

DISCLOSURE OF CORPORATE VOLUNTARY BOARD GOVERNANCE PRACTICES IN INDIA

Shivan Sarpal*

Abstract *The present paper deals with the current as well as hotly debated issue of increasing attention on the extent of governance practices followed by the corporates. In particular, it investigates the disclosure of sound board practices followed by the top listed companies in India by relying upon a Voluntary Board Governance Disclosure Index (VBGDI) developed in the study. The index has been constructed by following the requirements stated under Revised Clause 49 of the Listing Agreement (2004) and Corporate Governance Voluntary Guidelines (2009). In addition, the study has covered two time points in its dataset in order to examine an improvement in the disclosure of board governance practices by the corporates from the time point 1 (2005-06) to the time point 2 (2009-10). The testing has been performed by means of paired samples t-test and Wilcoxon signed rank test (for robustness testing) which has reported significant improvement for some selected board practices in particular and for overall disclosure score as a whole. Overall, the analysis suggests that the corporate voluntary disclosure of the board governance practices has been improved (but only for some items), however, there are certain influential practices which should be covered by the companies in the ambit of their governance frameworks so that the level of governance standards in India can be upraised. On the whole, it suggests the companies to incorporate more board governance practices in the spectrum of their governance disclosures.*

JEL Codes G300, G340, G380

Keywords Corporate Governance, Board Practices, Voluntary Guidelines, Disclosure Index, Time Points

CONCEPTUAL FRAMEWORK

The subject of corporate governance is captivating a huge amount of focus from the regulators and the academic world. This increasing attention towards corporate governance has largely been attributable to the recent financial crisis and a number of scandals occurred in the past years. Even a spate of crises, including Harshad Mehta stock market scam (1992), CRB scam (1997), vanishing companies scam (1998), plantation companies scam (1999), Ketan Parekh scam (2001), Global Trust Bank (2002), more particularly, the massive accounting fraud (2009) at Satyam Computers Services Limited had too shaken the structure of corporate governance in India. Thus, it becomes the need of hour is to move towards corporate governance restructuring in order to promote both transparent as well as globally acceptable standards of corporate governance. Consequently, regulators from all over the world have stipulated various guidelines to ensure sound governance in the corporate sector in order to strengthen the confidence of investors. In India too, Securities and Exchange Board of India (SEBI) has formulated a code on corporate governance in the form of Clause 49 of the Listing Agreement which has been revised in the year 2004. This code has specified certain mandatory as well as non-mandatory requirements on governance for the listed

companies in the Indian corporate sector. The adoption of these non-mandatory requirements reflects the disposition of the corporate towards ensuring sound governance standards. The following section presents the legal framework of corporate governance in India by exclusively focusing on the non-mandatory requirements as listed out in *Corporate Governance in Listed Companies - Clause 49 of the Listing Agreement (2004)* and *Corporate Governance Voluntary Guidelines (2009)*.

Corporate Governance in Listed Companies - Clause 49 of the Listing Agreement (2004): Non-mandatory Requirements on Corporate Governance

Apart from the mandatory requirements on corporate governance in listed companies, Annexure I D of the Revised Clause 49 of the Listing Agreement (2004) also contains non-mandatory requirements which include maintenance of Chairman's office at the company's expense, tenure of independent directors may not exceed nine years (in aggregate), establishment of remuneration committee with at least three non-executive directors including the independent director as its Chairman, shareholders' rights for getting a

* Assistant Professor, Khalsa College, Amritsar, Punjab, India. Email: sarpalshivanresearch@gmail.com

half-yearly declaration of financial performance including summary of the significant events in last six-months, following the regime of unqualified financial statements, training of board members, mechanism for evaluating the performance of non-executive board members and the establishment of whistle blower policy.

Corporate Governance Voluntary Guidelines (2009)

Ministry of Corporate Affairs (Govt. of India) had prescribed certain guidelines in 2009 for strengthening the governance framework for Indian companies. These guidelines primarily aim to develop a system of transparent and accountable corporate functioning which would ultimately enhance the economic value of corporates and thus, safeguards the interests of the shareholders. The overall highlights of these guidelines include issuance of formal appointment letters to non-executive and independent directors on their appointments to the board, separated positions of Chairman and Chief Executive Officer (CEO) in the company, constitution of a nomination committee for recommending the appointment of directors, developing a policy enumerating positive attributes of independent directors, furnishing of 'Certificate of Independence' by independent directors on their appointment, tenure of independent directors not exceeding six years, maximum limit of seven independent/ non-executive directorships for individuals acting as Managing Director (MD) or Whole-time Director (WTD) in a public company, periodical interaction of independent directors with company management, setting up of remuneration committee and majority of its members being non-executive directors, training of the directors by means of an appropriate familiarisation process and methods for their skill enrichment, disclosure of the development of a risk management framework by the board of directors, formal and meticulous performance evaluation of board as a whole as well as its committees and individual board members, assessment of internal controls system of the company, reporting of any impact of an agenda item on the rights of minority shareholders, constitution, powers, roles and responsibilities of the audit committee, role of the audit committee in the appointment of auditors, furnishing of 'Certificate of Independence' by the auditors, rotation of audit partners and audit firms for once in three and five years respectively, carrying out secretarial audit by a skilled professional to ensure the soundness of board processes, institution of whistle-blower mechanism in the company.

The following sections present literature review, followed by analysis, findings and implications therefrom.

LITERATURE REVIEW

Past research argues that companies with sound governance practices are viewed positively by the investors (Huang & Tompkins, 2010) and hence gain positive evaluation from them (Chang, Chang, & Wei, 2008). In fact, investors prefer to buy the stocks of good-governed firms as the adoption of sound governance mechanisms by them can appropriately safeguards their interests (Chang *et al.*, 2008). A number of empirical studies have yielded that companies with better governance practices have better performance (Khatib, Masood, Zaman, Saleem, & Saeed, 2011; Kandukuri, Memdani, & Babu, 2015). Moreover, better-governed companies have higher market valuation (Kandukuri *et al.*, 2015) and result in higher cash dividend payouts to the shareholders (Brown & Caylor, 2004). Other studies such as Drobetz, Schillhofer, and Zimmermann (2004), Black, Jang, and Kim (2006), Al-Haddad, Alzurqan, and Al-Sufy (2011), and Katragadda (2013) have also endorsed the significance of sound corporate governance practices in enhancing (or explaining) the firm (or market) value. In Indian context, various researchers have analysed, in general, the disclosures of voluntary governance practices followed by the corporates (Sharma & Singh, 2009; Sen 2011). However, the exclusive research on the practices followed in the corporate boards, (i.e. governance at the board level) is by the far, missing in India.

