

**EVALUATE THE COMPOSITION OF BOARD OF DIRECTORS:
A STUDY OF INDIAN CORPORATES**

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ABSTRACT

Corporate Governance is related with composition of board of directors. Corporate Governance is playing an important role in organization in an effective manner. Corporate Governance is a process or a set of systems and processes to ensure that company is managed to suit the best interest of all stakeholder. The purpose of corporate governance is to facilitate effective management that can deliver the long term success of the company. Corporate Governance is often described as the outstanding practices in managing the organization and achieving results, all based on a set of fundamental concepts and values. The further details of this topic are outlined and examined in this research paper.

Key words: **CORPORATE GOVERNANCE, COMPOSITION, BOARD OF DIRECTORS**

❖ INTRODUCTION:

Corporate Governance is the application of best management practices, compliance of law in letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for suitable development of all stakeholders. Corporate governance rests with the vision and perception of the leadership and a leader need to adopt a vision for corporate governance. Corporate governance is not merely about enacting legislation, it is about establishing a climate of trust and confidence. Ethical business behavior and fairness cannot be legislated. Strengthening corporate governance is fundamentally a political, social, cultural process in which governance and the private sector have to synergies. Corporate governance extends beyond corporate laws. Its fundamental objective is not merely fulfillment of requirement of law ensuring commitment of the board to transparency in managing the company, modernizing long term shareholder value.

❖ MEANING OF CORPORATE GOVERNANCE:

The Institute of Company Secretaries of India (ICSI) defines: "Corporate Governance is the application of best management practices, compliance of law in letter and spirit and adherence to ethical standard for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders."

❖ BOARD COMPOSITION:

Board composition is one of the most critical determinants of board effectiveness. Beyond the prison requirement of minimum administrators, a board should have a really apt blend of inner and Independent Directors with a selection of experience and middle competence. The potential competitive gain of a Board shape comprising government directors and unbiased non-government directors lies in its aggregate of – the depth of know-how of the enterprise of the executives and the breadth of revel in of the non-government/unbiased director. Section 149 of Companies Act 2013, presents following in terms of Board Composition:

(1) Every enterprise shall have a Board of Directors consisting of people as administrators and shall have—

(a) a minimum wide variety of 3 directors inside the case of a public business enterprise, directors within the case of a private company, and one director in the case of a One Person Company; and

(b) a maximum of fifteen administrators: Provided that a organization might also hire greater than fifteen directors after passing a unique resolution:

Provided similarly that such class or training of companies as can be prescribed, shall have as a minimum one female director.

(2) Every enterprise present on or earlier than the date of graduation of this Act shall within 365 days from such commencement comply with the necessities of the provisions of sub-segment (1).

(three) Every employer shall have as a minimum one director who has stayed in India for a total period of now not less than one hundred and eighty- days in the previous calendar year.

(4) Every listed public corporation shall have at the least one-third of the total range of directors as independent directors and the Central Government may prescribe the minimum range of independent directors in case of any elegance or lessons of public companies.

Explanation.—For the functions of this sub-segment, any fraction contained in such one-third quantity shall be rounded off as one.

(5) Every agency present on or earlier than the date of commencement of this Act shall, inside twelve months from such commencement or from the date of notification of the regulations in this regard as can be relevant, comply with the necessities of the provisions of sub-segment (4).

Further, as according to Section 151 of the Companies Act, 2013, a indexed corporation may have one director elected with the aid of such small shareholders in such way and with such terms and conditions as can be prescribed.

Explanation- For the cause of this section “small shareholders” method a shareholder holding stocks of nominal price of no longer more than twenty thousand rupees or such other sum as can be prescribed.

Rule 7 of the Companies (Appointment and Qualification of Directors) Rules, 2014 prescribes provisions related to appointment of small shareholders’ director

Regulation 17 of the SEBI (LODR) Regulations mandates as underneath:

(i) The Board of Directors of the employer shall have an optimum aggregate of government and non-government administrators with as a minimum one female director and no longer less than fifty percentages of the Board of Directors comprising non-executive administrators.

(ii) Where the Chairperson of the Board is a non-executive director, at least one-0.33 of the Board have to contain impartial administrators and in case the indexed entity does no longer have a everyday non government Chairman, at the least 1/2 of the Board have to contain independent administrators.

