Corporate Governance in India:
Issues and Practices of High-Performance Companies

INTRODUCTION

The 1997 Asian financial crisis was mainly attributable to structural weaknesses, i.e. a lack of effective corporate governance and transparency in many of Asia's financial markets and institutions (Choi, 1998). Wrong investment, over-borrowing and low quality disclosures were blamed on the absence of proper checks and balances to monitor Asia's tycoons. A solution to restore international investors' confidence in the Asian corporate sector and attract more capital inflow has been to strengthen its corporate governance and disclosure (Ho, 2002). Over the last several years, most East Asian economies have been actively reviewing their corporate governance, transparency and accountability. The recent collapse of the Enron Corporation in the U.S. and similar incidents in many countries including India underscored the critical importance of structural reforms in the governance of large and financial institutions. In this backdrop, a study of corporate governance in Indian corporate sector is important because of India's economic growth and stature among emerging countries.

This paper examines the previous research and issues concerning corporate governance concept. It provides a background by explaining the problems of corporate governance particularly among the Asian countries and regulatory framework in India in brief. It then examines the corporate governance practices among the best performing Indian companies. This paper examines the compliance with corporate governance norms conducted on a sample of high-performance companies (HPCs) and non-high-performance companies in India. Indian HPCs are characterized by sustained and superior cash flow returns, asset growth, and total shareholder returns. As shown in previous research, HPCs in India have superior total asset management, profitability, financial risk, liquidity, and operating asset management (Needles et al 2007). We expect that HPCs will also be models of good corporate governance practices. To test this proposition, we compare the compliance of HPCs with corporate governance norms with the compliance by a sample of Non-HPCs in India. In other words, we examine the question: Do companies that are demonstratively the best performing companies in India act as exemplars of good corporate governance? Our findings do not support the hypothesis that compliance with corporate governance norms is a good distinguisher of what makes a HPC. Many HPC score high in corporate governance practice while many do not. This contrast is dramatically demonstrated in the information technology industry where the respected Infosys scored the highest in corporate governance ratings and the recently disgraced Satyam Computer Systems--referred to as "India's Enron" (Reuters 2009)--scored among the lowest HPC in corporate governance ratings. We end with suggestions for future research of corporate governance practices

PREVIOUS RESEARCH REVIEW

As India's system of corporate governance and related reporting practice are in the embryonic stage, there is less literature on corporate governance in India than there would be in more industrially developed countries with a more advanced system of corporate governance. Though we were not able to locate any previous formal studies on the relationship between adherence to corporate governance principles and performance specifically in India, the topic of corporate governance has been addressed by a number of Indian authors and researchers (Das, 2006, and Banerjee and Das, 2006) and has been a factor in shaping our expectation for a relationship between corporate governance and performance.

One study that explores the possibility of a relationship between corporate governance and performance was performed by Klapper and Love (2002) of the World Bank. This study analyzed firm-level corporate governance throughout the world and ultimately showed that there is a correlation between stronger corporate governance and operating performance. Though the study included countries throughout the world and was not specific to India, it does support the general theory that strong corporate governance positively affects operating performance.

Gopalswamy (1998) argued that the institutional investors should play an active role in monitoring portfolio companies by exercising their voting rights for the legitimate interest of those on whose behalf the institutional investors invest. Institutional investment is a form of corporate governance that provides additional oversight by increasing the number of stakeholders. India has historically had many companies whose shares are concentrated in one family or small group of shareholders. Institutional investment in India has greatly increased over the last decade, which may have contributed to a strengthening of corporate governance.

Reed (1998) and Mukherjee Reed and Reed (2004) in their studies explained that corporate India has a long history of corporate governance systems. They studied under three groups: (a) The Managing Agency System (1850-1955), (b) The Promoter System (1956-1991), and (c) The Anglo-American System (1992 and onwards). Under the Managing Agency System and the Promoter System most of the companies acted in the ways contrary to the concept of shareholder rights and the spirit of fair market competition. They explained how agents used the managing agency contract to ensure virtual permanent control over firms, to extract unjustifiable remuneration, and to siphon off funds. The authors also explained how, despite introduction of the Companies Act in 1956 and of a number of economic policies adopted by the Government of India, the government policy was proved to be quite ineffective in its implementation resulting in systematic and continued abuse of corporate power. The introduction of the Anglo-American System shifted a greater share of control of companies to shareholders. As the financial industry has developed in India and resulted in significant economic growth, foreign investment has poured into the country and decentralized much of the Indian economy. The diversity of equity in companies and public pressure resulting from the 1997 Asian crisis has led to an increased focus on governance practices in India. We expect that many of these companies with improved governance practices are the HPCs.