It is to be noted that the boards of directors are responsible for providing leadership and strategic advice, directing and supervising the management and for acting as stewards to the shareholders and remain accountable to them. Thus, taking into consideration the voluntary adoption of sound board governance practices results in improved board effectiveness, the corporates can adopt a number of board practices which can be structural or functional in nature. The structural voluntary board practice can be followed by way of having separate persons for occupying the positions of CEO and chairman as combining the two titles (in the hands of one individual) can have negative effects on market valuation (Bai, Liu, Lu, Song, & Zhang, 2004). Moreover, investors also give positive reactions for firms where the titles of CEO and board chairman are occupied by different people (Huang & Tompkins, 2010). Similarly, there can be other structural practices like designating lead independent director (LID) and constitution of various board committees (other than mandatory) for handling varied board tasks. The functional aspect of board practices deals with delineating the roles, responsibilities and duties of the independent directors which generally focuses on monitoring the executive management, improving credibility and corporate governance standards,

performing crucial role in risk management, protecting the shareholders' interests etc. (Gupta, Hothi, & Gupta, 2011; Batth, Nayak, & Sarangi, 2016) and also with the training and evaluation of board members as emphasised by Kiel and Nicholson (2005) and Gupta *et al.* (2011). Moreover, Brown (2007) was also of the view that the board performance can better be explained by following tenable board development practices. The role effectiveness of the independent directors in the corporate governance in India has been articulated in numerous studies including Dube and Pakhira (2013), Kotra (2015), Batth *et al.* (2016) and many others.

It is to be noted that the disclosures about corporate governance practices made by the companies are comprehensible to the investors (Bhana, 2010) and they do contemplate over these disclosures while making investment related decisions. However, companies should not be limited to the mere adoption of rules and regulations so as to improve the disclosure (Akhtaruddin, Hossain, Hossain, & Yao, 2009), rather they should infuse transparency in their operations and make adequate disclosures concerning the governance standards in order to elevate the level of investors' confidence in the market performance (Fung, 2014). As far as literature is concerned, research focus on the disclosure of corporate governance practices in India is also improving (Bhardwaj & Rao, 2014; Subramanyam & Dasaraju, 2014; Sachdeva, Batra, & Walia, 2015). Hence, it becomes essential to analyse the disclosure of corporate governance practices after the implementation of Revised Clause 49 (2004) and Corporate Governance Voluntary Guidelines (2009).

RESEARCH DESIGN

Sampling Structure

The main motive of this study is to identify whether the disclosure/ compliance level of voluntary board practices has been improved between the two time points, i.e. from 2005-06 to 2009-10 whereby the financial year 2005-06 denotes the beginning time point and the financial year 2009-10 implies the ending time point. The analysis has been performed on the sample covering top 50 BSE-listed companies (excluding banking and finance companies) ranked on the basis of market capitalisation as on 31st March 2010. The sample covers only those firms which have followed financial year ending as on 31st March during the period of the study. Thus, the data sample corresponds to the top 50 BSE-listed companies for the two time points has been investigated in the present study.

Justification of the Sample Period Selection

With effect from 1st January, 2006, all the listed companies are required to comply with requirements stipulated under Revised Clause 49 of the Listing Agreement. This Clause had been introduced by SEBI in the form of a master circular (SEBI/CFD/DIL/CG/1/2004/12/10) as on October 29, 2004. However, viewing inadequate compliance, the date for its compliance had been extended for the companies from April 1, 2005 to December 31, 2005 by SEBI vide circular number SEBI/CFD/DIL/CG/1/2005/29/3. Hence, the year 2005-06 has been selected as a beginning point to conduct empirical analyses in the study which ends up with the year 2009-10, thus covered a time frame ranging from 2005-06 to 2009-10.

Apart from the above, Ministry of Corporate Affairs has prescribed the guidelines on governance for the corporate sector in the form of 'CORPORATE GOVERNANCE VOLUNTARY GUIDELINES 2009' in December 2009. Since the practices incorporated while constructing the voluntary board governance disclosure index are also based upon these guidelines, it becomes imperative to analyse the disclosure (or adoption) of governance practices by the corporates immediately after the next financial year ending, i.e. 2009-10. Therefore, the time zone has been covered from 2005-06 to 2009-10.

Construction of Voluntary Board Governance Disclosure Index (VBGDI)

The analysis reported in this study has been performed for some selected voluntary board practices, the checklist of which has been presented below.

Table 1: Construction of Voluntary Board Governance Disclosure Index (VBGDI)

S. No.	Item(s) Covered under Various Heads
1.	Board leadership structure
1(a)	Separated positions of CEO and chairman of the board
2.	Procedure of convening the board meetings
2(a)	Distribution of agenda material in advance
2(b)	Provision of video conferencing or audio-visual mode
2(c)	Recording of minutes of the meetings
2(d)	Post-meeting follow-up mechanism
3.	Board role effectiveness and other related disclosures

S. No.	Item(s) Covered under Various Heads
3(a)	Training of board members
3(b)	Performance evaluation of board members
3(c)	Meetings of independent directors
3(d)	Roles and responsibilities of independent directors
3(e)	Tenure of independent directors
3(f)	Time devoted and contribution of non-executive directors
4.	Other board governance practices
4(a)	Appointment of lead independent director (LID)
4(b)	Establishment of whistle blower policy
4(c)	Shareholder rights
4(d)	Audit qualifications
4(e)	Secretarial audit
4(f)	Development of risk management framework
	Establishment of various committees
5(a)	Remuneration committee
5(b)	Nomination committee
5(c)	Finance committee
5(d)	Health, safety, and environment committee
5(e)	Human resource committee
5(f)	Project appraisal committee
5(g)	Share transfer committee

Source: Compiled from Corporate Governance in Listed Companies – Clause 49 of the Listing Agreement (2004), Corporate Governance Voluntary Guidelines (2009) and Past Research Studies

The items (practices) contained in the checklist (Table 1) have primarily been drawn from the section titled ‘non-mandatory requirements’ under Annexure I D of Corporate Governance in Listed Companies - Clause 49 of the Listing Agreement (2004). In addition, some of the items, for example, separated positions of chairman and chief executive officer (CEO), conducting of secretarial audit, constitution of nomination committee, development of risk management framework etc. have been taken from Corporate Governance Voluntary Guidelines (2009). Moreover, the practices, for example, setting up of a particular (except remuneration) committee, post-meeting follow up mechanism, distribution of meetings’ agenda in advance etc. have been incorporated by analysing various studies in the past corporate governance literature. Moreover, the present study has also provided, wherever it becomes appropriate, a brief reference to the provisions of the Companies Act (2013) and the current amendments in Revised Clause 49 (2014).