Provided that where the everyday non-executive Chairperson is a promoter of the indexed entity or is associated with any promoter or character occupying control positions on the Board level or at one stage under the Board, as a minimum one-1/2 of the Board of the organization shall consist of impartial directors.

Explanation: For the cause of the expression “related to any promoter” noted in sub-clause (2):

i. If the promoter is a indexed entity, its administrators aside from the independent directors, its employees or its nominees will be deemed to be associated with it;

ii. If the promoter is an unlisted entity, its administrators, its employees or its nominees shall be deemed to be associated with it.

An factor of Board structure that's fundamental however is very much less visited is that of the Board Size. Board size is likewise an critical determinant of board effectiveness. The size should be massive enough to secure sufficient expertise on the board, but now not so big that efficient dialogue is impossible.

❖ REVIEW OF LITERATURE:

Reviews of literature of the study are stated below:

A. C. FERNANDO (2009), “CORPORATE GOVERNANCE PRINCIPLES, POLICIES AND PRACTICES” THIRD EDITION:

A. C. Fernando's bestselling Corporate Governance: Principles, Policies and Practices sheds light on recent corporate problems employing a flexible modular format, through an in depth explanation

of the company governance mechanism and therefore the various incentives within today's governance system, while offering potential solutions in context. With a stress on connecting corporate governance to practical management, the book provides cutting-edge material comprising new and unique study tools and fresh, thought-provoking content.

JACKLING, B. AND S. JOHL (2009). "BOARD STRUCTURE AND FIRM PERFORMANCE: EVIDENCE FROM INDIA'S TOP COMPANIES.":

This paper investigates the relationship among inner governance systems and financial overall performance of Indian agencies. The effectiveness of boards of directors, including board composition, board length, and components of board leadership together with duality and board busyness are addressed in the Indian context the use of two theories of company governance: company concept and useful resource dependency concept.

The take a look at used a sample of pinnacle Indian organizations deliberating the endogeneity of the relationships among corporate governance, company performance, and corporate capital structure. The have a look at gives some support for components of employer principle as a more proportion of outside administrators on forums were related to improved corporation performance. The perception of separating leadership roles in a way constant with agency idea was now not supported. For instance, the perception that powerful CEOs (duality function, CEO being the promoter, and CEO being the most effective board manager) have a detrimental effect on overall performance became no longer supported. There became some support for aid dependency idea. The findings suggest that larger board size has a advantageous impact on performance accordingly supporting the view that more publicity to the outside surroundings improves get admission to to diverse sources and hence positively influences on performance. The study but did not guide the aid dependency idea in phrases of the affiliation between frequency of board meetings and performance. Similarly the outcomes showed that outdoor directors with a couple of appointments regarded to have a negative effect on performance, suggesting that "busyness" did no longer add fee in terms of networks and enhancement of resource accessibility.

ICSI.EDU:

Business ethics and corporate governance of an organization go hand in hand. In fact, an organization that follows ethical practices in all its activities will, in all probability, follow best corporate governance practices as well. Corporate governance is meant to run companies ethically in a manner such that all stakeholders including creditors, distributors, customers, employees, the society at large, governments and even competitors are dealt with in a fair manner. Good corporate governance should look at all stakeholders and not just the shareholders alone. Corporate governance is not something which regulators have to impose on a management, it should come from within.

A business organization has to compete for a share in the global market on its own internal strength, in particular on the strength of its human resource, and on the goodwill of its other stakeholders. While its stat-of-the-art technologies and high level managerial competencies could be of help in meeting the quality, cost, volume, speed and breakeven requirements of the highly competitive global market, it is the value-based management and ethics that the organization has to use in its governance. This would enable the organization to establish productive relationship with its internal customers and lasting business relationship with its external customers.