Reed (1998) emphasized that the practice of corporate governance varies across firms due to a number of factors: (a) formal mechanism of governance, (b) regulatory and macroeconomic circumstance, (c) credit system, (d) tax policy, (e) macro stabilization policy, and (f) industrial planning. However, we believe that the criteria we used to determine the level of each company's corporate governance is relevant across all industries because it focuses on actions taken by management. It is our belief that effective corporate governance starts at the top and that is the main characteristic that our study measures.

Shah, Lakhani and Juthani (2000) felt that under the reforms of the Anglo-American system, the changing business environment and activities have necessitated the need for reinstating the principles of corporate governance and professionalization of corporate management. This view was shared by many in India and the 1997 Asian financial crisis along with corporate scandals in the U.S. strengthened the case for increased corporate governance. The Indian economy has grown significantly in the last decade and investor confidence has grown, which could be due to increased corporate governance.

Banerjee (2002) and Lahiri (2004) opined that the corporate governance principles revolve around three basic inter-related segments: (a) integrity and fairness, (b) transparency and disclosures, and (c) accountability and responsibility. We consider each these principles integral components of an effective corporate governance system and the extent each company integrates these principles into their system of governance will be measured in our analysis.

Joshi (2002) pointed out that the rise of big institutional investors was one of the main reasons for corporate governance being a burning topic for debate in 1990s. Over the past 50 years, there has been tremendous growth in the institutional holdings in the US and the UK companies, as opposed to Germany and Japan, where the banks and inter-corporate investments have continued to dominate equity holdings over institutional investors. India has also seen significant growth in institutional investment as well, and many see this as a strengthening of corporate governance that has contributed to their growth.

Kumar (2002) emphasized that the boards are accountable to the shareholders and stakeholders in a company. Therefore, the directors are required to achieve a balance between competing interests of shareholders, customers, lenders, promoters and directors. Many companies in India have the same view and have taken an approach to corporate governance that is designed to instill confidence in the company in all stakeholders. Mukherjee (2003) emphasized that a company should create 'value' for the stakeholders continuously and should find out the gap and the causes thereof and take appropriate steps in this regard. This view of governance places value in the stakeholders having a high regard for the company, and that this can be achieved through demonstration of corporate governance. Companies that are held in high esteem are in a strong position to succeed, and this is the primary reason we expect to see better corporate governance in the higher performing companies.

Mukherjee Reed and Reed (2004) stated that the companies through their governance policies and practices can have positive development impact on economic, socio-cultural and political dimensions of development, which finally result in the impact on their performance and also the overall performance of the economy in the long run. This piece suggests that effective governance policies have a positive effect on performance, which is our expectation.

Sarkar and Sarkar (2004) mentioned that the takeover and merger activities have significantly increased since reforms in corporate governance in India. Many people believe this is the result of increased transparency brought about by corporate governance and is a factor in improving operating results. Sinha (2004) argued that the success or failure of a corporate objective depends on the effective application of essential aspects of its philosophy viz., 'freedom', 'reach', and 'uncertainty'. According to him, in the changing environment of business consequent on globalization, the new strategies must be developed, implemented and consistent with the core objectives of a company in a market driven economy. At the same time, a company must also realize that social commitment need not necessarily go against creating 'profitability' in the long run. We believe this study suggests that companies who can achieve this balance through good corporate governance can be more successful in the long run.

Corporate governance has important implications for risk management and performance measurement systems and can impact many areas including corporate reputation.

Governance Risk has been identified as a primary area in Enterprise Risk Management (Frigo, 2008), driven by factors such as controls and governance capabilities. Performance measurement systems have been identified as an integral part of corporate governance in companies (Frigo, 2003 and Busco, et al 2005). Corporate governance can impact areas such as corporate reputation which is something that has been identified as a significant risk area for companies (Eccles, et al 2007). Corporate reputation is crucial in attracting investment and overall is a very important component in high performing companies. This is another reason we expect HPCs to score highly in corporate governance.