Scoring of Items

The present study has used dichotomous scoring (0 and 1) criterion under the equal weightage method whereby all the items have been accorded equal importance. Score ‘1’

is allotted to a company for disclosing and complying with a particular item mentioned in the index and ‘0’ otherwise. This scoring procedure has been followed from the studies undertaken by Bhuiyan and Biswas (2007), Sen (2011), Kaur, Upadhyay, and Pareek (2014) and others. Following the studies namely Bhuiyan and Biswas (2007), Sen (2011), and Mangala and Isha (2016), the overall and item-wise disclosure scores have been computed by using the following formulae:

Overall Board Governance = $\frac{\text{Total score attained by a Co.}}{\text{No. of items in the index}} * 100$

Disclosure Score = $\frac{\text{No. of items in the index}}{\text{No. of Cos. disclosing a particular item}} * 100$

Item-wise Voluntary Board = $\frac{\text{No. of Cos. disclosing a particular item}}{\text{Max. no. of Cos. to whom the item is applicable}} * 100$

Governance Disclosure Score = $\frac{\text{Max. no. of Cos. to whom the item is applicable}}{\text{Total no. of Cos.}} * 100$

Sources of Data Collection

The disclosure or non-disclosure of items (practices) stated in the above index has been identified from the corporate governance reports of the selected companies. These governance reports are annexed to the annual reports of the companies and the same have been downloaded from the Prowess database. However, in some cases, the disclosure/non-disclosure of the selected practices has been analysed directly from the annual reports of the companies covered in the sample.

ANALYSIS AND FINDINGS

This section has been divided in three parts whereby part 1 and part 2 present analysis of item-wise and year-wise disclosure of selected practices respectively, followed by the companies under study. Part 3 deals with the analysis showing whether there is any significant difference in the disclosure scores of voluntary board governance practices between the two time points, i.e. starting (2005-06) and ending (2009-10) time points of the analysis.

Item-Wise Voluntary Board Governance Disclosure

This part presents item-wise disclosure of voluntary board governance practices followed by the companies. The items of the index have been clubbed into five major heads, namely, board leadership structure, procedure of convening the board meetings, board role effectiveness and other related disclosures, other board governance practices, and establishment of various committees.

Board Leadership Structure

(a) Separated Positions of CEO and Chairman of the Board

Analysis of Table 2 showed that 59 per cent of the observations have separated the titles of CEO and chairman of the board, thus comply with the conventional wisdom of having dual leadership structure in the corporate boards.

Procedure of Convening the Board Meetings

(a) Distribution of Agenda Material in Advance

Table 2 highlights that 42 per cent of the observations under study have disclosed the circulation of agenda material for the board meetings amongst the directors in advance so as to ensure effective decision-making. This practice provides sufficient time to the directors to brood over upon several crucial issues and thus, facilitate better and meaningful deliberations at the meetings.

(b) Provision of Video Conferencing or Audio-Visual Mode

The provision of video conferencing or audio-visual mode in the board meetings facilitates the directors to attend the board meetings without being physically present therein. Section 173 (2) of the Companies Act (2013) states that the participation of directors in a meeting of the Board may be either in person or through video conferencing or other audio-visual means, as may be prescribed, which are capable of recording and recognising the participation of the directors and of recording and storing the proceedings of such meetings along with date and time. Section 174 (1) further explains that the directors' participation by means of video conferencing or by other audio-visual mode in board meetings shall be taken into account for determining the quorum for the board meeting. Analysis of Table 2 observes this phenomenon in just 10 per cent of the cases.

(c) Recording of Minutes of the Meetings

As far as the practice of recording of minutes of the meetings is concerned, Table 2 shows that just 11 per cent of the observations under study have disclosed the recording of minutes of the proceedings of the board as well as committee meetings and thereafter, placing them in the minutes book after getting them finalised and approved.

(d) Post-meeting Follow-up Mechanism

This mechanism has been mainly designed in the companies to monitor the extent of implementation of the decisions taken at the previous meetings and also present the same in the subsequent meetings. Analysis of Table 2 further indicates that 11 per cent of the observations under study have designed the mechanism to look over the decisions taken at the board and committee meetings.

Board Effectiveness and other Related Disclosures

(a) Training of Board Members

Data analysis under Table 2 shows that 39 per cent of the overall observations have disclosed the practice of providing training to their board members so as make them understand the dynamics of the business model of the company, the risk factor in the business framework etc. Thus, it conveys that companies are organising training programmes for their board members and hence comply with the non-mandatory requirement of Revised Clause 49 of the Listing Agreement (2004). However, under the current amendments in Revised Clause (2014), it has become mandatory for the companies to offer appropriate training to the independent directors about their roles and responsibilities and to acquaint them with the business model of the company, peculiar features of the industry to which the company belongs etc.

(b) Performance Evaluation of Board Members

Table 2 further holds that 17 per cent of the observations in the data have disclosed the practice of conducting performance evaluation of their board (especially, non-executive) members by the companies under study, thus, exhibit their compliance to a greater extent with non-mandatory requirement of Revised Clause 49 (2004) which prescribes the performance evaluation of non-executive directors through a peer group consisting of all board members except the director being evaluated. Under the current amendments of Revised Clause 49 (2014), the emphasis has been laid on the performance evaluation of independent board members and also to decide about the extension of their tenure on such basis.

(c) Meetings of Independent Directors

Only 11 per cent of the cases observed under Table 2 reports that independent directors hold their meetings without the participation of executive directors and other representatives of the management. However, it has now become mandatory under the amendments of Revised Clause 49 (2014) for the independent directors to hold at least one separate meeting in a year to be attended by all the independent directors and such meeting shall be conducted without the presence of non-independent directors and management.

