

Corporate Governance Disclosure Practices: The Portrait of a Developing Country

Madan Lal Bhasin

School of Management, New York Institute of Technology

P.O. Box 11287, Campus 851, Road 3828, Adliya, Manama, Kingdom of Bahrain

Tel: 973-177-11-444 E-mail: madan.bhasin@rediffmail.com

Abstract

CG disclosure is a fundamental theme of the modern corporate regulatory system, which encompasses providing information by a company to the public in a variety of ways. In the light of CG compliance requirements and disclosure standards, as envisaged by provisions of Clause 49 of the Listing Agreement, this study analyzes the CG disclosure practices in India. We have primarily used the secondary sources of information, both from the Report on CG and the Annual Report of Reliance Industries Limited (RIL) for the financial year 2008-2009.

In this study of RIL, we have developed our own model as a 'working' method. In order to ascertain how far this company is compliant of CG standards, a 'point-value-system' has been applied. Based on the disclosures made by the Company and an in-depth evaluation of the results, we conclude that this company has shown 'very good' performance, with an overall score of 85 points. Despite some limitations, this study will help us to pinpoint the effectiveness of CG practices followed by the Reliance group. Based on our findings, we can conclude that RIL group is in the forefront of implementation of "best CG practices in India," but some scope still exists for its improvement.

Keywords: Corporate Governance, Disclosure Practices, Developing Country, SEBI's Clause 49, Listing Agreement, RIL

1. Introduction

During the 1990s, a number of high-profile corporate scandals in the USA and elsewhere in the world, triggered an in-depth reflection on the regulatory role of the government in protecting the interests of shareholders. In view of the growing number of scandals, and the subsequent wide-spread public and media outcry, a plethora of governance 'norms,' 'codes,' 'best practices,' and 'standards' have sprouted around the globe. For instance, the Sarbanes-Oxley legislation in the USA, the Cadbury Committee recommendations for the European Union (EU) companies, and the OECD principles of corporate governance, are perhaps the best-known among these. The Cadbury Committee (1992) advocated, first of all, disclosure as "a mechanism for accountability, emphasizing the need to raise reporting standards in order to ward-off the threat of regulation. Improved disclosure results in improved transparency, which is one of the most essential elements of healthy CG practices." Similarly, the Hampel Committee (1998) regulated disclosure as "the most important element of accountability and in introducing a new code and set of principles stated that their objective was not to prescribe corporate behavior in detail but to secure sufficient disclosure so that investors and others can assess companies performance and governance practice and respond in an informed way." According to the OECD's (2006) 'Guidance on Good Practices in Corporate Governance Disclosure,' "All material issues relating to CG of the enterprise should be disclosed in a timely fashion. The disclosure should be clear, concise, precise, and governed by the substance over form principle."

In light of these recent developments, Dragmore (2009) very aptly remarked, "New regulations, new requirements and ever-increasing demands for transparency determine companies to follow the recent trends in corporate reporting (or disclosure) in order to comply with 'best practice' regulations: viz., narrative reporting, balance in the structure of reports, inclusion of management report, reporting CG and social responsibility, balancing financial and non-financial information, comparability over time, etc." To quote FASB (2001), "the quality of financial and non-financial disclosures depends significantly on the robustness of the reporting standards on the basis of which the financial/non-financial information is prepared and reported. In addition, disclosure indicates the quality of the firm's product and business model, its growth strategy and market positioning, as well as the risks it is facing

(Chahine and Filatotchev, 2008). Disclosure of information, thus, enables the shareholder to evaluate the management's performance by observing, how efficiently the management is utilizing the company's resources in the interest of the principal. As Solomon (2004) pointed out: "disclosure can be viewed from two perspectives: corporate disclosure and financial accounting disclosure." Therefore, information and its disclosure are the areas where company law and accounting regulations join hands together (Parker, 2007). It is a key objective of accounting rules, in general, to ensure that users' have sufficient and timely availability of information in order to participate in the market, on an informed basis.

According to Healy and Palepu (2001), "disclosure comprises all forms of voluntary corporate communications, for example, management forecasts, analysts' presentations, the annual general meetings, press releases, information placed on corporate Websites and other corporate reports, such as, stand-alone environmental or social reports." Thus, appropriate corporate disclosure systems means that a good company is able to impress the markets with its integrity. For example, Collett (2005) asserts that CG issues have become so significant that it is likely firms use information about them for "impression" management. However, it is universally accepted that all material issues relating to CG of the enterprise should be disclosed in a timely fashion; the disclosure should be clear, concise, precise, and governed by the substance over form principle." As a matter of principle, Baek, Johnson, and Kim (2009) pointed out that "all the relevant information should be made available to the users in a cost-effective and timely way." Whatever disclosures are made and whatever channels are used, however, a clear distinction should be made between 'audited' and 'non-audited' financial information, and matters of validation of other non-financial information should be provided (OECD, 2004). Company managements, across the globe, thus recognize that there are economic benefits to be gained from a well-managed disclosure policy. A detailed and structured system of disclosure enables investors to understand, and obtain accurate and reliable information of companies in order to make better investment decisions (Ho, et. al., 2008). Some research studies have shown that with increased corporate disclosure, firms experience a reduction in cost of equity capital (Botosan & Plumlee, 2002), as well as, the cost of debt (Sengupta, 1998). Similarly, Healy, Hutton, and Palepu (1999) found a beneficial increase in the firm's stock liquidity and performance. Moreover, information disclosure in itself is a strategic tool, which enhances a company's ability to raise capital at the lowest possible cost (Lev, 1992).

Communication via corporate disclosure is self-evidently a very important aspect of CG in the sense that meaningful and adequate disclosure enhances good CG. For instance, Whittington (1993) lucidly states: "Published annual reports are used as a medium for communicating both quantitative and qualitative corporate information to shareholders, potential shareholders (investors) and other users." Although publication of an annual report is a statutory requirement, companies normally voluntarily disclose information in excess of the mandatory requirements. Company management recognizes that there are economic benefits to be gained from a well-managed disclosure policy. However, the UNCTD "Guidance on Good Practices in Corporate Governance Disclosure (2006)" succinctly describes: "The location of CG disclosures within the Annual Report of a Corporation is not generally well-defined, and can vary substantially across-country in practice. However, some degree of harmonization of the location of CG disclosures would be desirable to make the relevant data more accessible, in the long-run." Two possible approaches include: first, putting all CG disclosures in a "Separate Section" of the Annual Report, and second, in a stand-alone "Corporate Governance Report". Examples of the former approach are found in the recommendations of the Hong Kong Society of Accountants, and the listing requirements in India and Switzerland, which provide for CG disclosures to appear in a "separate section" of the Annual Report and in a prescribed format. Similarly, the OECD's "Guidance on Good Practices in CG Disclosure (2006)" forcefully suggests that "where CG disclosures are not consolidated, there should be sufficient cross-referencing to different disclosures so as to improve access to the information." Even where disclosure requirements exist, there is usually substantial latitude afforded to managers in relation to the quality and quantity of disclosure about company-specific governance practices (Labelle, 2002). Moreover, the enterprise should disclose awards or accolades for its good CG practices, especially where such awards or recognition come from 'independent' international agencies.

