

# Corporate Governance Practices through Board of Directors: A case study of Reliance Industries Limited

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## ARTICLE DETAILS

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## ABSTRACT

Corporate Governance (CG) practices have emerged as a fundamental theme of modern corporate regulatory system. In simple terms, corporate governance refers to a code of conduct adopted by the management of company while exercising its powers. The present study is an attempt to assess the CG practices through of Board of Directors of Reliance Industries Limited (RIL) for the period 2014-15 to 2016-17.

The findings of the study reveal that RIL has complied 100% compliance on several aspects of board of directors as per Clause 49 of the listing agreement of SEBI during the selected years under study. Thus, RIL has shown good performance in maintaining the CG standards and attaining the quality of governance practices through board of directors.

In fine, CG through board of directors of RIL is based on the principles of integrity, fairness, equity, transparency, accountability and commitment to values.

## 1. The Background

The Cadbury Report (U.K) states; “Corporate governance is the system by which business are directed and controlled”. Corporate governance is a system of structuring, operating and controlling a company in order to achieve long term strategic goals to satisfy the shareholders, customers, creditors, employees and suppliers, and complying with the legal and regulatory requirements. In simple terms, corporate governance refers to a code of conduct adopted by the management of company while exercising its powers.

In the Indian context, companies like Tata Group, Infosys, and Wipro have evolved sound principles of governance, combining corporate governance with social responsibility. The Desirable Code of Governance – a voluntary code was published by CII in the year 1998 and the first formal regulatory framework for listed companies was established by the SEBI now called Clause 49 of the listing agreement in February 2000, following the guidelines enunciated by the Kumara Mangalam Birla Committee Report. In 2002, the Department of Company Affairs under the Ministry of Finance appointed Naresh Chandra Committee to look into the issues relating to financial and non-financial disclosure and independent auditing and board oversight of management. SEBI again constituted a committee – the Narayana Murthy Committee, which submitted its report in the year 2002. Based on the recommendations of the Narayana Murthy Committee, SEBI issued a modified Clause 49 on October 29, 2004 (The “Revised Clause 49”) which came into operation on 1<sup>st</sup> January, 2006. Revised Clause 49 of the Listing Agreement in India requires all the listed companies to file every quarter a Corporate Governance (CG) report. As per SEBI guidelines, “the key mandatory feature of clause 49 regulations encompasses the following: composition of the board of directors, the composition and functioning of the audit committee, governance and disclosures by the company, CEO / CFO certification of financial results, and reporting on CG as part of the Annual

Report “. Thus, clause 49 has emerged as a milestone in the evolution of Corporate Governance (CG) practices in India.

## 2. The Problem Focus

In terms of the revised SEBI guidelines (Clause 49), every listed Indian company is required to adopt and follow the CG norms. Accordingly, it became necessary for every listed company to ensure higher shareholder and stakeholder values. Among the various components of corporate governance, board of directors plays a vital role in the corporate governance compliance process of a corporate entity.

In this backdrop, the present study is an attempt to examine the Corporate Governance (CG) practices in terms of board of directors of Reliance Industries Ltd. (RIL) during the financial years 2014-15 to 2016-17.

## 3. Reliance Industries Limited - A Brief Overview

Reliance Industries Limited (RIL) is India’s largest private sector company with businesses in the energy and materials value chain. RIL is the first private sector company from India to feature in Fortune Global 500 list of ‘World’s Largest Corporations’ and ‘World’s Top 100 companies’, ranking 99<sup>th</sup> in terms of revenues and 130<sup>th</sup> in terms of profits in 2012.

## 4. Prior Evidence

Mitton (2001) conducted a study for testing the impact of corporate governance on firm performance during the East Asian Crisis in 1997 and 1998 with a sample of 398 Korean, Malaysian, Indonesian, Philippines, and Thailand companies. The study found a strong impact on firm performance due to firm-level differences in variables.

Gupta, Nair and Gogula (2003) found variation in the reporting practices of 30 selected Indian companies listed in BSE for the period 2001-02 to 2002-03. The study also found

omission of mandatory requirements as per Clause 49 in certain cases.

*Brown and Claytor (2004)* revealed that better governed firms were relatively profitable, more valuable and has paid out more cash to their shareholders than the poorly governed ones.

*Javed, A.Y. and Iqbal, Robina (2006)* conducted a study of 50 firms that comprised more than 80% of market capitalization at the Karachi Stock Market (KSM). The findings of the study revealed that Corporate Governance Code potentially improved the governance and decision making process of the firms listed at KSE.

*Subramanian, S. (2006)* concluded that "there were no differences in disclosure pattern of public/private sector companies, as far as financial transparency and information disclosure were concerned".

*Adjaoud et. al. (2007)* examined the relationship between firm performance and the governance scores. The researchers observed that the relationship generally was insignificant between the governance scores and accounting-based measures of performance, while the relationship between the governance scores and measures of value created was generally significant.