(d) Roles and Responsibilities of Independent Directors

Analysis of Table 2 also shows that only 9 per cent of the cases observed have delineated the roles and responsibilities of the independent directors in their governance reports and thus, reported lesser adoption of this practice on the part of the companies under study.

(e) Tenure of Independent Directors

Table 2 reports that just 11 per cent of the observations under study have disclosed the compliance with Revised Clause 49 (2004) requirement under Annexure I D of having shorter

tenure of independent directors which should not be more than nine years (in aggregate) on the board of any company. However, under the current amendments in Revised Clause 49 (2014) that an independent director is required to occupy the position for up to the term of five years (consecutive) on the board of a company and can be further reappointed for next five consecutive years by way of passing a special resolution by the company. The line of reasoning herein suggests that increasing tenure of independent directors in a company's board is more likely to affect their level of independence and objectivity in the decision-making process.

(f) Time Devoted and Contribution of Non-Executive Directors

Table 2 further highlights that the contribution of non-executive directors and the time devoted by them on various operational matters has been taken into account in 20 per cent of the observations covered in the present study. Some companies have even disclosed the fact of determination of the extent of commission made to their non-executive directors on the basis of their time commitments.

Other Board Governance and Related Practices

(a) Appointment of Lead Independent Director (LID)

Lead independent directors guide and coordinate the activities of independent directors, chair the meetings of independent directors, counsel the chairmen on a variety of issues, help in designing the agenda and the schedules for the board meetings and also expedite the interactions between the independent directors and management. In addition, they preside the executive sessions of the non-executive directors in the absence of executive members, give feedback of these sessions to the chairman and management, thereby, communicates all the issues springing from the discussions of the independent directors to the full board. However, Table 2 explains that just 11 per cent of the overall observations accounts for the appointment of lead independent directors into the corporate boards.

(b) Establishment of Whistle Blower Policy

This policy mainly designs for the employees to inform the management about the issues relating to unethical conduct, fraudulent practices whether actual or suspected, or contravention of the code of conduct or ethics policy of the company. Table 2 discloses that 49 per cent of the overall observations have reported the institution of whistle blower mechanism in their companies. However, as per the current amendments in Revised Clause 49 (2014), the practice of establishing the whistle blower policy as vigil mechanism has become mandatory for the companies and its disclosure in the Board's report.

(c) Shareholder Rights

It has been observed from Table 2 that 23 per cent of the observations under study have been complied with the non-mandatory requirement under Annexure 1D of Revised Clause 49 (2004) for delivering a half-yearly declaration of financial performance including summary of the significant events in last six-months to each household of shareholders.

(d) Audit Qualifications

Table 2 also exhibits that 44 per cent of the observations have followed another non-mandatory requirement under Annexure 1D of Revised Clause 49 (2004) with respect to the practice of having unqualified financial statements of the companies.

(e) Secretarial Audit

Under Corporate Governance Voluntary Guidelines (2009), a skilled professional can organise and carry out secretarial audit in order to ensure the cogency of the board processes and compliance mechanisms as well as transparency in the operations of the company. Table 2 highlights that 38 per cent of observations have disclosed in the governance reports about the secretarial audit being carried out in their companies which ensures the compliance with all the applicable provisions of various laws framed for the companies.

(f) Development of Risk Management Framework

Table 2 further shows that 49 per cent of the observations under study have developed the framework or approach for reviewing, managing and thereby, minimising the risks associated with the business.

Establishment of Various Committees

(a) Setting up of Remuneration Committee

The primary function of remuneration committee is to design the remuneration packages for their board members (more specifically, executive directors) on the basis of their performance. As far as establishment of various board committees is concerned, analysis of Table 2 shows that 72 per cent of the observations in the data sample have complied with the non-mandatory requirement of the Revised Clause 49 (2004), i.e., setting up the remuneration committee. It has been observed that some companies have formed 'compensation committee' to design the remuneration packages for their executive board members and therefore, the same have been treated as 'remuneration committee' for the analysis purposes.

(b) Nomination Committee

The main function of this committee is to recommend the persons to be appointed on the boards of the companies.

Table 2 holds that companies have established nomination committees in their boards in only 19 per cent of the overall cases. Revised Clause 49 (2014) has made mandatory for the companies to establish 'nomination and remuneration committee' of at least three members, all being non-executive with independent director as its chairman.

(c) Finance Committee

The finance committee generally discharges the functions dealing with the review of financial policies (budgets), handling of investments and also involves into the issues of cash management, capital structure and issue of securities. Table 2 shows that only 9 per cent of the overall observations have reported the establishment of finance committees in the board structures of the companies.

(d) Health, Safety, and Environment Committee

The main function of this committee is to protect the environment by means of addressing the issues relating to the compliance of occupational health, safety, and environmental laws and systems and other connected procedural matters. Analysis of Table 2 reports the setting up of health, safety, and environment committees in just 9 per cent of the overall observations.

(e) Human Resource Committee

The main function of this committee is to review human resource policies and also design development strategies (promotions) for them and to address other related issues. Table 2 exhibits that just 8 per cent of the overall observations have disclosed the formation of human resource committee in the companies' boards.

(f) Project Appraisal Committee

The committee primarily examines the feasibility of proposals for making investment in the new projects undertaken by the companies including expansion plans. Analysis of Table 2 shows that some of the companies constituting 11 per cent of the observations have constituted project appraisal committee in their board structures.

(g) Share Transfer Committee

The share transfer committee is mainly constituted to approve the transfer of shares, its transmission, dematerialisation and other matters incidental thereto (for example, issue of duplicate share certificates). Analysis shows that 61 per cent of observations under study account for the establishment of share transfer committee in the companies' boards.

Year-Wise Voluntary Board Governance Disclosure

This section presents year-wise disclosure of voluntary board governance practices followed by the companies, more specifically for the year 2005-06 and 2009-10.

(a) Disclosure for the Year 2005-06

This section reports the extent of adoption of the voluntary board governance practices by the selected companies during the financial year 2005-06. The first head titled 'board leadership structure' covers single item namely 'separated positions of CEO and chairman of the board'. Analysis of this item in Table 2 reveals that 56 per cent of companies have followed the separated status of board leadership structure, i.e. the titles of chairman and CEO are handled by two different individuals, for the year 2005-06.