In the years following the Asian crisis of 1997, there has been considerable pressure placed on the Asian companies to improve their CG. This has included calls for improved transparency, stronger external monitoring, and heightened investor protection (Nowland, 2008). However, rather than taking a regulatory approach (such as the Sarbanes-Oxley Act in the U.S.), Asian countries have implemented "voluntary" CG Codes, advising Companies how to improve their governance and disclosure practices. Over the last few years, the thinking on the CG topic in India has gradually 'crystallized' into the development of norms for listed companies. To borrow words of Sareen (2009), "The codes, while not mandatory, do encourage Companies to implement stronger CG structures, and release more information in a timely manner to market participants." The current requirements for

disclosures of CG practices in India have developed from a reform process that began in the late 1990s (Verma and Gupta, 2004). In fact, there have been several CG initiatives launched in India since the mid-1990s. The first was by the Confederation of Indian Industry (CII), which came up with the “first” Voluntary Code of CG in 1998 (Chakrabarti et. al, 2008). The second was by the “Securities Exchange Board of India (SEBI, www.sebi.gov.in),” now enshrined as Clause 49 of the listing agreement. The third was the Naresh Chandra Committee, which submitted its report in 2002. The fourth was again by SEBI—the Narayana Murthy Committee, which also submitted its report in 2002. Based on some of the recommendation of these two committees, SEBI revised Clause 49 of the listing agreement in August 2003. Unfortunately, the problem for private companies, which form a vast majority of Indian corporate entities, remains largely unaddressed. It should be noted here that even the most prudent norms can be hoodwinked in a system plagued with widespread corruption (Subramanian, 2006), Nevertheless with industry organizations and chambers of commerce themselves pushing for an improved CG system, the future of CG in India promises to be distinctly better than the past.

2. Clause 49 of the Listing Agreement

The term ‘Clause 49’ refers to clause number 49 of the Listing Agreement between a company and the Stock Exchanges on which it is listed. The Listing Agreement is identical for all Indian Stock Exchanges, including the NSE and BSE. This clause is a recent addition to the Listing Agreement and was inserted as late as 2000 consequent to the recommendations of the Kumar Mangalam Birla Committee on CG constituted by SEBI in 1999. Clause 49, when it was first added, was intended to introduce some basic CG practices in Indian companies and brought in a number of key changes in governance and disclosures (many of which we take for granted today). In late 2002, the SEBI constituted the Narayana Murthy Committee to “assess the adequacy of current corporate governance practices and to suggest improvements.” Based on the recommendations of this committee, SEBI issued a modified Clause 49 on October 29, 2004 (the ‘revised Clause 49’) which came into operation on January 1, 2006.

Revised Clause 49 of the Listing Agreement in India requires all listed companies to file every quarter a CG report. According to SEBI guidelines (visit www.sebi.gov.in), “The key mandatory features of Clause 49 regulations deal with the followings: composition of the board of directors, the composition and functioning of the audit committee, governance and disclosures regarding subsidiary companies, disclosures by the company, CEO/CFO certification of financial results, and reporting on CG as part of the Annual Report.” Moreover, Clause 49 also requires companies to provide “specific” corporate disclosures of the followings: related-party transactions, disclosure of accounting treatment, if deviating from Accounting Standards, risk management procedures, proceeds from various kinds of share issues, remuneration of directors, a management discussion and analysis section in the annual report discussing general business conditions and outlook, and background and committee memberships of new directors, as well as, presentations to analysts. In addition, a board committee, with a non-executive chair, is required to address shareholder or investor grievances. Finally, share transfer, a long-standing problem in India, must be done expeditiously (Patel, 2006).

The revised Clause 49 has suitably pushed forward the original intent of protecting the interests of investors through enhanced governance practices and disclosures. The revised Clause 49 moves further into the realm of global best practices (and sometimes, even beyond). In this connection, Chakrabarti (2008) very aptly commented as: “Similar in spirit and scope to the Sarbanes-Oxley measures in the USA, Clause 49 has clearly been a milestone in the evolution of CG practices in India.” It is now mandatory for the Indian listed companies to file with the SEBI, the CG compliance report, shareholding pattern along with the financial statements. The SEBI has created a separate link, known as “Edifar,” to post the relevant information submitted by the company. No doubt, the quality and quantity of disclosures have improved.

3. Review of Literature

Collett and Hrasky (2005) analyzed the relationships between voluntary disclosure of CG information by the companies and their intention to raise capital in the financial market. A sample of 299 companies listed on Australian stock exchange had been taken for the year 1994 and Connect-four database had been used for collection of annual reports of companies. The study found out that “only 29 Australian companies made voluntary CG disclosure, and the degree of disclosures were varied from company to company.” Similarly, Barako et al., (2006) examined the extent of voluntary disclosure by the Kenyan companies over and above the mandatory requirements. This study covered a period of 10 years from 1992 to 2001. The results revealed that “the audit committee was a significant factor associated with level of voluntary disclosure, while the proportion of non-executive directors on the board was negatively associated.”

Recently, CG has received much attention in the Asian countries due to its financial crisis. For example, Gupta, Nair and Gogula (2003) analyzed the CG reporting practices of 30 selected Indian companies listed in BSE. The CG section of the annual reports for the years 2001-02 and 2002-03 had been analyzed by using the content analysis, and least square regression technique was used for data analysis. The study found “variations in the reporting practices of the companies, and in certain cases, omission of mandatory requirements as per Clause 49.” In a similar study, Bhattacharyya and Rao (2005) examined whether adoption of Clause 49 predicts lower volatility and returns for large Indian firms, they compare a one-year period after adoption (starting June 1, 2001) to a similar period before adoption (starting June 1, 1998). The logic is that Clause 49 should improve disclosure and thus reduce information asymmetry and thereby reduce share price volatility. The authors find insignificant results for volatility and mixed results for returns.

In another study undertaken by Subramanian (2006), he identified the differences in disclosure pattern of financial information and governance attributes. A sample of 90 companies from BSE 100 index, NSE Nifty had been taken. The data with respect to disclosure score had been collected from the annual reports of the companies for the financial year 2003-04. The study used the Standard & Poor’s “Transparency and Disclosure Survey Questionnaire” for collection of data. The study finally concluded that “there were no differences in disclosure pattern of public/private sector companies, as far as financial transparency and information disclosure were concerned.” Similarly, K. C. Gupta (2006) traced out the differences in CG practices of few local companies of an automobile industry. The data with respect to governance practices had been collected from the annual report of the companies for the year 2004-05. The study “did not observe significant deviations of actual governance practices from Clause 49.”