While deliberating upon the different board's structures prevailing in today's corporate world, Das (2006) analyzed them into four types: (a) all executive board (boards of Japanese companies), (b) majority executive board (boards of the UK and Indian companies), (c) majority outside board (boards of the US and Australian companies), and (d) two-tier supervisory board (boards of German companies). The boards of French companies follow a combination of single-tier as well as two-tier boards. It has also been pointed out that banks have played a major role in the implementation of corporate governance systems in various companies throughout the world. Corporate governance is, after all, a system embedded with confirmation of values and ethics towards making the companies 'good corporate citizens'.

CONCEPT OF CORPORATE GOVERNANCE

Corporate governance is viewed as a system that delineates the rights and responsibilities of each major group of stakeholders in a company, and spells out rules and procedures for making decisions about corporate affairs (OECD, 1998). It is a systematic process by which companies are directed and controlled to enhance their wealth generating capacity. The governance process should ensure that the companies are managed in a manner that meets stakeholders' aspiration, interest and social expectations. The stakeholders include providers of capital, creditors, employees, stock markets, auditors, fund managers, regulating bodies, environmental activists, financial statement analysts, to mention a few. Figure 1 shows how many of the stakeholders can play an important role in influencing the corporate governance in a company.

<Figure 1 goes here>

Good corporate governance implies:

(a) Optimal utilization of resources for enhancing the value of the company by way of effectively monitoring of executives' performance and supporting the entrepreneurship spirit.
(b) Ethical behavior of the company in honoring and protecting the rights of all stakeholders.

The two core principles of corporate governance are:

(a) Management must have the executive freedom to drive the company forward without undue restrictions, and
(b) This freedom of management should be exercised within a framework of effective accountability.

From the above-mentioned core-principles of corporate governance emerge the cornerstones of governance philosophy which include:

- Trusteeship
- Transparency
- Empowerment and Accountability
- Control

While each one of the above has a far-reaching implication in corporate governance, quality of governance depends on a host of factors. Some of them are:

- Efficiency and effectiveness with which board functions
- Adequacy of the process
- Integrity of management
- Commitment level of each of the board members
- Quality of corporate reporting and
- Participation of stakeholders in the management process

PROBLEMS OF CORPORATE GOVERNANCE

Good corporate governance is a *sine qua non* for good economic development. From the perspective of globalization, it is a way that companies in India can compete with well-governed overseas companies. Because of its regulatory framework and ownership structure (most listed companies in the private sector are controlled by a family and in case of government companies it is controlled by the government) corporate governance in India continues to attract much international debate and attention. Most companies in India are still a long way from conforming to the international rules of business. According to a survey of the Political and Economic Risk Consultancy, among twelve east-Asian countries, India is ranked eighth in terms of quality of corporate governance and transparency (Pao, 2002). This is shown in Table 1. It is disturbing to see that India has slipped to 8th position in the second year.

<Table 1 goes here>

Some of the core problems of corporate governance in Asian countries, particularly in India, are given below (Ho, 2002):

- Ownership concentration and low free floats of shares
- Influence of controlling shareholder groups
- Lack of truly independent directors
- Lack of corporate transparency, particularly on connected party transactions
- Low quality of many listed firms which have recorded net losses and very low stock prices across several years
- Weak legal protection for minority shareholders
- Relatively lack of shareholder activism
- Weak enforcement of rules and regulations.

REGULATORY FRAMEWORK AND CLAUSE 49

It is generally agreed that sound legal regulation and enforcement are key pillars upon which good corporate governance is built. An ideal regulatory framework should be preventive, protecting the interests of the majority stakeholders, and have clarity, transparency and market orientation. Internationally, corporate governance norms have been instituted through a judicious mix of the available routes: legislation, regulation or self-discipline and free volition. Often a fourth driver is also evident in the form of societal pressures. In countries with well-developed economies, capital markets and commercial citizen awareness, legislative interventions are minimal because market forces act as the main drivers. In others, apart from legislations, regulatory agencies such as capital market regulators, professional bodies, and central bank play an important role in bringing out an orderly and disciplined regimen among their constituents. Self-regulation through persuasion comes about by way of initiatives taken by industry chambers and business associations, often also guided by globalization initiatives that dictate adoption of international best practices. Social pressures also impact on corporate social responsiveness and often manifest in corporate responses well beyond legislative demands concerning ecology, environment, community development, and so on.