SABRI, B., & KHUONG, N. D. (2014). CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY: EMERGING MARKETS FOCUS. WORLD SCIENTIFIC

While emerging marketplace economies do now not have a mature marketplace structure yet, there may be a want for studies on corporate governance practices in these economies from specific perspectives, along with company social duty. Corporate Governance and Corporate Social Responsibility: Emerging Markets Focus fills the gap with a collection of wonderful studies and coverage-primarily based papers addressing these problems, using numerous marketplace instances as illustrations. Unlike preceding books that frequently centred on one or several rising markets, this eBook covers a far broader set of nations and tackles ethical, criminal and societal components

of company governance, beyond financial troubles. It also discusses how groups work towards exceptional corporate governance practices, specifically, within the aftermath of latest economic and economic crises. Readers will enjoy the wide range of theoretical, empirical, and case analyses, selected with care to reflect modern-day company governance and corporate social duty troubles in countries with emerging markets.

❖ **TITLE OF THE STUDY:**

After going through existing literature in the library, researchers has selected topic as under:

EVALUATE THE COMPOSITION OF BOARD OF DIRECTORS: A STUDY OF INDIAN CORPORATES

❖ **OBJECTIVES OF THE STUDY:**

The main objectives of the study are stated below:

1. To evaluate the composition of board of directors of selected Indian corporate.

❖ **GAP ANALYSIS:**

On the basis of evaluation of literature and objectives, researcher found the gap in this area. After considering a few research have been taken for the study, researcher is found following gap:

1. The roles of corporate governance and the composition of board of directors have been significantly changed and yet it was not studied.
2. Perception and understanding differ between company and its board of directors.

❖ **RESEARCH METHODOLOGY:**

Researcher analyzed all the data based on primary data & secondary data. Primary data is the data that the researcher is collecting themselves using methods such as questionnaire. Another source of this research paper is secondary data and after considering these authenticated journals, articles etc. done all the analysis of corporate governance.

Secondary data are collected through:

1. Existing research in the related field
2. Journals
3. Books
4. Internet

❖ **DATA ANALYSIS:**

The frequencies of the Board of Directors agreement/disagreement to certain pre-identified statements were analyzed for this purpose. A score has been given likewise

Strongly agree (SA) : 4
Agree (A) : 3
Should be reviewed (SR) : 2
Disagree (DA) : 1

The weighted arithmetic mean (W.A.M) of the responses was computed to find out the most agreeable opinion on the Purpose/Need for the Board has the right number of directors, the composition of the Board, including the mix of independent and non-independent directors, is appropriate and the process for selecting new directors is effective.

The Calculation of W.A.M is as follows: weight is given as follows; strongly Agree (SA) =4, Agree (A) = 3, Should be reviewed (SR) = 2, Disagree (DA) = 1 assign to of Purpose/Need for the Board has the right number of directors = $[(4 \times 51) + (3 \times 40) + (2 \times 19) + (1 \times 0)] \div 10 = 77.9$

Formula of Weighted Average Mean (W.A.M) = $\frac{\sum WX}{\sum W}$

Σ = The Sum of (In other Words....add them up!).

W = the weight (1, 2....4)

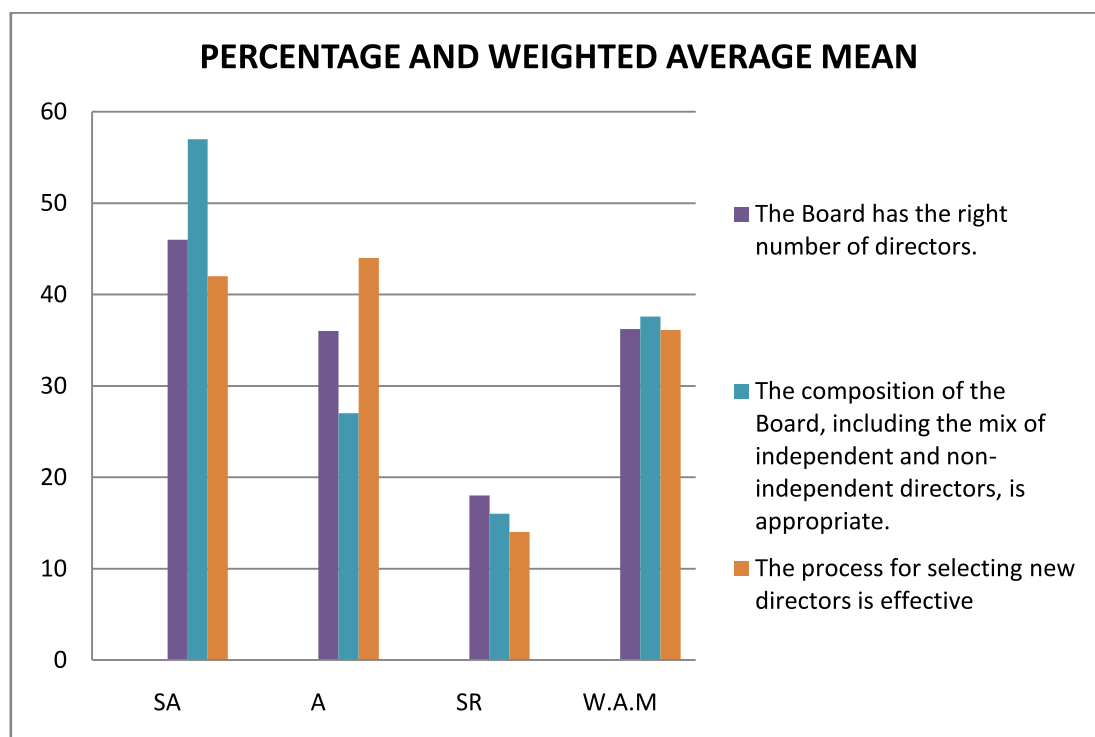
X= the value (frequency)

