforts in implementing good corporate practices around board diversity, woman representation on the board and board competency.

While compliance with regulatory requirements was more of a mandatory requirement for companies, some felt the need to extend the compliance to non-listed companies, while others have a view that reduction of compliance will help organisations focus more on implementing good corporate environment in the true sense.

Regulatory bodies like RBI, IRDAI, etc., also play a key role in ensuring the adoption of good corporate practices for the organisations belonging to a specific industry. India is witnessing a battle to restore trust in business – after a succession of corporate collapses and governance failings have come to the fore. Good corporate governance practices help in building stakeholder confidence, leading to value maximisation.

Formal training for the board of directors on corporate Governance and implementation of good governance practices as a key performance indicator will help organisations move towards a good corporate culture in the future.

Future of corporate governance: While there is a strong need to increase regulatory requirements for corporate governance, regulations need to be simplified and rationalised. Culture and technology have taken the centre stage and are the key to implementing and improving corporate governance practices.

Annexure

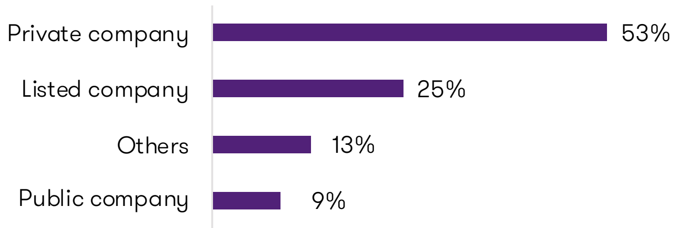
The survey methodology and an overview of the respondent profile are set out in this Annexure.

Methodology

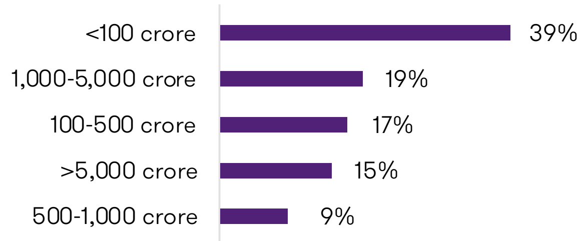
This survey covered various companies across industries. Survey responses were received from 107 participants, through an online portal and in-person and telephonic interviews. The survey was conducted during the period October 2019 and November 2019.

Respondents' profile

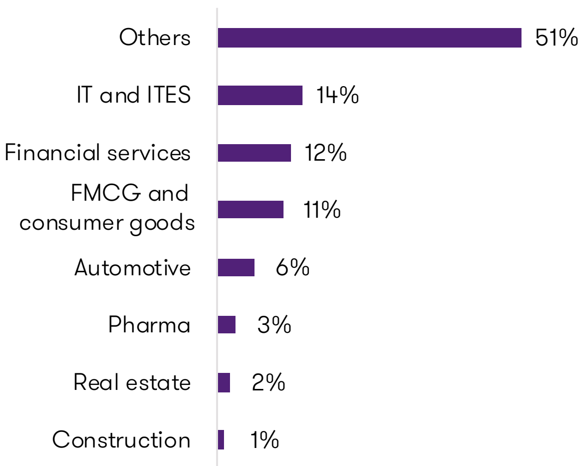
Respondents by organisation category



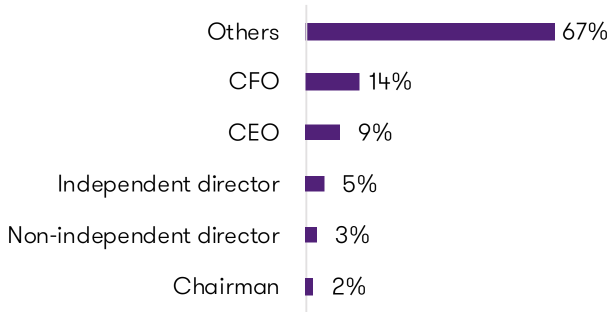
Respondents by size of enterprise



Respondents by industry



Respondents by designation



About CII

Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry- led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 7200 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 100,000 enterprises from around 242 national and regional sectoral industry bodies.

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