Some of the important sources of regulatory framework in India are:

(a) The Companies Act, 1956
(b) The Securities and Exchange Board of India (SEBI)
(c) The Department of Company Law
(d) The Institute of Chartered Accountants of India
(e) Confederation of Indian Industries

While all of these address in one way or another the requirements and enforcement of corporate governance in Indian companies, the revised version of Clause 49 of the Listing Agreement of the Securities and Exchange Board of India (SEBI) is widely seen as the culmination of an effort to implement a system designed to improve corporate governance in India. The SEBI originally introduced Clause 49 in 2000 as a tool for protecting investor interests following a number of financial hardships in the 1990s. In 2003, the SEBI began an effort to revise Clause 49 and completed this task in 2004. This revised version was introduced in October 2004 and compliance by all companies was required for 2005. The latest revision of Clause 49 is seen as a version that both introduces new measures and enhances existing requirements in an effort to remedy perceived inadequacies in corporate governance in India. In revising Clause 49, the SEBI incorporated feedback from such sources as the Indian business community, regulators and other international sources. The underlying theory was that noticeable improvements in corporate governance would instill current and potential investors with confidence in the Indian economy and ultimately improve the performance of these companies. The rapid growth of the Indian economy has been primarily led by private enterprise (Lange, Sahu 2008), an arrangement that thrives on investor confidence and requires a mechanism for investor protection.

Clause 49 consists of a variety of measures that were developed with the intent of increasing transparency in the organization, maintaining adequate independent representation on the board of directors and audit committee, establishing standards of conduct and assigning executives with the responsibility of compliance with all applicable standards. Other measures such as the disclosure of the qualifications of board members and the disclosure of stakeholders' interests are also designed to remedy historical issues in the Indian corporate system, such as the concentration of ownership, lack of transparency and lax oversight. Ownership concentration is still common in India, as it is in other countries that are considered “emerging markets” (Abraham, Marston 2008), which adds to the relevance of increased transparency as a monitoring tool for outside investors.

Compliance with the measures in Clause 49 is incorporated in our rating system (see Table 2). Our expectation is that our study will show that the level of compliance with Clause 49 (reflected in a high score) will correlate positively with high performance. For purposes of our study, the timing of the implementation of Clause 49 is ideal because compliance with the clause is required for all companies (thus, a “level playing field”) and can be compared to our classification of each company as HPC or non-HPC.

CORPORATE GOVERNANCE PRACTICE IN HIGH-PERFORMANCE COMPANIES

Given the relatively low standing of India, we examine the corporate governance practice of Indian HPCs. The Indian HPCs were chosen in previous research (Needles et al, 2007) based on the following criteria (where data was available from 2000 to 2005):

- Cash flow return on Assets (CFROI) at twice or more the cost of capital or greater than 5% discount rate in India
- Growth rates in assets greater than or equal to the gross domestic product
- Relative total shareholder returns (TSR) above the BSE 200 average.

Indian HPCs are characterized by: sustained and superior cash flow returns, asset growth, and total shareholder returns. As shown in previous research, HPCs in India have superior total asset management, profitability, financial risk, liquidity, and operating asset management (Needles at al 2007). We expect that HPCs will be models of good corporate governance practices. To test this proposition, we compare the compliance of HPCs with corporate governance norms with the compliance by a sample of Non-HPCs in India. In other words, we examine the question: Do companies that are demonstratively the best performing companies in India also exhibit good corporate governance? Our findings do not suggest that compliance with corporate governance norms is a good distinguisher of what makes a HPC. Many HPC score high in corporate governance practice while many do not. The same finding applies to the comparable companies.

Sample size and the period of study

We have selected 48 NSE-Nifty companies. There were 24 HPCs and 24 Non-HPCs. We relied on the published annual reports for the year 2004-2005 of the selected companies. The period of study is significant because it covers the financial year 2004-2005 since that is the period when Securities and Exchange Board of India incorporated various committees’ recommendations in Clause 49 pertaining to corporate governance.