The second head titled 'procedure of convening the board meetings' comprises four items, namely, 'distribution of agenda material in advance', 'provision of video conferencing or audio-visual mode', 'recording of minutes of the meetings', and 'post-meeting follow-up mechanism'. Analysis has revealed that 40 per cent of the sampled companies have prepared and circulated the agenda material amongst the directors in advance of the board meetings scheduled in the financial year 2005-06. Moreover, just 6 per cent of the selected companies have made provision for video conferencing or audio-visual mode in the board meetings during the year 2005-06, especially, for the directors who could not be physically present therein for some reasons. This practice ensures the participation of all directors in the decision-making process during the board meetings. Apart from the above, the items, 'recording of minutes of the board meetings', and 'post-meeting follow-up mechanism', have obtained the disclosure scores of 6 per cent and 8 per cent of the companies respectively. This implies that the minutes of the board meetings are noted by these companies in their concerned minutes book and have disclosed the same in their governance reports and some of the companies, constituting 8 per cent of the sample, have also instituted a follow-up mechanism for reviewing the implementation of the decisions made in the board meetings.

The third head titled 'board role effectiveness and other related disclosures' covers six items namely 'training of board members', 'performance evaluation of board members', 'meetings of independent directors', 'role and responsibilities of independent directors', 'tenure of independent directors', and 'time devoted and contribution of non-executive directors'. The items covered herein reflected the level of effectiveness in the roles performed by the board as a whole and by its independent directors, in particular. The first item, 'training of board members' yields the disclosure score of 30 per cent for the year 2005-06, meaning thereby, suitable training arrangements have been provided by these companies for their board members so as to make them abreast of the changes and developments in the business model of the company. Further, 16 per cent of the companies during the year 2005-06 have made disclosure of the item 'performance evaluation of board members'.

Another item 'meetings of independent directors' has been disclosed by just 8 per cent of the selected companies for the year 2005-06. These meetings of the independent directors have been conducted without the involvement (presence) of management or executive directors and thus, represent a good initiative at the company level to improve the level of board independence. In addition, some companies constituting 6 per cent of the selected sample, have specifically stated the 'roles and responsibilities of independent directors' in their governance reports for the financial year 2005-06. The analysis of the item under this head, 'tenure of independent directors' indicated that 10 per cent of the selected companies have adhered to the Revised Clause 49 (2004) non-mandatory requirement of having (shorter) tenure of not more than nine years for independent directors on the board of the company. The last item, namely 'time devoted and contribution of non-executive directors', has been disclosed by 20 per cent of the sampled companies in the year 2005-06.

The next head titled 'other board governance practices' include six items namely, 'appointment of lead independent director', 'establishment of whistle blower policy', 'shareholder rights', 'audit qualifications', 'secretarial audit', and 'development of risk management framework'. Analysis of Table 2 holds that some of the companies, constituting 10 per cent, follow the practice of having a lead independent director who represents the voice of all independent directors present on the board. While perusing the analysis, the item 'establishment of whistle blower policy' is another practice which has been complied with by 38 per cent of the companies during the financial year 2005-06, thus shown compliance with the non-mandatory requirement of Revised Clause 49 (2004). This practice provides an arrangement for the employees to apprise the management of unethical conduct (if any), or breach or infringement of the code of conduct of the company. In addition to 'whistle blower policy', two additional practices have been listed out in the non-mandatory requirements of Revised Clause 49 (2004) i.e. 'shareholder rights' and 'audit qualifications'. Twenty-eight per cent of the companies have complied with the 'shareholder rights' requirement for forwarding a half-yearly declaration of financial performance to each household of shareholders. As far as the item 'audit qualifications' is concerned, 40 per cent of the sampled companies have adopted the regime of unqualified financial statements during the financial year 2005-06. The last two items under this head, i.e. 'secretarial audit' and 'development of risk management framework' have been disclosed by 32 per cent and 44 per cent of the selected companies respectively.

The last head titled 'establishment of various committees' includes 'remuneration committee', 'nomination committee', 'finance committee', 'health, safety, and environment committee', 'human resource committee', 'project appraisal committee', and 'share transfer committee'. Analysis of

Table 2 has disclosed the establishment of 'remuneration committee' in 66 per cent of the companies during the financial year 2005-06. In addition to the 'remuneration committee', companies have also established other committees for performing certain specific tasks. To be more precise, analysis has disclosed the setting up of 'nomination committee' (16 per cent), 'finance committee' (8 per cent), 'health, safety, and environment committee' (6 per cent), 'human resource committee' (4 per cent), and 'project appraisal committee' (8 per cent) in the companies' boards. Apart from the above-stated committees, 60 per cent of the companies have constituted 'share transfer committee' in their boards during the financial year 2005-06. Overall, the analysis has indicated that the establishment of 'remuneration committee' and 'share transfer committee' is more common in the companies under study for the year 2005-06.

(b) Disclosure for the Year 2009-10

This section reports the extent of adoption of the voluntary board governance practices by the selected companies during the financial year 2009-10. As regards the head titled 'board leadership structure', analysis of Table 2 highlights that 62 per cent of companies have followed the item 'separated positions of Chairman and CEO on the board', thus indicating separated board leadership structure for the financial year 2009-10.

The analysis of the first item 'distribution of agenda material in advance' under the head titled 'procedure of convening board meetings' reveals that 44 per cent of the sampled companies have distributed the agenda material prior to the scheduled time for the board meetings in the financial year 2009-10. The distribution of agenda in advance to the directors offers adequate time to contemplate over policy related concerns. Further, only 14 per cent of the selected companies have disclosed the item 'provision of audio/video conferencing' and hence made arrangements for video conferencing or other audio-visual means in the board meetings for their directors, thereby intends to ensure the involvement of all the directors in the discourse of the board meetings. Apart from the above, the items 'recording of minutes of the board meetings' and 'post-meeting follow-up mechanism' have attained the disclosure scores of 16 per cent and 14 per cent of the selected companies respectively.