The aforesaid review of studies reveals that there is a need to study the CG disclosure practices (mandatory and/or voluntary) followed by the companies in India. Since CG is in the process of gradual evolution in India, therefore, this paper attempts to study the CG practices followed by the Reliance Industries Limited (RIL). The Reliance group is India’s largest private sector enterprise and group’s annual revenues are in excess of US\$ 28 billion. The flagship company, RIL is a Fortune Global 500 company.

4. Significance of the Study

With the revised SEBI guidelines (Clause 49) demanding the listed Indian companies to adopt and follow the CG norms, it became necessary for every organization to ensure higher shareholder and stakeholder values. This paper explores and studies the CG practices of the Reliance group. Since CG is in the process of evolution in India, therefore, this descriptive study would attempt to examine the CG practices followed by the Company. For the purpose of this research work, we are going to use “case study” approach to analyze the CG practices of the Indian firm. In order to assess the structure and processes for CG followed by RIL, we have conducted this study based on disclosure/reporting requirements, as stipulated by the Securities Exchange Board of India’s revised Clause 49 of the Listing Agreement. The Reliance group is India’s largest private-sector enterprise and group’s annual revenues are in excess of US\$ 28 billion. This flagship company is a Fortune Global 500 company. Since Reliance group is the largest private-sector firm, therefore, its CG practices will certainly attract a lot of attention and may prove to be an exemplifier trend-setter in the Indian corporate world CG scenario.

5. Research Methodology

After having an overview of the concept of CG disclosure and the Indian experience with disclosure requirements, CG as practiced in the RIL is discussed in much detail. This research also involves review of literature pertaining to Reliance group, in general, and CG at Reliance, in particular, which is the secondary data. A few unstructured and informal interviews with some of the executives across the Reliance group were also conducted, to get the primary data on the research topic. The annual reports of the RIL were also reviewed with special reference to “CG Best Practices,” as described in the Report on CG.

This research work uses the “case study” approach to analyze the CG practices of the Indian firm. The firm is a part of both the BSE Sensex and the NSE Nifty. This company has been selected on the ground that it is the largest private-sector firm and its share prices influence the movement of the Indian stock market. The reason for selection of the said period is easy availability of the CG Report and Annual Report for the year 2008-2009. This study would give us glimpse of the state of the CG practices and disclosure norms in the light of the latest SEBI Clause 49 of the Listing Agreement. In order to assess the structure and processes for CG followed by RIL, and its effectiveness in terms of substance and quality of disclosure of CG in the annual report, we have conducted the study based on statutory and non-mandatory requirements stipulated by the revised Clause 49 of the Listing Agreement, as also the provisions required by the Companies Act, 1956.

6. Analysis and Discussion of the Findings

The Company recognizes that good CG is a continuing exercise and reiterates its commitment to pursue highest standards of CG in the overall interest of all stakeholders. For implementing the CG practices, RIL has a well-defined policy framework, and their effective implementation underpin the commitment of the Company to uphold highest principles of CG. With expert assistance from Indian and international firms, the Company had initiated a program to review its policies and practices of CG with a clear goal, not merely to comply with statutory requirements in letter and spirit, but also to implement the best international practices of CG, in the overall interest of all the stakeholders. Reliance is in the forefront of implementation of CG “best practices”. Keeping in view the Company’s size, complexity, global operations and corporate traditions, the Reliance governance framework (visit www.ril.com for details) is based on the following principles:

- Constitution of a Board of Directors of appropriate composition, size, varied expertise and commitment to discharge its responsibilities and duties.
- Ensuring timely flow of information to the Board and its Committees to enable them to discharge their functions effectively.
- Independent verification and safeguarding integrity of the Company’s financial reporting.
- A sound system of risk management and internal control.
- Timely and balanced disclosure of all material information concerning the Company to all stakeholders.
- Transparency and accountability.
- Compliance with all the applicable rules and regulations.
- Fair and equitable treatment of all its stakeholders including employees, customers, shareholders and investors.

The analysis of this Company is made in two parts: (I) Shareholding pattern, and (II) Key governance parameters and their compliance status.

6.1 Shareholding Pattern: The Company was funded by late Shri Dhirubhai Ambani, and Shri Mukesh Ambani is the promoter of the company. It may be noted here that 90.28% of the Company’s shareholders are geographically concentrated in Mumbai region. A snapshot of the shareholding pattern of RIL is shown in Table-1.

- It is evident from Table-1 that the ownership system is concentrated mostly in the hands of family controlled business group of RIL. This is a common feature of the ownership system in most of the Indian corporate business houses. However, RIL is no exception to this system. Around 51% of the equity shareholding of RIL is owned by the Ambani family members themselves.
- The management and control of operations of RIL is delegated to the team of professional managers, under the overall governance of the board, which is also primarily controlled by this family.
- Foreign institutional investors (FIIs) have substantial shareholdings in RIL. About 20% of the total shares are held by them.
- The shareholdings of small, individual and retail Indian investors in RIL are negligible, which is around 13%.

6.2 Key Governance Parameters and Their Compliance Status: We now examine the “Report on Corporate Governance” of RIL and ascertain the factual position with respect to the following key governance parameters:

6.2.1 Statement of Company’s Philosophy on Code of Governance: As discussed in the Report of Corporate Governance, “RIL’s philosophy on CG envisages attainment of the highest level of transparency, accountability and equity in all facets of its operations, and in all its interactions with its stakeholders, including shareholders, employees, lenders and the Government. RIL is committed to achieve and maintain the highest international standards of CG and enhance overall shareholders’ value on a sustained basis.” The section dealing with CG initiatives covers issues like insider trading code, followed by code of conduct for directors or senior management personnel, whistle-blower policy, CG rating, and succession planning.

6.2.2 Board of Directors/Board Issues: According to a research study undertaken by Patelli (2007), “The board of directors acts as one of the most important CG mechanism in aligning the interests of managers and shareholders.” The important functions of the board are to define a company’s purpose, to strategize and draw up plans to achieve that purpose, to appoint the chief executive, to monitor and assess the performance of the executive team, and to assess their own performance (Sarkar, 2009).

It is a policy of RIL to maintain an optimum combination of Executive Directors (ED) and Non-Executive Directors (NED). However, all the Independent Directors (ID) of the company are required to furnish a declaration at the time of their appointment (as also annually) that they qualify the tests of independence, as laid down under Clause 49.

Moreover, the Company has also disclosed the responsibilities or functions of the board followed by retirement age or tenure of directors, date of appointment of directors, relationship with other directors, the appointment of lead independent director, and shareholdings of the directors. They have also provided disclosures about the qualifications and biographical information of all board members. However, they did not disclose the type of development and training that directors undergo at induction, as well as, the actual training directors received during the reporting period. We examine various aspects of the board of directors, viz., board structure, board strength and size, directors' attendance and a few others. The board structure, strength and size of RIL are shown in Table-2.