Evaluation method and its rationale

There were two methods of evaluation by the following two entities (a) CRISIL Corporate Governance and Value Creation Rating (b) ICRA Corporate Governance Rating. Despite sincere efforts, the required information (like for example, board notes, agenda papers, minutes of the meetings, etc.) was not available from the sample corporations. As an alternative, a 'working method' was developed to conduct an in-depth analysis and evaluation of the standard and quality of corporate governance in HPCs and Non-HPCs. This working method is based on some key governance parameters, information on which is available in the published annual reports.

The working method applied here for evaluation of the standard and quality of corporate governance has considered all the relevant conditions of corporate governance stipulated by Clause 49 of the Listing Agreement and provisions of the Companies Act, 1956. In order to ascertain how far these companies are compliant of governance standard, a point value system developed by Das (2006) has been applied, whereby adequate weights in terms of points have been provided to these conditions according to their importance. Although this method is subjective having its own limitations, it helps us to pinpoint the quality and effectiveness of corporate governance with points assigned to important parameters of governance. Accordingly, each such company has been awarded points on some parameters, which constitute the governance process in company. The key governance parameters are selected on a 90-point scale as shown in Table 2.

<Table 2 goes here>

As #10 "Board committees", #11 "Disclosures and transparency", #14 "Compliance of corporate governance and auditors' certificate" and #15 "disclosure of stakeholders' interests" play very important role in quality and effectiveness of corporate governance, 64 out of 90 total points have been assigned to these four parameters. Also under each of these four parameters, details have been developed to determine the exact points assigned to a company.

Results

The results of evaluation on corporate governance standards adopted and practiced by all of 48 companies including both HPCs and Non-HPCs as disclosed in their annual reports are shown in Table 3. The individual scores range from a high of 81 or 90.0 percent of the possible score of 90 to a low of 39 or 43.3 percent of the total possible. The median score is 54, or 60.0 percent. Thirteen of the 24 companies above the median are HPCs. Interestingly, the top score is achieved by an HPC, Infosys, while the lowest score is recorded by a non-HPC, Zee Telefilms.

<Table 3 goes here>

Infosys represents a good case study, literally, for a HPC company that has strived and achieved high levels of corporate governance. First, Infosys was one of the companies that met the rigorous criteria for HPCs in the Return Driven Strategy Initiative (Frigo and Litman, 2007) which focused on Cash Flow ROI, Growth and Total Shareholder Returns for financial performance and found that HPCs demonstrated high levels of corporate governance performance and ethical business conduct. Moreover, Infosys was profiled in a Harvard Business School case study focused on corporate governance and ethics (Abdelal, et al 2007).

To obtain a better understanding of the distribution of corporate governance practices at Indian companies, Table 4 shows the number of HPCs and comparable companies in each quartile. It is interesting to note that HPC dominate both the first quartile and the fourth quartile. Clearly, there are HPCs that excel at corporate governance, whereas there are also laggards among the HPCs. The comparable companies dominate the middle two quartiles.

<Table 4 goes here>

Similar to previous studies on HPCs, we empirically investigate the hypothesis that, as compared to non-HPCs, HPCs will have statistically superior corporate governance practices. Table 5 compares Indian HPCs with their Non-HPC peers on average individual scores by quartile and overall. HPCs exceed regular companies on average individual scores in two selected groups of quartiles (in the first 3 quartiles and in the 4th quartile), and on average in all quartiles. However, the results are not statistically significant at the 0.05 level.

In order to improve the significance level of t-tests, we applied the Grubbs' test, and detected and eliminated outliers from the samples. Three high performance companies (Cipla, Sun Pharmaceutical, and Zee Telefilms) were considered as being outliers (we have to note that they represent more than 5 percent of the sample). These companies have been excluded from the analysis. The second part of the Table 6 shows overall results without outliers. The elimination of outliers did not change the conclusion that Indian HPCs exceed the corporate governance scores of non-HPCs reached in examining the full set of data, but did affect the significance level. The results improved with the elimination of outliers and became significant at the 0.05 level.

<Table 5 goes here>

As a final assessment, grades were assigned based on the corporate governance scores. Companies with individual score of 53 (60 percent) and less on point value system have been considered as having failed in applying effective corporate governance standards. In order to assign final grades to companies, individual scores have been curved and grades are developed based on the following university-like scale: 90 percent and more points – A, 80-89 percent– B, 70-79 percent– C, 60-69– D, 59 or below – F (failed). Table 5 shows that three Indian HPCs as compared to two non-HPCs has received a grade C or better. Twenty-one HPCs and 22 non-HPCs graded D or F. Assuming the A, B and C groupings reflect desirable levels of corporate governance, it is clear that both HPC and non-HPC Indian companies need to make improvements in corporate governance practices.