In addition, the first item, 'training of board members' under the third head titled 'board role effectiveness and other related disclosures' reported the disclosure score of 48 per cent for the year 2009-10, meaning thereby, these companies have offered training facilities for their board members in order to be well-conversant with the changes, trends, and developments in the business for the purpose of better discharging their responsibilities. Moreover, 18 per cent of the selected companies have made disclosure of the item 'performance evaluation of board members' in

their governance reports for the year 2009-10. Another item 'meetings of independent directors' has been disclosed by 14 per cent of the sampled companies for the year 2009-10 which indicates that these companies recognise the significance of the separate interactive sessions between the independent directors in improving the effectiveness of their monitoring functions. Moreover, 12 per cent of the selected companies have also delineated the 'roles and responsibilities of the independent directors' in their governance reports for the year 2009-10. Also, 12 per cent of the selected companies have disclosed the item, 'tenure of independent directors' which indicates the compliance with the Revised Clause 49 non-mandatory requirement of having tenure of not more than nine years for independent directors on the board of the company. Another item 'time devoted and contribution of non-executive directors' has yielded the disclosure score of 20 per cent of the selected companies.

As regards the fourth head 'other board governance practices', analysis of Table 2 reports that the practice namely, 'appointment of lead independent director' has been disclosed in 12 per cent of the selected companies for the year 2009-10. Another practice 'establishment of whistle blower policy' has been disclosed by 60 per cent of the companies, thus in line with the non-mandatory requirement prescribed under Revised Clause 49 of the Listing Agreement (2004) for having whistle blower (vigil) mechanism in the

companies. In addition to 'establishment of whistle blower policy', another practice 'shareholder rights' has attained the disclosure score of 18 per cent of the selected companies. The next item under this head i.e. 'audit qualifications', has been disclosed and complied with by 48 per cent of the selected companies. Moreover, the disclosure scores comes out to be 44 per cent and 54 per cent for the other two items, 'secretarial audit' and 'development of risk management framework' respectively.

The analysis of last head titled 'establishment of various committees' suggests that 78 per cent of the companies have reported the constitution of 'remuneration committee' in their boards. Moreover, the disclosures with respect to the setting up of 'nomination committee' (22 per cent), 'finance committee' (10 per cent), 'health, safety, and environment committee' (12 per cent), 'human resource committee' (12 per cent), and 'project appraisal committee' (14 per cent) have also been made in the governance reports of the selected companies for the year 2009-10. Apart from the above-stated committees, companies have also established 'share transfer committee' in their board structures indicating the disclosure score of 62 per cent in the analysis. As in the year 2005-06, the establishment of 'remuneration committee' and 'share transfer committee' has also been found to be more prevalent in the companies under study for the year 2009-10.

Table 2: Item-wise and Year-wise Disclosure Scores of Selected Companies

S. No.	Item(s) Covered under Various Heads	Overall		2005-06		2009-10	
		No.	%	No.	%	No.	%
1.	Board leadership structure						
1(a)	Separated positions of CEO and chairman of the board	59	59	28	56	31	62
2.	Procedure of convening the board meetings						
2(a)	Distribution of agenda material in advance	42	42	20	40	22	44
2(b)	Provision of video conferencing or audio-visual mode	10	10	3	6	7	14
2(c)	Recording of minutes of the meetings	11	11	3	6	8	16
2(d)	Post-meeting follow-up mechanism	11	11	4	8	7	14
3.	Board role effectiveness and other related disclosures						
3(a)	Training of board members	39	39	15	30	24	48
3(b)	Performance evaluation of board members	17	17	8	16	9	18
3(c)	Meetings of independent directors	11	11	4	8	7	14
3(d)	Roles and responsibilities of independent directors	9	9	3	6	6	12
3(e)	Tenure of independent directors	11	11	5	10	6	12
3(f)	Time devoted and contribution of non-executive directors	20	20	10	20	10	20
4.	Other board governance practices						
4(a)	Appointment of lead independent director (LID)	11	11	5	10	6	12
4(b)	Establishment of whistle blower policy	49	49	19	38	30	60
4(c)	Shareholder rights	23	23	14	28	9	18

S. No.	Item(s) Covered under Various Heads	Overall		2005-06		2009-10	
		No.	%	No.	%	No.	%
4(d)	Audit qualifications	44	44	20	40	24	48
4(e)	Secretarial audit	38	38	16	32	22	44
4(f)	Development of risk management framework	49	49	22	44	27	54
5.	Establishment of various committees						
5(a)	Remuneration committee	72	72	33	66	39	78
5(b)	Nomination committee	19	19	8	16	11	22
5(c)	Finance committee	9	9	4	8	5	10
5(d)	Health, safety, and environment committee	9	9	3	6	6	12
5(e)	Human resource committee	8	8	2	4	6	12
5(f)	Project appraisal committee	11	11	4	8	7	14
5(g)	Share transfer committee	61	61	30	60	31	62

Source: Compiled and computed from the corporate governance reports of the companies under study

Additional Empirical Analysis

This section intends to analyse whether the disclosure scores of the items of voluntary board governance disclosure index (VBGD1) have been significantly improved from the year 2005-06 (time point 1) to the year 2009-10 (time point 2). Therefore, the present study has applied paired samples t-test (also called dependent t-test) to test whether the mean of a dependent variable (i.e. disclosure score) is the same between two related groups (i.e. where the subjects remain same in two time points). In other words, it tests whether the mean difference between two groups is significantly different from zero. Viewing the above, the following null hypothesis has been framed for testing each of the items covered in the index. Herein, the null hypothesis states that there is no statistically significant difference between the mean disclosure scores of the two time points.

Hypothesis: There is no significant difference between the mean disclosure scores of the two time points (i.e. $\text{mean}(\text{diff})=0$ or $H_0: \text{Mean DSCORE}(05-06)=\text{Mean DSCORE}(09-10)$).

Analysis of paired sample t-test has examined whether there is statistically significant difference in the item-wise disclosure scores between the two time points, i.e. 2005-06 and 2009-10. Results of Table 3 report that the p-value of paired samples t-test for the item titled as 'separated positions of CEO and chairman of the board' under the head 'board leadership structure' does not yield any significant difference between the two time points, hence showed that the mean difference of separated board leadership structure between two time points is equal to zero. As regards the analysis of head 'procedure of convening the board meetings' is concerned, t-test reports that the p-value of paired samples t-test is significant (i.e. at less than 5 per cent level) for the

items namely, 'provision of video conferencing or audio-visual mode' and 'recording of minutes of the meetings' and is weakly significant (i.e. less than 10 per cent level) for the item 'post meeting follow-up mechanism'. It implies that the disclosure scores of the companies following the above-stated practices are significantly different between the two time points, i.e. in the year 2009-10 from those of the year 2005-06. The analysis further explains that the disclosure scores of these three aforesaid items have been significantly improved in the year 2009-10 from those in the year 2005-06. However, no significant difference has been observed for the item 'distribution of agenda material in advance' in the concerned analysis.