*Switzer, L.N. and Tang, M. (2009)* in their study found significant interactions between board independence, firm leverage, CEO ownership, and pay-performance sensitivity.

*Pandya, H. and Parmar, Chetana (2010)* examined the effectiveness of corporate governance practices in the Indian banking system. The study found that board directors and women directors are statistically significant to performance for banks where Govt. has significant stake.

*Yasser, Q.R., Entebang, H. and Mansor, S.A. (2011)* tested the relationship between four important corporate governance mechanisms (board size, board composition, CEO/chairman duality and audit committee) and two firm performance measures [Return on Equity (ROE) and Profit Margin (PM)] for a sample of 30 Pakistani listed firms between 2008 and 2009. The study found significant positive relationship between ROE and PM and three corporate governance mechanisms, while there was no significant relationship between the two performance measures (ROE and PM) and CEO/Chairman duality.

*Bapat, Varadraj and Raithatha, Mehul (2011)* found that on the average, CG compliance by the Indian companies were satisfactory during the study period.

*Ghosh, Sudipta and Basu, Tamal (2011)* found that RIL have complied 100% compliance on almost all aspects of Clause 49 of the listing agreement of SEBI.

*Danoshana, S. and Ravivathani, T. (2013)* examined the impact of corporate governance on the performance of 25 listed financial institutions in Sri Lanka during period of 2008 to

2012. The findings of the study showed that corporate governance have significant impact on firm's performance.

*Paul, K.C. and Ghosh, Sudipta (2014)* examined the Corporate Governance (CG) compliance practices and its relationship with profitability of some leading Indian infrastructure companies during the period 2007-08 to 2009-10. The findings of the study revealed a high rate of CG compliance by the sample companies. Moreover, there were significant differences in CG performance among the sample companies.

## 5. Research Design

### 5.1 Sample Selection

For the present study, Reliance Industries Limited (RIL) has been selected since it is the largest private sector companies operating in India.

### 5.2 Study Period

To carry out the present study, we have scanned the annual reports of the selected company for the last three available years i.e., 2014-15, 2015-16, and 2016-17.

### 5.3 Data Source

For the study, data have been collected from secondary sources i.e., published annual reports of the selected company.

### 5.4 Methodology

In order to assess the CG practices followed by RIL in terms of board of directors, the study is based on the requirements stipulated by the revised Clause 49 of the Listing Agreement of SEBI. The different parameters of board of directors according to Clause 49 are presented below:

SL No.	Parameters
1	Composition of Board of Directors
2	Proportion of Non Executive Directors to total number of Directors
3	Proportion of Independent Directors to total number of Directors
4	Number of Board Meetings in a year
5	Code of Conduct
6	Number of Non Executive Directors in the Committee
7	Number of Independent Directors in the Committee

## 6. Objective of the Study

The main objective of the study is to examine the Corporate Governance (CG) practices in terms of board of directors of Reliance Industries Ltd.

## 7. Findings and Analysis

### 7.1 Board Structure, Strength and Size

From Table – 1 and Figure – I, it is observed that RIL has maintained an optimum combination of Executive Directors (EDs) and Non-Executive Directors (NEDs) during the period under study. None of the directors is related to any other director on the board and none of the directors has any

business relationship with the company except Shri Nikhil R. Meswani and Shri Hital R.Meswani, who are related to each other as brothers.

qualifications and biographical information of all the board members.

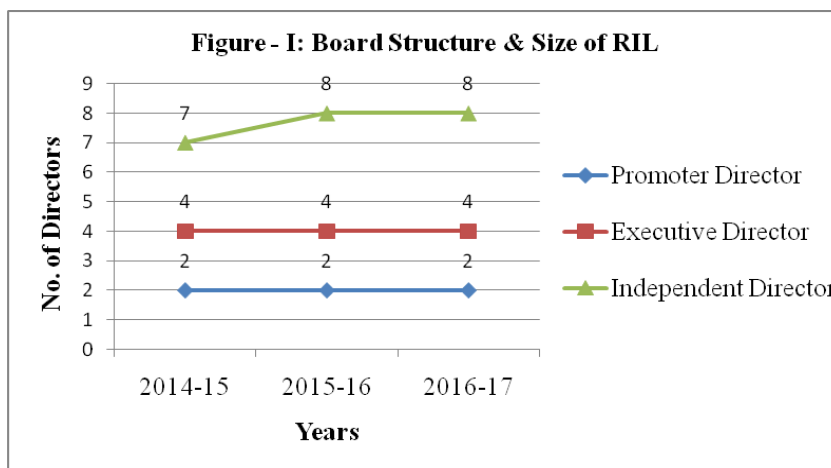
The company has also disclosed the functions of the board. Moreover, they have also provided disclosure about

The board structure, strength and size of RIL are shown in Table - 1 and Figure – I below:

**Table – 1  
Board Structure, Strength and Size of RIL**

Particulars	2014-15	2015-16	2016-17
Total Number of Directors	13	14	14
Total Number and Percentage of Directors :			
a) Promoter Director (out of which one is Non-Executive Non-Independent Director)	02 (15.38%)	02 (14.28%)	02 (14.28%)
b) Executive Directors (EDs)	04 (30.76%)	04 (28.57%)	04 (28.57%)
c) Independent Directors (IDs)	07 (53.84%)	08 (57.14%)	08 (57.14%)

Source: Annual Reports of RIL.