FREQUENCY, PERCENTAGE AND WEIGHTED AVERAGE MEAN - To evaluate the composition of Board of Directors:

Sr. No	Statements	SA (4)		A (3)		SR (2)		DA (1)		W.A.M
		Frequ ency	%	Frequ ency	%	Frequ ency	%	Frequ ency	%	
1	The Board has the right number of directors.	51	46	40	36	19	18	-	-	36.2
2	The composition of the Board, including the mix of independent and non-independent directors, is appropriate.	63	57	30	27	17	16	-	-	37.6
3	The process for selecting new directors is effective	46	42	49	44	15	14	-	-	36.1

[Here SA(4)= Strongly agree, A(3)= Agree, SR(2)= Should be reviewed DA(1)=Disagree]

PERCENTAGE AND WEIGHTED AVERAGE MEAN - To evaluate the composition of Board of Directors:



❖ FINDINGS OF THE STUDY:

It is clearly seen that "The composition of the Board, including the mix of independent and non-independent directors, is appropriate." is the most important Purpose for evaluating the composition of Board of Directors as 63 Directors out of 110(57%) "Strongly Agree", 30 Directors out of 110(27%) "Agree" and 19 Directors out of 110(18%) "Should be reviewed" to this statement. The W.A.M is also the highest in this case (W.A.M = 37.6). In a similar manner, the second important need is observed to be "The Board has the right number of directors." as 51 Directors out of 110(46%) "Strongly Agree", 40 Directors out of 110(36%) "Agree" and 17 Directors out of 110(16%) "Should be reviewed" to this statement. The W.A.M is in this case (W.A.M = 36.2). The least important purpose is identified from the above table " The process for selecting new directors is effective" It is also observed that 46 Directors out of 110(42%) "Agree", 49 Directors out of 110(44%) "Strongly Agree" and 15 Directors out of 110(14%) "Should be reviewed" to this statement. The W.A.M is in this case (W.A.M = 36.1).

❖ LIMITATIONS OF THE STUDY:

The following limitations are:

- 1) Limitation of primary & secondary data will remain with the study of the corporate governance and the composition of board of directors.
- 2) The study was limited to reflect the role of corporate governance and the composition of board of directors.

❖ CONCLUSION:

To sum up, concluding whole things we can say that corporate governance provides a vision for best corporate governance practices In making composition of board of directors work in an organization it is important that there is synergy in vision statement, mission statement, core values, general business principles and the code of ethics. A commitment by corporate management to follow an ethical code of conduct confers a variety of benefits It reconciles conflicting interest of various sections of the society such as workers, shareholders, consumers, distributors, suppliers, competitors and government and thus, expedites a better relation between business and the society. Corporate governance provides a vision for an organization to follow with true letter and spirit and further we can say that-

"Corporate Governance and composition of board of directors playing significant role in practical manner."

❖ REFERENCES:

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