<Table 6 goes here>

SUMMARY AND CONCLUSIONS

We began this research with the objective of examining the concept of corporate governance in India and analyzing the compliance of high performance companies (HPCs) as well as comparable, but lower performing, companies with good governance norms. Based on as individual scores on the assigned point-value system, we conclude that while Indian HPCs dominate the upper quartile of companies with better corporate governance practices as compared with Indian Non-HPCs, Indian HPCs also exceed non-HPC in the lower quartile of companies in corporate governance quality. On average HPCs exceed non-HPCs on corporate governance scores in quartile groupings, but the differences are only significant overall when outliers are eliminated. Further, Indian companies generally, whether HPC or non-HPC, score low on measures of corporate governance. In conclusion, these results do not strongly support the proposition that Indian high performance companies apply superior corporate governance practices and fail to confirm conclusions of earlier research on high performance companies in other economies.

LIMITATIONS AND FURTHER RESEARCH

There are limitations to our study. The weighing and evaluations of corporate governance practice have been made are subjective and is based on the information in the annual report of each company. Further, we do not know if these findings are specific to India or whether it applies universally to emerging economies. We also do not know the long-term effects of poor corporate governance. With these limitations in mind, we suggest the following areas for future research:

- What are the basic governance issues – increasing the efficiency and effectiveness of the Board of Directors?
- What are the aims of Code of Best Practice – best Board, best practice or best way for value creation of the company?
- What are the causes of improper functioning of the corporate system in India?
- How to ensure quality of functioning of the Board of Directors and how to enhance the collective wisdom of the Board?
- What is the essence of corporate governance and how is it related to value management?
- How should the Board Committees (Audit Committee, Remuneration Committee and Nomination Committee) function harmoniously?
- Is good performance the result of good corporate governance and bad performance always preceded by bad governance?
- How to measure the effectiveness of corporate governance in a company?
- What should be roles and responsibilities of ordinary shareholders, institutional shareholders, large investors and other stakeholders?
- How to increase the quantity and quality of financial disclosures that speak volumes about good corporate governance?
- What is the role of ethics in corporate governance?
- What are the corporate governance issues in mergers and acquisitions (M & A)?

Professional institutes like the Institute of Company Secretaries of India, the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India may identify some such issues and prioritize them for taking up research projects jointly with universities. This will help finding out solutions for many unresolved issues in corporate governance in Indian context. These Institutes can explore the possibility of inviting theme-based articles concerning corporate governance for publication in their research journals. The role of the Indian Accounting Association Research Foundation in this context cannot be played down. Similarly, universities can take up minor and major research projects funded by the University Grants Commission, New Delhi. The institute-university partnership will then play a very effective role in enhancing the competitiveness of Indian companies by promoting better corporate governance.

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Figure 1
Stakeholders' influence on the corporate governance