Furthermore, results of Table 3 shows that the p-value of paired samples t-test is strongly significant for the only item 'training of board members' under the head 'board role effectiveness and other related disclosures'. This indicates that the mean disclosure scores of this practice are significantly different between the two time points i.e. in the year 2009-10 from that of the year 2005-06. Interestingly, the p-value of the item 'meetings of the independent directors' comes out to be significant but at weak significance level, thus exhibited difference of the disclosure score in the year 2009-10 over the financial year 2005-06. The t-test further indicates that the disclosure scores of these two aforementioned items have been significantly improved in the year 2009-10 from those in the year 2005-06. With regard to the disclosure scores of other items, namely, 'performance evaluation of board members', 'roles and responsibilities of independent directors', 'tenure of independent directors', and 'time devoted and contribution of non-executive directors', the analysis has not yielded the differences between the two time points.

Table 3: Results of Paired Sample t-test

S. No.	Item(s) Covered under Various Heads	Mean of Time point-2 (2005-06)	Mean of Time point-2 (2009-10)	Mean Difference (2009-10 – 2005-06)	t
1.	Board leadership structure				
1(a)	Separated positions of CEO and chairman of the board	0.56	0.62	0.06	1.3527
2.	Procedure of convening the board meetings				
2(a)	Distribution of agenda material in advance	0.40	0.44	0.04	0.7035
2(b)	Provision of video conferencing or audio-visual mode	0.06	0.14	0.08	2.0642**
2(c)	Recording of minutes of the meetings	0.06	0.16	0.10	2.3333**
2(d)	Post-meeting follow-up mechanism	0.08	0.14	0.06	1.7685*
3.	Board role effectiveness and other related disclosures				
3(a)	Training of board members	0.30	0.48	0.18	2.9091***
3(b)	Performance evaluation of board members	0.16	0.18	0.02	1.0000
3(c)	Meetings of independent directors	0.08	0.14	0.06	1.7685*
3(d)	Roles and responsibilities of independent directors	0.06	0.12	0.06	1.1372
3(e)	Tenure of independent directors	0.10	0.12	0.02	0.5735
3(f)	Time devoted and contribution of non-executive directors	0.20	0.20	0.00	0.0000
4.	Other board governance practices				
4(a)	Appointment of lead independent director (LID)	0.10	0.12	0.02	1.0000
4(b)	Establishment of whistle blower policy	0.38	0.60	0.22	3.7176***
4(c)	Shareholder rights	0.28	0.18	-0.10	-1.9415*
4(d)	Audit qualifications	0.40	0.48	0.08	1.4289
4(e)	Secretarial audit	0.32	0.44	0.12	1.7685*
4(f)	Development of risk management framework	0.44	0.54	0.10	1.4000
5.	Establishment of various committees				
5(a)	Remuneration committee	0.66	0.78	0.12	2.5849**
5(b)	Nomination committee	0.16	0.22	0.06	1.3527
5(c)	Finance committee	0.08	0.10	0.02	0.5735
5(d)	Health, safety, and environment committee	0.06	0.12	0.06	1.7685*
5(e)	Human resource committee	0.04	0.12	0.08	2.0642**
5(f)	Project appraisal committee	0.08	0.14	0.06	1.7685*
5(g)	Share transfer committee	0.60	0.62	0.02	0.5735

Source: Computed from STATA 11.0 software (***, ** & * denotes levels of significance at 1, 5 and 10 per cent respectively)

As regards the head 'other board governance practices', analysis reveals that the p-values comes out to be strongly significant for the item namely, 'establishment of whistle blower policy'. Therefore, it suggests that there is statistically significant difference in the mean disclosure score of framing 'whistle blower policy' between the two selected time points. Moreover, the setting up 'whistle blower policy' has been significantly improved in the year 2009-10 from those in the year 2005-06. The analysis has also observed significant differences (although weak in nature) in the disclosure scores of the items, 'shareholder

rights' and 'secretarial audit' between the two time points. However, out of these items, the disclosure score of 'secretarial audit' has been significantly improved in the year 2009-10 from those of 2005-06. In contrast, the study has observed significant decrease in the disclosure score of item 'shareholder rights' in the year 2009-10 from the year 2005-06. However, no significant differences have been observed for the disclosure scores of rest of the items under this head namely, 'appointment of lead independent director', 'audit qualifications', and 'development of risk management framework'.

As far as establishment of committees is concerned, the analysis has reported significant differences for the setting up of 'remuneration committee' and 'human resource committee' in the year 2009-10 from the year 2005-06. Moreover, weak significant differences have also been observed for the establishment of 'health, safety, and environment committee' and 'project appraisal committee'. Apart from the above, the difference in disclosure scores of setting up of 'nomination committee', 'finance committee', and 'share transfer committee' between the two time points are insignificant in the analysis. Thus, from the above analysis, it can be concluded that the difference between the disclosures scores of two time points is not equal to zero for some of the items covered under VBGDI.

Robustness Testing

The results of the above analysis have been further analysed by performing a non-parametric test, i.e. Wilcoxon signed-rank test which is compatible to the parametric test (paired samples t-test) employed earlier in the study. To perform the Wilcoxon signed-rank test, the following null hypothesis has been framed:

Hypothesis: There is no significant difference between the median disclosure scores of the two time points (i.e. $\text{median}(\text{diff}) = 0$ or $\text{Median DSCORE}(05-06) = \text{Median DSCORE}(09-10)$).

Analysis of Wilcoxon signed-rank test in Table 4 has confirmed the results reported under paired sample t-test for the disclosure scores of the selected items and hence proved to be robust in nature.