- RIL has an optimum combination of executive directors (EDs), non-executive directors (NEDs), and independent directors (IDs) on its board during the year 2008-2009, thereby complying with the conditions of Clause 49 1 (A) (i) and (ii) of the Listing Agreement.
- According to the "Report on Corporate Governance," RIL has seven independent directors, out of the total strength of 12 board members. Since one of the seven independent directors is a senior partner of a Solicitors' and Advocates' Firm appointed by RIL, he appears to be disqualified as an independent directors, as per clause 49 I (A) (iii) (a) and (d) (ii) of SEBI Listing Agreement. Therefore, the total number of independent directors has been considered as six instead of seven, and the total number of other NEDs has been considered as two instead of one.

6.2.2.1 Directors' Attendance in Board Meetings: At RIL, nine Board meetings were held during the year 2008-2009, as against the minimum requirement of four meetings. The company has held at least one Board meeting in every three months, and the maximum time gap between any such two meetings was not more than three months. The Directors' attendance in the board meetings of the RIL is shown in Table-3.

- The board of RIL met nine times in the year 2008-2009, out of which the full-board met five times.
- The RIL's statistics showing directors' attendance in the board meetings during the year 2008-2009, as well as, their attendance in the last annual general meeting (AGM) are encouraging. Eight out of the 12 directors (including CMD) attended all nine board meetings. However, all the directors attended the last AGM of RIL. This clearly goes to exhibit "good accountability and commitment of the board members towards the stakeholders of the company."

6.2.2.2 Chairman and CEO Duality: Concentration of decision-making power resulting from role duality could impair the board's oversight and governance roles, including disclosure policies. Separation of the two roles provides the essential checks and balances on management behavior (Blackburn, 1994), as recommended in the revised Combined Code, 2006 (Haniffa and Cooke, 2002). Similarly, Kamesam (2006) observes: "A good CG principle expects that there should be a clear division of responsibilities at the helm of the company, which should ensure a balance of power and authority, such that no one individual has unfettered powers of decision." However, the decision to combine the posts of chairman and CEO/MD in one person should be publicly justified.

Strangely, it is observed that this principle has not been accepted and followed by the RIL as the power, authority, and responsibility at the helm in RIL are all vested in one individual only, i.e., chairman and managing director. Furthermore, RIL is not publicly justifying the decision to combine the posts of chairman and CEO/MD.

6.2.2.3 Disclosure of Tenure and Age Limit of Directors: The Code of Best Practice (Cadbury Code, 1992) demands that "independent directors may have a limited tenure, say, not exceeding in aggregate a period of nine years on the board of a company." Although, the age-limit for directors to retire may be decided by the respective companies, the corporate boards should have an adequate mechanism of self-renewal, as part of the CG best practice. The companies should fix up the retirement age for directors, say, up to a maximum of 70 years.

From this perspective, we have observed that RIL did not disclose its policy on age of retirement as also the age-limit and tenure of service of its non-executive directors. The tenure of office of the executive directors, however, is for contractual period of five years, but there is no age limit for their retirement. It is further observed from the "Corporate Governance Report" that out of the 12 board members, four are in the age bracket of 30-50 years, one in the age bracket of 51-60 years, one in the age bracket of 60-70 years, five in the age bracket of 71-80 years, and one in the age bracket of 81 years and above. Therefore, it may be concluded that half of the RIL board members are more than 70 years.

6.2.2.4 Disclosure of Definition of Independent Directors, Financial Experts and Selection Criteria for Board Members including Independent Directors: According to Patelli and Prencipe (2007), “Outside directors in general and, independent directors in particular, should be more effective monitors than are insiders whose interests may be at odds with outside shareholders.” Recently, Sarkar (2009) stated as: “Independent directors have the incentive to promote the interests of shareholders and be effective monitors, in order to protect their reputational capital and being sued by shareholders.”

A good governance system demands that a company should disclose in its annual report, the definition of independent director, financial expert, as also the selection criteria for board members, followed by the corporate board. It is observed that RIL has not followed this principle and hence, the company has not disclosed any information in this regard in its “Report on Corporate Governance”.

6.2.2.5 Post-Board Meeting Follow-Up System and Compliance of the Board Procedure: It is observed that RIL has disclosed information about post-board meeting follow-up system and its compliance in its report.

6.2.3 Appointment of Lead Independent Director: Lead independent director is a person who works as a spokesman on behalf of other independent directors on the board. He works as a link between management and other board members (Sharma and Singh, 2009).

The international standard of CG prescribes, as a good governance practice, that irrespective of whether the posts of chairman and CEO are held by different persons or by the same individual, there should be a strong and independent non-executive element on the board as lead independent director (other than the chairman), to whom concerns can be conveyed. It will be the responsibility of the lead independent director to act as a spokesperson for independent directors as a group, work closely with the chairman/CEO, and take a lead role in the board evaluation process, apart from other important board functions. The lead independent director should be identified in the annual report.

After a careful examination of the contents in this regard, we have noticed that RIL has appointed (Shri Mansingh L. Bhakra) a lead independent director, and also disclosed the required information in the “Report on Corporate Governance”. However, we personally feel that the RIL should consider designating another independent board member for this post since the present incumbent appears to be a non-independent, non-executive director.

6.2.4 Disclosure of Other Provisions as to the Boards and Committees: RIL has disclosed all the required information about the directorships in other companies and also provided details of committee membership and committee chairmanship.

6.2.5 Disclosure of Remuneration Policy and Remuneration of Directors: According to OECD’s Guidance on Good Practices in CG (2006), “Directors should disclose the mechanism for setting directors’ remuneration and its structure...Information regarding compensation packages should include salary, bonuses, pensions, share payments and all other benefits (financial or otherwise), as well as, reimbursed expenses.”

Clause 49 of the Listing Agreement requires the listed Indian firms “to establish and disclose a formal and transparent policy on executive remuneration and for fixing remuneration packages of individual directors based on the principles of fairness, reasonableness and accountability. There should be a clear relationship between responsibility and performance vis-à-vis remuneration.” The Indian Code (Clause 49) requires disclosure about remuneration in a section of the Annual Report on CG, in addition to suitable disclosure on directors’ remuneration in the profit and loss statement. Unfortunately, the RIL has not disclosed clearly its remuneration policy in its “Report on CG”. So far as disclosure of remuneration of directors is concerned, RIL has not disclosed the details of remuneration as per fixed component and performance linked incentives, details of perks and allowances of individual executive directors.

6.2.6 Code of Conduct Including Information and Affirmation of Compliance: Clause 49 I (D) of the Listing Agreement stipulate that “it shall be obligatory for the board of a company to lay down a code of conduct for all its board members and senior management,” states Verma and Gupta (2004). All board members and senior management personnel (i.e., core management team comprising all members of management one level below the executive directors including all functional heads) need to affirm compliance with the code on an annual basis. The report of the company needs to contain a declaration to this effect signed by the CEO.

The CG Report reveals that “RIL has furnished information and affirmation of compliance of the code of business conduct.” However, the present format of declaration to the shareholders, as disclosed in the report, deserves improvement that needs the addressees’ name, signature of CEO and date of the declaration.