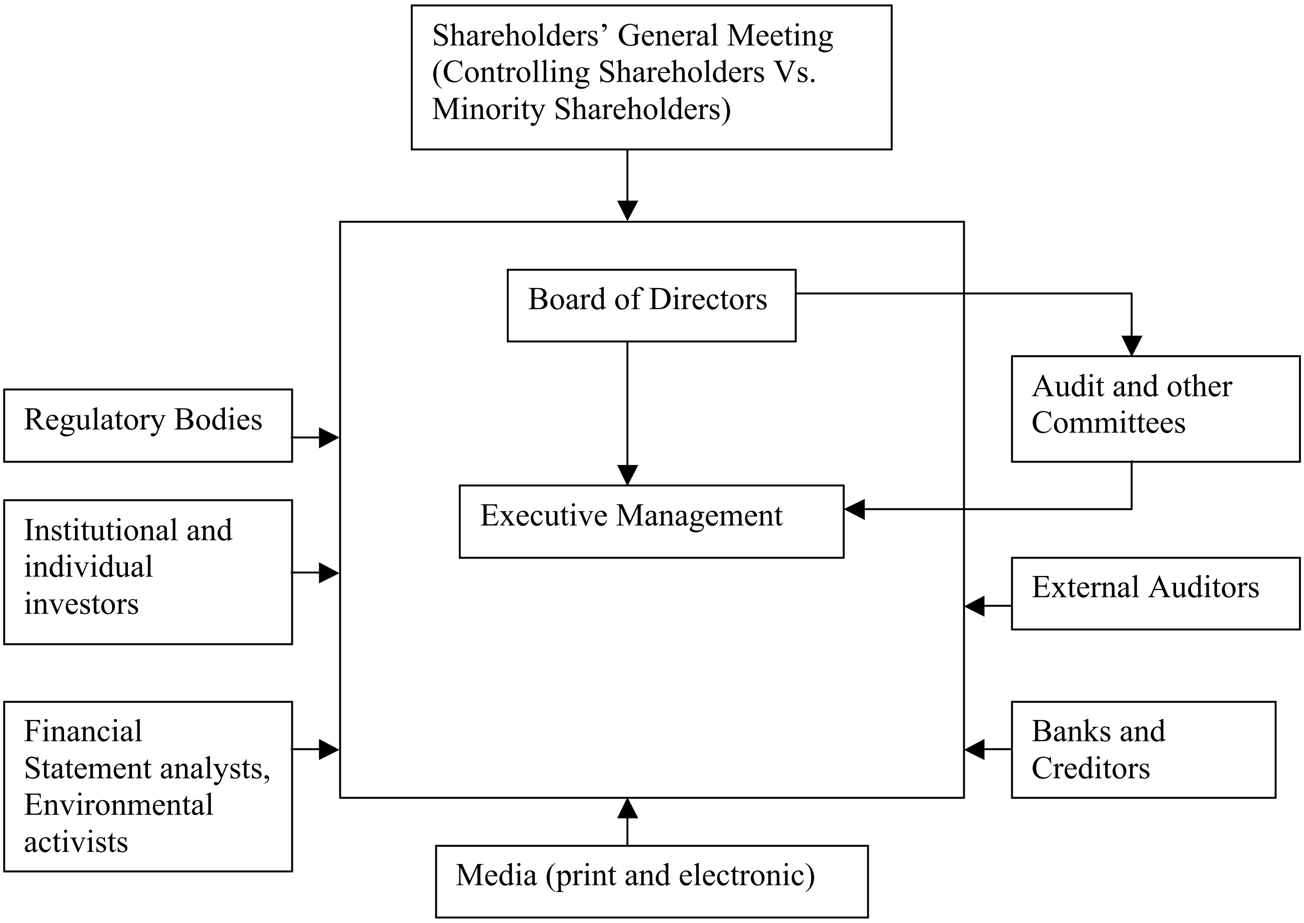

Table 1
Ranking of corporate governance among 12 Asian countries

Country	*2002*	*2001*
Singapore	1	2
Hong Kong	2	3
Japan	3	6
Philippines	4	9
Taiwan	5	4
South Korea	6	7
Malaysia	7	1
India	**8**	**5**
Vietnam	9	12
Thailand	10	8
China	11	10
Indonesia	12	11

Source: *Ming Pao*, June 12, 2002.

Table 2
Key governance parameters

Key Governance Parameters	Points Assigned
1. Statement of company's philosophy on code of governance	2
2. Structure and strength of the board	2
3. Chairman and CEO quality	5
4. Disclosure of tenure and age limit of directors	2
5. Disclosure of definition of independent director, financial expert, and selection criteria of board members including independent directors	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 boards and committees	1
9. Disclosure of remuneration policy and remuneration of directors	2
10. Board committees	25
11. Disclosures and transparency	19
12. General body meetings	3
13. Means of communications and General shareholder information	2
14. Compliance of corporate governance and auditors' certificate	10
15. Disclosure of stakeholders' interests	10
Total	90

Table 3
Governance standards attained by the sample High Performance Companies (HPCs) and Non-High Performance Companies (Non-HPCs) for the year 2004 – 2005

