Hindustan Times
NEW DELHI
FRIDAY
APRIL 07, 2023

NUMBER THEORY

The state of corporate governance in India

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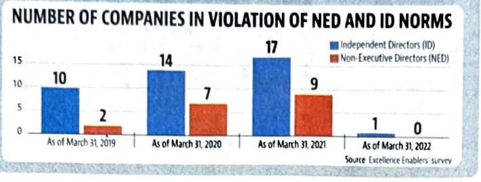
How compliant are India's biggest companies when it comes to adhering to the stipulated and expected rules of corporate governance in India? Can India's corporate leadership be expected to act in the best interests of the company's shareholders while improving the future of a company? How did the pandemic affect corporate governance standards in India?

The third edition of Survey of Corporate Governance in India by Excellence Enablers – it is an initiative by former Securities and Exchange Board of India (SEBI) chairperson M Damodaran – answers some of these questions for the top 100 companies in India. Here are charts which capture some key findings from the report.

1 Things have improved in terms of compliance on non-executive and independent directors

SEBI's 2015 Listing Obligations and Disclosure Requirements (LODR) mandates a minimum share of independent and non-executive directors on the board of companies. Data from the report shows that the number of companies which were in violation of this norm has fallen sharply in 2021-22, which is a welcome break from the rising trend in the previous three years.

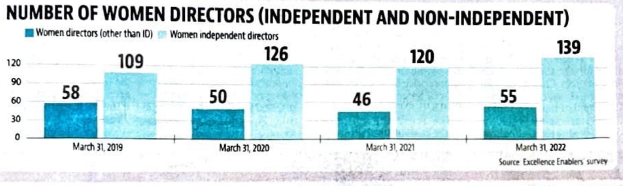


2 But gender equality is more top-down than a bottom-up phenomenon

Headline numbers on gender equality suggest that more women are making it to India's boardrooms. The total number of women directors has increased from 167 in 2018-19 to 194 in 2021-22.

However, a disaggregated analysis of this number shows that improving gender diversity in boardrooms is more a top down, than a bottoms up process. While the number of independent women directors has increased from 109 to 138 during this period, the number of women directors other than independent directors actually fell from 58 to 55.

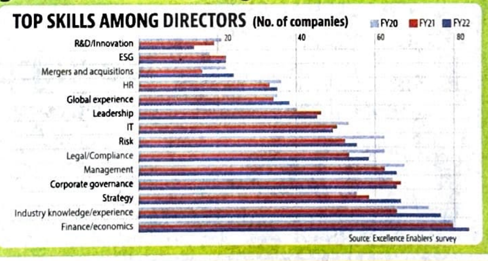
When read with the fact that LODR regulations only mandate the presence of women independent directors and not executive directors (who have to rise within the organisation hierarchy) this suggests that there is still a glass ceiling as far as the rise of women within the ranks is concerned.



3 Innovation expertise is not given adequate weightage while constituting boards

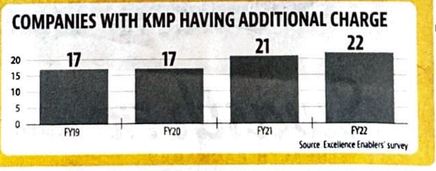
What skill sets are companies looking for when they get directors on board? Knowledge of finance/economics and industry experience are among the most sought-after skills.

The most underwhelming finding of the survey is that skills in research and development and innovation are among the least preferred by companies when they go looking for directors.



4 The pandemic has increased multi-tasking in companies

In a sign that the pandemic might have increased workload within the leadership of companies, the report shows that the number of companies where key management personnel (KMP) had an additional charge has increased during the pandemic years. "Given the responsibilities and the need for focus among the KMPs, giving any of them additional charge, especially for an extended period, would detract from their core functions," the report notes.



5 There is not enough information on inequality in compensation

Ratio of salaries for top executives and the average employee is a key metric for understanding inequality within companies.

The number of companies where the ratio of remuneration of a whole-time director (WTD) and the median employee is less than 50 or between 51-100 has increased during the pandemic, while the number of companies where this ratio was between 101-500 and 501-1000 has fallen.

While this does seem to suggest income inequality within companies is decreasing, there isn't enough information to comment conclusively on this.