6.3.1 Statutory Board Committees

6.3.1.1 Audit Committee: In India, audit committees are obligatory for all listed entities. According to Boris (2008): "Primary functions of the audit committee are most frequently related to the area of internal controls and risk management, financial reporting, compliance with legal regulations and the relevant fields and issues related to external and internal audit processes." Moreover, effective audit committees should improve internal control and act as a means of attenuating agency costs (Ho and Wong, 2001), and as a powerful monitoring device for improving value-relevant CG disclosure and more reliable financial reporting (Jing Li et. al., 2008).

The RIL board has constituted Audit committee, comprising three Independent, Non-Executive Directors, namely, Shri Yogendra P. Trivedi, Chairman, Shri S. Venkitaramanan, Vice Chairman, and Shri Mahesh P. Modi. All the members of the Audit Committee possess financial accounting expertises. The composition of the committee meets the requirements of Companies Act, 1956 and Clause 49. Five Committee meetings were held during the year, as against the minimum requirement of four meetings. The status of the audit committee in RIL is presented in Table-4.

- RIL has complied with the conditions of the Clause 49 of the Listing Agreement in regard to items 1, 2, 3, 4 and 6.
- No disclosure has been made regarding participation of head of finance, and head of internal audit in the audit committee meetings.
- RIL has not published audit committee report in the Report on Corporate Governance.

6.3.1.2 Shareholders'/Investors' Grievance Committee: The Board has constituted a five-member Shareholders'/Investors' Grievance committee. During the year, the committee met three times. Shri Vinod Ambani was appointed as the Compliance Officer for complying with the requirements of SEBI Regulations and the Listing Agreements with the Stock Exchanges in India. The total number of complaints received and resolved to the satisfaction of investors were 8080 during the year 2008-2009. However, 286 requests for transfers and 1172 requests for dematerialization were pending for approval by the end of the year. The status of shareholders'/investors' grievance committee in RIL is shown in Table-5.

- RIL has complied with all the requirements of Clause 49 of the Listing Agreement in regard to items 1 and 2. It has also given adequate information in regard to the items 3 and 4.
- However, RIL has not published the shareholders'/investors' grievance committee report in its Corporate Governance Report.

6.3.2 Non-Mandatory Board Committees

6.3.2.1 Remuneration Committee: The Board has constituted a four member remuneration committee, under the Chairmanship of Shri Mansingh L. Bhakra. The committee has been constituted to recommend/review remuneration of the Managing Director and Whole-time Directors, based on their performance and defined assessment criteria. However, there was no meeting of the committee during the year, as no revision in remuneration was considered. Table-6 depicts the status of the remuneration committee in RIL for the year 2008-2009.

- Formation of the remuneration committee in a listed company is a non-mandatory requirement of the Clause 49 of the Listing Agreement. Despite that, however, RIL has set up a remuneration committee following the conditions of Clause 49 of the Listing Agreement mentioned in items 1 and 3.
- The chairman of the committee is a non-executive non-independent director, although RIL has disclosed the status of the chairman of the committee as independent director which is a requirement of Clause 49.
- As reported in the Report on CG, RIL did not hold any meeting during the year and therefore, the requirement of participation of all the committee members, as per Clause 49, did not arise.
- However, RIL has not published any report of the remuneration committee, due to the reason explained above, in its Report on CG.

6.3.2.2 Other Board Committees

RIL did set up the following board committees in order to look into the important aspects of corporate governance: (a) Corporate Governance and Stakeholders' Interface (CGSI) Committee, (b) Employees Stock Compensation (ESC) Committee, (c) Finance Committee, (d) Health, Safety, and Environment (HS&E) Committee, and (e) Functional Committee. It is worth mentioning here that although no formal nomination committee has been formed by RIL, however, the related activities pertaining to 'nomination' has been assigned to Corporate Governance and Stakeholders' Interface Committee.

7. Corporate Governance Disclosure Scenario

Disclosures in the Report of Corporate Governance in the annual report of RIL, as required by the Clause 49 of the Listing Agreement, have been sub-divided into two parts: (1) Statutory requirements disclosures, and (2) Non-mandatory requirements disclosures.

7.1 Statutory Requirements Disclosures:

The Company has complied with all the mandatory requirements of Clause 49. Some of the most important items of disclosures/requirements and their status of compliance in RIL are outlined in Table-7.

7.2 Non-Mandatory Requirements/Disclosures:

The Company has complied with some of the important non-mandatory requirements stipulated under Clause 49. The Company has a whistle-blower policy and enforcement mechanism. Important items of non-mandatory requirements/disclosures and their status of compliance in RIL are depicted in Table-8.

7.2.1 General Body Meetings: The OECD Principles (2006) outline a general consensus as to the nature of shareholder meetings and the requirement to make shareholder participation as simple and effective as possible and ensure the equitable treatment of all shareholders.

In regard to reporting of information on a company's general body meetings, following information need to be mandatorily included in the annual report: (a) location and timing of general meetings held in last three years, (b) details of special resolution passed in the last three AGMs/EGMs, and (c) details of resolution passed during the previous year through postal ballot including the name of the conducting official and voting pattern/procedure. We have carefully observed that RIL has provided the required information, on all the above items, in the Corporate Governance Report.

7.2.2 Means of Communication and General Shareholder Information: Traditional channels of communication with stakeholders, such as, annual reports, should be supported by other channels of communication, taking into account the complexity and globalization of financial markets and the impact of technology (OECD, 2006).

RIL provided general shareholder information and adopted various means of communication (half-yearly reports, quarterly results, news releases, presentations, website, annual report, SEBI EDIFAR, etc.) every year, as prescribed by the Listing Agreement, to be included in the Report on Corporate Governance.

7.2.3 CEO and CFO Certification: Clause 49 of the Listing Agreement has mandated the CEO and CFO certification to the board of directors of a listed company, on certain specific matters, and disclosure of the same in the Corporate Governance Report. The Chairman and MD and the CFO of the company give certification on financial reporting and internal controls to the Board in terms of Clause 49. RIL has disclosed that it has complied with these requirements. But unfortunately it has not published the certificate in the Corporate Governance Report.

7.2.4 Compliance of Corporate Governance and Auditors' Certificate: It is observed that RIL obtained an "unqualified" certificate from company statutory auditors (M/s. Chaturvedi & Shah, M/s. Deloitte & Sells, and M/s. Rajendra & Co.) confirming that the company has complied with the conditions of Clause 49 of the Listing Agreement. This certificate was also forwarded to the Stock Exchanges where the securities of the company are listed. Details about the fees paid to the statutory auditors were also given.

In this connection, it may be stated that RIL does not appear to have sufficient ground for obtaining a clean certificate, as there are some glaring instances of non-compliance of certain important conditions of CG. The areas of non-compliance have been specified in the forthcoming section titled as "Analysis of Results and Suggestions for Improvement". Moreover, the company has voluntarily appointed a practicing company secretary to conduct "Secretarial Audit" of the company, who has submitted his report confirming the compliance with all the applicable provisions of various corporate laws. However, the 'Secretarial Audit Report' was given as an annexure to Report of CG.