Overall Disclosure Score

Additional analysis exhibits that the mean overall disclosure score of the companies is significantly different (at 1 per cent level) between the two time points. This implies that mean overall disclosure score of the selected companies in the year 2005-06 is significantly different from the disclosure score of the year 2009-10. In fact, the mean of the disclosure scores have been found to be significantly improved in the year 2009-10 (0.30) from that of 2005-06 (0.23) ($t = -5.6749$, $\Pr(|T| > |t|) = 0.0000$). This finding has remained robust even after the application of Wilcoxon signed-rank test in the analysis ($z = -4.614$, $\text{Prob} > |z| = 0.0000$).

DISCUSSION AND IMPLICATIONS OF THE STUDY

The voluntary adoption of governance practices in the board operations strengthens the effectiveness of the corporate

boards. This effectiveness can be viewed in terms of structural aspects of corporate boards, like separated leadership structure, appointment of lead independent director and establishment of different committees in the boards or by way of functional (operational) aspects, like post meeting follow-up mechanism, setting up of whistle blower policy, secretarial audit, training and performance evaluation of board members, meetings of independent directors etc. The perusal of selected board governance practices has reported an improvement in the overall disclosure scores for the year 2009-10 over that of 2005-06. In particular, there are certain practices, such as 'provision of video conferencing or audio-visual mode', 'post-meeting follow-up mechanism', 'recording of minutes of the meetings', training of board members' 'meetings of the independent directors' 'establishment of whistle blower policy', 'secretarial audit', constitution of 'remuneration committee', 'health, safety, and environment committee', 'human resource committee' and 'project appraisal committee', disclosures/ adoption of which have been significantly improved in the 2009-10 from those in 2005-06. However, there are certain practices, in particular, the adoption (disclosure) of which could not be significantly improved in the year 2009-10. It conveys the impression that only some of the board governance voluntary initiatives have been taken at the firm-level, however, there are other practices which should also be followed, including, appointment of lead independent director, separated board leadership structure, delineating the roles and responsibilities of independent directors, time devoted and contribution of non-executive directors, shorter tenure of independent directors, etc. This snail-like progress in voluntarily adopting governance practices ultimately inhibits the cogency of the corporate boards in designing and implementing sound governance policy framework. This can be attributed to the mind rigidities of the management of the corporates which tend to focus only on the compliance of the mandatory or some non-mandatory requirements framed by law. Hence, the corporates should also go down the line for the aforesaid practices while implementing the governance frameworks for their boards.

CONCLUSION AND SCOPE FOR FURTHER RESEARCH

The present analysis focusses on the extent of adoption of voluntary board practices at the corporate level. Herein, the basic motive is to study the voluntary board practices of selected companies over and above the mandatory requirements of Revised Clause 49 of the Listing Agreement (2004). This has been examined by duly constructing the VBGDI which is consisted of various items categorised into five broader sections, namely, 'board leadership structure', 'procedure of convening the board meetings', 'board role effectiveness and other related disclosures',

‘other board governance practices’, and ‘establishment of various committees’. The analysis has concluded an overall significant improvement in the disclosure of voluntary board governance practices in the financial year 2009-10 over

that of 2005-06. In particular, the study has observed the increasing tendency of adopting the practices like ‘provision of video conferencing or audio-visual mode’, ‘recording of the minutes of the meetings’ and ‘post-meeting follow-up mechanism’ during 2009-10 over that of 2005-06.

Table 4: Results of Wilcoxon Signed-Rank Test

S. No.	Item(s) Covered under Various Heads	Positive Ranks	Negative Ranks	Zero Ranks	Z
1.	Board leadership structure				
1(a)	Separated positions of CEO and chairman of the board	4	1	45	1.342
2.	Procedure of convening the board meetings				
2(a)	Distribution of agenda material in advance	5	3	42	0.707
2(b)	Provision of video conferencing or audio-visual mode	4	0	46	2.000**
2(c)	Recording of minutes of the meetings	5	0	45	2.236**
2(d)	Post-meeting follow-up mechanism	3	0	47	1.732*
3.	Board role effectiveness and other related disclosures				
3(a)	Training of board members	10	1	39	2.714***
3(b)	Performance evaluation of board members	1	0	49	1.000
3(c)	Meetings of independent directors	3	0	47	1.732*
3(d)	Roles and responsibilities of independent directors	5	2	43	1.134
3(e)	Tenure of independent directors	2	1	47	0.577
3(f)	Time devoted and contribution of non-executive directors	2	2	46	0.000
4.	Other board governance practices				
4(a)	Appointment of lead independent director (LID)	1	0	49	1.000
4(b)	Establishment of whistle blower policy	11	0	39	3.317***
4(c)	Shareholder rights	1	6	43	-1.890*
4(d)	Audit qualifications	6	2	42	1.414
4(e)	Secretarial audit	9	3	38	1.732*
4(f)	Development of risk management framework	9	4	37	1.387
5.	Establishment of various committees				
5(a)	Remuneration committee	6	0	44	2.449**
5(b)	Nomination committee	4	1	45	1.342
5(c)	Finance committee	2	1	47	0.577
5(d)	Health, safety, and environment committee	3	0	47	1.732*
5(e)	Human resource committee	4	0	46	2.000**
5(f)	Project appraisal committee	3	0	47	1.732*
5(g)	Share transfer committee	2	1	47	0.577

Source: Computed from STATA 11.0 software (***, ** & * denotes levels of significance at 1, 5 and 10 per cent respectively)

Moreover, significant improvement in the board role effectiveness during 2009-10 has also been noticed for the items (practices) such as ‘training of board members’ and ‘meetings of independent directors’. In addition, the practices, for example, ‘establishment of whistle blower policy’, and ‘secretarial audit’ have also been found to be increasingly adopted in the year 2009-10 over that of 2005-06. However, the study could not yield significant difference

in the disclosure score of separated board leadership structure between the two selected time points. Overall, the analysis suggests that the corporate voluntary disclosure of the board governance practices has been improved (but only for some items), however, there are certain influential practices which should be covered by the companies in the ambit of their governance frameworks so that the level of governance standards in India can be upraised.

In addition, since the time period of the study covers five year gap i.e. 2005-06 to 2009-10 which is based upon the requirements stated in Revised Clause 49 of the Listing Agreement (2004), this can further be enhanced to another five year gap period i.e. 2014-15 or for more recent period. This will improve the understanding of the issue of corporate governance and offer directions for framing the policies on corporate boards in India.

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