SL #	Name of Companies	HPC/Non-HPC	Individual Score—maximum 90	Rank	Percentage of potential of 90 points
1	Infosys	HPC	81	1	90.0%
2	Dabur India	Non-HPC	67	2	74.4
3	Reliance Energy	HPC	65	3	72.2
4	Tata Steel	Non-HPC	64	4	71.1
5	Tata Power	HPC	63	5	70.0
6	Reliance Industries	HPC	62	6	68.9
7	ITC	HPC	61	7	67.8
8	Dr. Reddy's Laboratories	HPC	60	8	67.4
9	Ranbaxy Laboratories	HPC	59	9.5	65.6
10	Graisim Industries	HPC	59	9.5	65.6
11	Hero Honda Motors	HPC	58	11.25	64.4
12	Wipro	HPC	58	11.25	64.4
13	Indian Petrochemicals Corpn.	Non-HPC	58	11.25	64.4
14	Tata Tea	Non-HPC	58	11.25	64.4
15	Tata Motors	Non-HPC	57	15	64.0
16	Larsen & Toubro	Non-HPC	56	16.3	62.9
17	ICICI Bank	Non-HPC	56	16.3	62.9
18	The Associated Cement Co.	Non-HPC	56	16.3	62,9
19	Housing Development Finance Corpn.	Non-HPC	55	19.3	61.8
20	Tata consultancy Services	Non-HPC	55	19.3	61.8
21	Gujarat Ambuja Cements	HPC	55	19.3	61.8
22	Bharti Tele-ventures	Non-HPC	54	22.25	60.0
23	Hindustan Petroleum Corpn. (PSU)	HPC	54	22.25	60.0
24	Hindalco Industries	HPC	54	22.25	60.0
25	Videsh Sanchar Nigam	Non-HPC	54	22.25	60.0
26	Punjab National Bank (PSB)	Non-HPC	53	26.3	59.6
27	Tata Chemicals	Non-HPC	53	26.3	59.6
28	Bajaj Auto	HPC	53	26.3	59.6
29	NTPC (PSU)	Non-HPC	52	29.3	58.4
30	Hindustan Lever	Non-HPC	52	29.3	58.4
31	Glaxo Smithkline	HPC	52	29.3	58.4
32	Oil and Natural Gas Corpn. (PSU)	Non-HPC	51	32.3	57.3
33	GAIL (India)	HPC	51	32.3	57.3
34	Maruti Udyog	Non-HPC	51	32.3	57.3
35	Bharat Heavy Electricals (PSU)	HPC	50	35.3	56.2
36	Oriental Bank of Commerce (PSB)	Non-HPC	50	35.3	56.2
37	Satyam Computer services	HPC	50	35.3	56.2
38	Bharat Petroleum Corpn.	HPC	49	38.3	55.1
39	Mahindra & Mahindra	HPC	49	38.3	54.4
40	ABB	HPC	49	38.3	54.4
41	HDFC Bank	Non-HPC	48	41	k53.9
42	Steel Authority of India (PSU)	Non-HPC	47	42	52,8
43	The Shipping Corpn. Of India (PSU)	Non-HPC	45	43.5	50.0
44	Cipla	HPC	45	43.5	50.0
45	National Aluminium Co. (PSU)	Non-HPC	44	45.5	49.4

46	Sun Pharmaceutical	HPC	44	45.5	49.4
47	State Bank of India (PSB)	Non-HPC	40	47	45.0
48	Zee Telefilms	HPC	39	48	43.3

Table 4
Indian HPCs and Non-HPCs Grouped in Quartiles of Governance Scores

Quartiles	Number of companies	
	HPCs	Non-HPCs
1	10	2
2	3	9
3	4	8
4	7	5
Totals	24	24

Table 5
Comparison of Average Individual Scores of Indian HPC and Non-HPC

Quartiles	Average Individual scores of		Difference	% difference	T-test
	HPC	Non HPC			
Part I. Original samples					
1 – 3	58.53	55.37	3.16	5.40%	0.064899
4	46.43	44.80	1.63	3.51%	0.22326
All	55.00	53.17	1.83	3.33%	0.196013
Part II. Without outliers					
All	56.76	53.17	3.60	6.33%	0.042793

Table 6
Indian HPC and Non-HPC Grouped Based on Grades

Percentage Score Range	Grade	Number of companies	
		HPCs	Non-HPCs
Above 90	A	1	0
80 – 89	B	0	0
70 – 79	C	2	2
60 – 69	D	10	10
59 or below	F	11	12
	Total	24	24