7.2.5 Disclosure of Stakeholders' Interests: Here, we focus briefly on the disclosure made by the RIL in its annual report on various initiatives and measures taken by the company on the following items, in order to meet its commitments on the expectations and interests of stakeholders: (a) Environment, Health and Safety measures (EHS); (b) Human Resources Development (HRD); (c) Corporate Social Responsibility (CSR); and (d) Industrial Relations (IR). We have observed that RIL has explained in detail various initiatives and measures taken by the company on EHS, HRD, CSR and IR issues during the year. We personally feel that RIL should have disclosed its policies separately and clearly in regard to all these items.

8. Evaluation of the CG Standards at RIL

At RIL, CG is based on the principles of integrity, fairness, equity, transparency, accountability and commitment to values. In addition to complying with the statutory requirements, effective governance systems and practices towards transparency, disclosures, internal controls and promotion of ethics at work-place have been institutionalized. The Company recognizes that good CG is a continuing exercise and reiterates its commitment to pursue highest standards of CG in the overall interest of all stakeholders. With expert assistance, the Company had initiated a program to review its policies and practices of CG with a clear goal, not merely to comply with statutory requirements in letter and spirit, but also to implement the best international practices of CG, in the overall interest of all the stakeholders.

In order to study the CG practices of the RIL, the CG section of the Annual Report has been analyzed. After an in-depth examination and analysis of the governance structures, processes and disclosures made in the Corporate Governance Report, the next question arises as to what is the standard and quality of governance that has been achieved by the RIL?

No doubt, there have been some genuine difficulties while conducting this study. As an alternative, we have developed our own model as a 'working' method. The method applied here for evaluation of the standard and quality of CG practiced in RIL has considered all the relevant conditions of corporate governance, as stipulated by the Clause 49 of the Listing Agreement, and provisions of the Companies Act, 1956. In order to ascertain how far this company is compliant of governance standard, a point-value system has been applied, whereby adequate weight-age in terms of points has been provided to these conditions, according to their importance. Accordingly, RIL has been awarded points on "key parameters," which constitute the governance process in the company. These key governance parameters and the criterion for evaluation of governance standard have been selected on a hindered-point scale as shown in Table-9.

After determining the total score based on these parameters, RIL and industry have been evaluated on a five-point scale as shown in Table-10. An evaluation of the results reveals that the Company has shown "very good" performance with a score of 85 points. It also reveals that RIL in particular, and the textile, synthetics and petrochemical industry in general, have exhibited "very good" performance in maintaining the standards and attaining the quality of governance practices.

9. Conclusion and Suggestions

In fact, India has the largest number of 'listed' companies in the world, and the efficiency and well-being of the financial markets is critical for the economy in particular, and the society as a whole. It is imperative to design and implement a dynamic mechanism of CG, which protects the interests of relevant stakeholders' without hindering the growth of enterprises. Communication via corporate disclosure is self-evidently a very important aspect of CG in the sense that meaningful and adequate disclosure enhances "good" CG. Therefore, published Annual Reports of corporations are widely used as a medium for communicating (both quantitative and qualitative) information to shareholders, potential shareholders (investors), and other users. Furthermore, Eng and Mak (2003) states, "Although publication of an Annual Report is a statutory requirement, companies normally voluntarily disclose information in excess of the mandatory requirements." No doubt, corporate management, across the globe, widely recognizes that there are economic benefits to be gained from a well-managed disclosure policy.

Clause 49 of the Listing Agreement in India requires all "listed" companies to file every quarter a CG report, along with other mandatory and non-mandatory requirements of disclosures. At RIL, CG is based on well-established principles, and over-the-years, governance processes and systems have been strengthened. Not merely complying with letter and spirit of the statutory requirements, at RIL effective governance systems and practices have been institutionalized. The Company believes that good CG is a continuing exercise and reiterates its commitment to pursue highest standards of CG in the overall interest of all the stakeholders. With expert assistance, the Company had initiated a program to review its policies and practices of CG with a clear goal: "to implement the best international practices of CG in the overall interest of all the stakeholders." An attempt was made in this paper to explore the CG practices of the Reliance Group using exploratory method.

In the present exploratory case study of RIL, we had developed our own model as a "working" method. The method applied here for evaluation of the standard and quality of CG practiced in this Company had considered all the relevant conditions of CG, as stipulated by Clause 49 of the Listing Agreement and provisions of the Companies Act, 1956. In order to ascertain how far this company is compliant of CG standard, a "point-value-system" had been applied, as already shown above in Table-9.

In fact, we are duly aware about some of the limitations of our study viz., non-availability of inside information, and limited scope for discussion with the key officials of the company. Another limitation is that the findings are based on the study of just one Indian company (RIL), a listed company, which disclosed CG practices in the year 2008-2009, which may limit the generalizability of the results. Finally, this study focused on one avenue of company disclosure, namely, corporate annual reports, and the extent to which companies voluntarily release information through other means (such as the media and the internet) represent a limitation of this study. This raises further uncertainty about the extent to which the results can be generalized in the Indian context. However, the findings suggest opportunities for further research, as well as, suggestions for Company to consider.

In spite of some limitations, this case study will help us to pinpoint the effectiveness of CG practices followed by the Reliance group. Based on the disclosures made by the Company in its “Report on CG” for the year 2008-2009, and an in-depth evaluation of the results reveals that this company has shown “very good” performance, with an overall score of 85 points (see Table-10 for details). Furthermore, this study highlights that Reliance group in particular (and the textile, synthetics and petrochemical industry in general) have exhibited “very good” performance in maintaining the CG standards and attaining the quality of governance practices.

From the above ‘micro’ analysis, and study of the Annual Report of Reliance Company for the year 2008-2009, it is apparent that there is still some scope for improvement in the level of CG standards and quality of disclosures to be practiced in the company. However, many of the areas where the Company needs to improve its CG practices are common to most of the other Indian firms. The specific areas where the RIL needs to pay special attention are as follows:

- Disclosure of the power and responsibility at the helm of affairs of the company, to recognize the principle of chairman and CEO duality, as well as, public justification for combining the post of chairman and CEO/MD in one person in the company.
- Disclosure of tenure and age-limit of all executive, non-executive, as well as, independent directors.
- Disclosure of the “definition” of independent director, financial expert, and disclosure of selection criterion for non-executive and independent directors.
- Proper appointment of Lead Independent Director in the board, in strict compliance with the provisions of Clause 49 I (A) (iii) (a) and (d) (ii) of SEBI Listing Agreement.
- Disclosure of “break-up” of remuneration policy, as well as, providing information about the detailed “break-up of salary”—fixed component, performance-linked-incentives, perks and allowances, etc., of each executive director separately.
- Affirmation of Compliance of Code of Conduct, and declaration to the shareholders in a proper and acceptable ‘format’.
- Disclosure of the reports of Audit Committee, Remuneration Committee and Shareholders’/Investors Grievance Committee in the “Corporate Governance Report.”
- Constitution of “separate board committees” for effective governance of the company’s affairs, e.g., Ethics Committee, Nomination Committee, Investment Committee, etc., and disclosure of the reports of these committees in the Annual Reports.
- Disclosure of information to the Board on “risk management” and publishing of a comprehensive report on risk management—risk assessment and risk minimization procedures envisaged and adopted by the company, in the annual report for stakeholders’ information and review.
- Disclosure of mechanism of evaluation of executive/non-executive directors’ performance in the company.
- Disclosure and publishing of “CEO and CFO Certificate” in the Report on Corporate Governance.
- Disclosure of the Company’s policy on EHS, HRD, CSR and IR issues.
- Voluntary disclosures: independence of external auditors, role of employees in CG, succession planning, etc.

