THE HINDU BusinessLine

Poor report card

Updated On: Mar 13, 2022

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SEBI and the Ministry of Corporate Affairs should enforce existing rules strictly before formulating new ones

In recent years, a concerted bid has been made to tone up the quality of governance at corporate India through amendments to the Companies Act and SEBI's Listing Obligations and Disclosure Regulations (LODR). The changes focus on improving the strength and quality of corporate boards, adding more independent directors (IDs), constituting special board committees and ensuring their smooth functioning. But a comprehensive study of annual report data and public disclosures made by the top 100 listed companies for FY21, by Excellence Enablers, a firm that studies corporate governance, shows that even the crème de la crème of India Inc has a patchy compliance record with rules.

The survey offers three main sets of insights. One, with laws pushing for companies to have adequate board strength, most companies have managed to acquire numerically large boards with an average of 11 directors against the regulatory minimum of six. But the boards don't fare as well on quality or diversity. LODR requires that between one-third and half of corporate boards should be made up of IDs, but 14 of the top 100 firms didn't meet the one-third norm and 19 didn't get to the half-way mark. Top 100 boards remained skewed towards retirees with the average age of IDs at 64.4 years, with 36 IDs at 75-plus. While boards do need seasoned hands, the exclusion of young blood can't augur well for future-readiness. Two, though the law specifies a 10-year limit for IDs, 16 per cent of IDs stayed on much longer, with a couple of them even enjoying a 34-year stint. Board chairs were fixtures in many companies with the average tenure at 16 years, and one hanging on for 51 years. Extra-long stints by IDs and chairpersons undermine their independence, with cosy relations likely to develop between them and incumbent management. Three, though most companies held more than the mandated number of board/audit committee meetings and 86 per cent of directors attended all meetings, there are six directors who didn't attend even a single board meeting. Companies also seemed to take AGMs less than seriously with many non-IDs, government nominees and some board chairs skipping them. Companies often complain about the lack of a talent pool to man their boards, but they skimped on compensating directors. Against regulatory limits of ₹1 lakh on sitting fees and 1 per cent on profit-linked incentives, half the companies paid less than half these sums.

The report has significant takeaways for regulators. Though corporate chiefs complain long and hard about the excessive compliance burden they're carrying, many seem to take extant laws, especially SEBI's LODR, rather casually. SEBI and the Corporate Affairs Ministry should take a breather from their rule-making spree and enforce compliance with existing laws more strictly. The report also makes for worrying reading for retail investors who are now joining the equity cult by making a beeline for mid- and small-cap companies. If the top 100 listed firms aren't quite following the rulebook on governance, one can only guess the governance risks that may be lurking in smaller firms.

Source: https://www.thehindubusinessline.com/opinion/editorial/poor-report-card/article65221985.ece