As per OECD guidelines (2006), “The enterprise should disclose awards or accolades for its good CG practices, especially where such awards or recognition come from major rating agencies, stock exchanges or other significant financial institutions, disclosure would prove useful since it provides independent evidence of the state of a company’s CG.” It is worth mentioning here, Reliance group had won “the Golden Peacock Global Award for Excellence in Corporate Governance” for the year 2008. This award for CG was instituted with the

support of the World Council for Corporate Governance in 2001, “to foster competitiveness among the businesses to improve the quality of CG.”

Undoubtedly, Reliance group is a stalwart and the exemplary performance of this group in the field of CG, with a strong code of ethics and excellence in performance, is worth being appreciated. The Company has already set high standards for CG, which shall be revered, appreciated and followed by the generations to come. In nutshell, this Company is in the forefront of implementation of CG best practices. Keeping in view, Reliance group is the largest and well-known private-sector firm in India, we are hopeful that its CG disclosure practices will attract a lot of “public” attention, and may act as a good “trend-setter” in the Indian corporate world.

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Table 1. Shareholding Pattern of RIL for the year 2008-2009

| S. No. | Name of the Shareholder(s) | No. of shares | % of Total Shareholding |
|--------|-------------------------------------|---------------|-------------------------|
| 1 | Promoter & Promoter Group | 710370687 | 50.98 |
| 2 | Mutual Funds and UTI | 34520821 | 2.48 |
| 3 | Banks, FI's and Insurance companies | 76551933 | 5.50 |
| 4 | Foreign Institutional Investor's | 271623991 | 19.49 |
| 5 | Private Corporate Bodies | 59562329 | 4.27 |
| 6 | Indian Public | 179375149 | 12.87 |
| 7 | NRI's and Overseas Corporate Bodies | 11566390 | 0.83 |
| 8 | Depository under GDR facility | 49936741 | 3.58 |
| | Grand Total | 1393508041 | 100 |

(Source: Reliance Industries Limited, Annual Report: 2008-2009, page 60)

Table 2. Board Structure, Strength and Size of RIL for the Year 2008-2009

| Particulars | RIL |
|---|---------|
| Total Number of Directors | 12 |
| (a) No. of Executive Directors (EDs) | |
| (i) Promoters | 1 (C) |
| (ii) Others | 3 |
| (b) No. of Non-Executive Directors (NEDs) | |
| (i) Promoters | -- |
| (ii) Independent (IDs) | 6 |
| (iii) Nominee | -- |
| (iv) Others | 2 |
| 2. Total Number and Percentage of Directors | |
| (i) Executive Directors (EDs) | 4 (33%) |
| (ii) Non-Executive Directors (NEDs) | 8 (67%) |
| (iii) Independent Directors (IDs) | 6 (50%) |

Note: (C) denotes executive chairman/chairman-cum-managing director.

(Source: Extracted from RIL's Annual Report: 2008-2009, pp. 43-47)

Table 3. Directors' Attendance in the Board Meetings of RIL in the Year 2008-2009

| Number of Board Meetings Attended | Number of Directors Present |
|--|-----------------------------|
| 7 | 1 |
| 8 | 3 |
| 9* | 8 (C+1) |
| Last Annual General Meeting (AGM) Attended | 12 |

Note: * indicates the total number of board meetings held in RIL; and (C+) indicates the attendance of chairman including other directors in board meetings.

(Source: Reliance Industries Limited, Annual Report: 2008-2009, page 50.)

Table 4. Status of Audit Committee in RIL in the Year 2008-2009

| S. No. | Particulars | Status |
|--------|--|---|
| 1. | Transparency in composition of audit committee | Committee consists of three NED/Independent Directors, chairman being independent. |
| 2. | Compliance of minimum requirement of the number of independent directors in the committee. | All members are independent directors as required by the Clause 49 of the Listing Agreement. |
| 3. | Compliance of minimum requirement of the number of meetings of the committee. | Five meetings held during 2008-2009. All three members attended all five meetings. |
| 4. | Information about literacy and financial expertise of the committee members. | All members reported having adequate literacy and expertise in finance and accounting. |
| 5. | Information about participation of finance, statutory auditors, chief internal auditors, and other invitees in the committee meetings. | Executives of Accounts, Finance, Secretarial departments, Management Audit Cell, and representatives of statutory internal auditors, cost auditors attended the meetings. |
| 6. | Disclosure of audit committee charter and terms of reference. | Audit committee charter/terms of reference disclosed in corporate governance report. |
| 7. | Publishing of audit committee report. | Not published in corporate governance report. |

(Source: RIL Annual Report, 2008-2009, pp. 50-51)

Table 5. Status of Shareholders'/Investors' Grievance Committee in RIL in the Year 2008-2009

| S. No. | Particulars | Status |
|--------|---|--|
| 1. | Transparency in the composition of the committee | Committee consists of five directors, of whom three are executive directors, one independent director, and one non-executive non-independent director, chairman being non-executive. |
| 2. | Information about nature of complaint and queries received and disposed—item wise. | Item-wise break-up of the nature of queries/complaints disclosed. No complaints pending reported. |
| 3. | Information about number of committee meetings and attendance of committee members. | Three meetings held during the year. Four members attended all three meetings and one member attended two meetings. |
| 4. | Information about investor/shareholder survey conducted. | Shareholders feedback survey conducted and disclosed in the CG Report. |
| 5. | Publishing of committee report. | Not published in CG Report. |

(Source: Compiled from RIL's Annual Report: 2008-2009, page 55)

Table 6. Status of Remuneration Committee in RIL in the Year 2008-2009

| S. No. | Particulars | Status |
|--------|---|---|
| 1. | Transparency information of the committee | Committee consists of four directors, of whom three are independent directors, and one non-executive non-independent director. |
| 2. | Information about number of committee meetings | No meeting held during 2008-2009. |
| 3. | Compliance of minimum requirements of the number of NEDs in the committee. | Committee consists of all NEDs/Independent directors, complying with minimum requirement of Clause 49 of the Listing Agreement. |
| 4. | Compliance of the provision of independent director as chairman of the committee. | Chairman of the committee is a non-executive non-independent director, resulting in non-compliance of Clause 49 of the Listing Agreement. |
| 5. | Information about participation of all members in the committee meeting. | Did not arise, as no meeting held during the year. |
| 6. | Publishing of committee report. | Not published in CG Report. |

(Source: Compiled from RIL's Annual Report: 2008-2009, page 54)

Table 7. Items of Statutory Disclosures/Requirements and Their Status of Compliance in RIL in the Year 2008-2009

| S. No. | Items of Statutory Disclosures | Status |
|--------|--|--|
| 1. | Significant related-party transactions having potential conflict with the interests of the company. | Disclosed as not being in conflict with the interests of the company. All such transactions negotiated on arms length for the interest of the company. |
| 2. | Non-compliance related to capital market matters during the last three years. | No non-compliance reported. |
| 3. | Accounting treatment | Disclosed departure in accounting treatment in regard to the scheme of amalgamation of IPCL with RIL. |
| 4. | Board disclosure—Risk Management | Laid down procedure to inform board members about risk assessment and minimization procedure for board's review not reported. |
| 5. | Management Discussion and Analysis | Management discussion and analysis report included in the annual report. |
| 6. | Shareholders information on: (i) Appointment of new director/re-appointment of retiring directors. (ii) Quarterly results and presentation (iii) Share transfers (iv) Directors' responsibility statement. | Disclosed all compliance. |

(Source: Compiled from RIL's Annual Report 2008-2009, page 66)

Table 8. Items of Non-Mandatory Disclosures/Requirements and Their Status of Compliance in RIL in the Year 2008-2009

| S. No. | Items of Non-Mandatory Disclosures | Status |
|--------|--|--|
| 1. | Remuneration committee | Disclosed compliance |
| 2. | Shareholder rights (e.g., information and half-yearly declaration of financial performance sent to shareholders) | Disclosed compliance |
| 3. | Audit qualification | Disclosed compliance |
| 4. | Training of board members | Disclosed compliance |
| 5. | Evaluation mechanism of non-executive directors | As disclosed, evaluation mechanism not developed |
| 6. | Whistle-blower policy | Disclosed compliance |

(Source: Compiled from the RIL Annual Report 2008-2009, page 66)

Table 9. Criterion for Evaluation of Governance Standard for the Year 2008-2009

| | Governance Parameters | Points Scored | Max. Points |
|-----|---|---------------------------------|-------------|
| 1. | Statement of Company's Philosophy on Code of Governance | 2 | 2 |
| 2. | Board Composition and Strength of the Board | 2 | 2 |
| 3. | Chairman and CEO Duality (i) Promoter executive chairman-cum-MD/CEO (ii) Non-promoter executive chairman-cum-MD/CEO (iii) Promoter non-executive chairman (iv) Non-promoter non-executive chairman (v) Non-executive independent chairman | 1 2 3 4 5 | 5 (Max) |
| 4. | Disclosure of Tenure and Age Limit of Directors | -- | 2 |
| 5. | Disclosure of: (i) Definition of independent director (ii) Definition of financial expert (iii) Selection criteria of board of directors including independent directors | 1 1 1 | 3 |
| 6. | Post-board Meeting, Follow-up System and Compliance of the Board Procedure | | 2 |
| 7. | Appointment of Lead Independent Director | | 2 |
| 8. | Disclosure of Other Provisions as to the Boards and Committees | | 1 |
| 9. | Disclosures of: (i) Remuneration policy (ii) Remuneration of directors | 1 1 | 2 |
| 10. | Code of Conduct: (i) Information on code of conduct (ii) Affirmation of compliance | 1 1 | 2 |
| 11. | Board Committees A. Audit Committee: (i) Transparency in composition of audit committee (ii) Compliance of minimum requirement of the number of independent directors in the committee (iii) Compliance of minimum requirement of the number of meetings of the committee (iv) Information about literacy and expertise of committee members (v) Information about participation of head of finance, statutory auditor and chief internal auditor in the committee meeting (vi) Disclosure of audit committee charter and terms of reference (vii) Publishing of audit committee report | 1 1 1 1 1 2 1 | 8 |
| | B. Remuneration/compensation committee: (i) Formation of the committee (ii) Information about number of committee meetings (iii) Compliance of minimum requirements of the number of non-executive directors in the committee (iv) Compliance of the provision of independent director as chairman of the committee (v) Information about participation of all members in the committee meetings (vi) Publishing of committee report | 1 1 1 1 1 1 | 6 |
| | C. Shareholders'/Investors grievance committee: (i) Transparency in composition of the committee (ii) Information about nature of complaints and queries received and disposed—item wise (iii) Information about number of committee meetings (iv) Information about investors/shareholders survey conducted (v) Publishing of committee report | 1 1 1 1 1 | 5 |
| | D. Nomination committee: (i) Formation of the committee | 1 | 2 |

| | | | |
|-----|--|--|------------------|
| | (ii) Publishing of committee charter and report (E) Health, Safety and environment committee (F) Ethics and compliance committee (G) Investment committee (H) Share transfer committee | 1 | 1 1 1 1 |
| 12. | Disclosures and Transparency: (a) Significant related party transactions having potential conflicts with the interest of the company (b) Non-compliance related to capital market matters during last three years (c) Accounting treatment (d) Board disclosure—Risk Management (i) Information to the board on risk management (ii) Publishing of risk management report (e) Management discussion and analysis (f) Shareholders' information: (i) Appointment of new director/re-appointment of retiring directors (ii) Quarterly results and presentation (iii) Share transfers (iv) Directors responsibility statement (g) Shareholder rights (h) Audit qualification (i) Training of board members (j) Evaluation of non-executive directors (k) Whistle-blower policy | 2 2 2 2 1 1 2 1 1 1 1 2 2 2 2 2 | 25 |
| 13. | General Body Meetings: (i) Location and time of general meetings held in last three years (ii) Details of special resolution passed in the last three AGMs/EGMs (iii) Details of resolution passed last year through postal ballot including the name of conducting official and voting procedure | 1 1 1 | 3 |
| 14. | Means of Communication, and General Shareholder Information | | 2 |
| 15. | CEO/CFO Certification | | 2 |
| 16. | Compliance of Corporate Governance and Auditors' Certificate: (i) Clean certificate from Auditors, or (ii) Qualified certificate from auditors | 10 5 | 10 (Max) |
| 17. | Disclosure of Stakeholders' Interests: (i) Environment, Health and Safety measures (EHS) (ii) Human resource development (HRD) initiative (iii) Corporate social responsibility (CSR) (iv) Industrial relations (IR) (v) Disclosure of policies on EHS, HRD, CSR and IR | 2 2 2 2 2 | 10 |
| | Total | 85 | 100 |

Table 10. Grading on Five-Point Scale

| Score Range | Rank |
|-------------|-----------|
| 86-100 | Excellent |
| 71-85 | Very Good |
| 56-70 | Good |
| 41-55 | Average |
| Below 41 | Poor |