**7.2 Directors Attendance in Board Meetings**

At RIL, seven board meetings have been held during the year 2014 - 15 as against the minimum requirement of four meetings. Six meetings are held during the years 2015-16 and 2016-17. The director’s attendance in the board meeting of RIL

has been found to be satisfactory with a minimum attendance of 78% and a maximum attendance of 100% during the study period which is presented in Table -2 below:

**Table- 2  
Number of Board Meetings of RIL held during the Years 2014-15, 2015-16, and 2016-17**

SL No.	Date			Board Strength			No. of Directors Present		
	14-15	15-16	16-17	14-15	15-16	16-17	14-15	15-16	16-17
1	18.4. 2014	17.4. 2015	22.4.2016	14	13	14	13	13	13
2	29.5. 2014	24.7.2015	15.7. 2016	14	14	14	14	11	14
3	19.7. 2014	16.10..2015	28.7. 2016	14	14	14	14	14	14
4	13.10.2014	19.1. 2016	20.10. 2016	14	14	14	12	13	13
5	08.12.2014	10.3. 2016	16.1. 2017	14	14	14	13	12	12
6	16.1. 2015	25.3. 2016	24.1. 2017	14	14	14	14	13	11
7	19.2. 2015	-	-	14	-	-	11	-	-

Source: Annual Reports of RIL.

From Table - 2, it is further observed that the board of RIL has met seven times during the year 2014-15 and six times in the years 2015-16 and 2016-17. The full board has met 3 times in the year 2014-15 and two times in the years 2015-16 and 2016-17.

Table – 3 shows that the director’s attendance in the board meetings during the period under study as well as their attendance in the last Annual General Meeting (AGM) is encouraging. 9 out of 13 directors have attended all the seven board meetings and all the 13 directors have attended the last

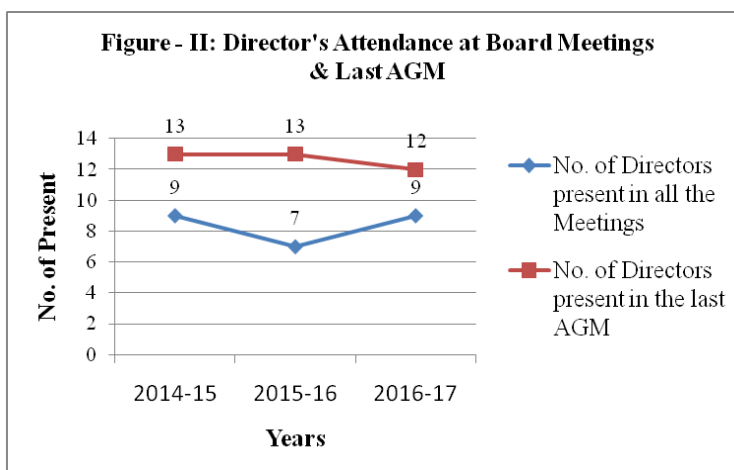
AGM of RIL during the year 2014-15. In the year 2015-16, 7 out of 14 directors have attended all the six board meetings and 13 out of 14 directors have attended the last AGM of RIL. Further, it is observed that 9 out of 14 directors have attended

all the six board meetings and 12 out of 14 directors have attended the last AGM of RIL in the year 2016-17. This clearly indicates good accountability and commitment of the board members of RIL towards stakeholders of the company.

**Table- 3**  
**Attendance of Directors at Board meetings and at Last Annual General Meeting (AGM)**

Particulars	Attendance at Meetings		
	2014-15	2015-16	2016-17
No. of Directors present in all the meetings held during the year	09	07	09
No. of Directors present in the last AGM	13	13	12

Source: Annual Reports of RIL.



**7.3 Appointment of Lead Independent Directors**

Lead independent director is a person who acts as a spokesman for the independent directors. In this regard, RIL has appointed an independent director as the lead independent director with a defined role.

**7.4 Code of Conduct**

The Corporate Governance (CG) report of RIL reveals that the company has adopted the code of conduct and ethics for directors and senior management. The board members and senior management has affirmed their compliance with the code of business conduct and ethics for directors/management personnel during the period under study.

**8. Conclusions**

On the whole, it may be concluded that RIL has complied 100% compliance on several aspects of board of directors as per Clause 49 of the listing agreement of SEBI during the selected years under study. Thus, RIL has shown good

performance in maintaining the CG standards and attaining the quality of governance practices through board of directors.

In fine, CG through board of directors of RIL is based on the principles of integrity, fairness, equity, transparency, accountability and commitment to values. The company believes that good CG is a continuing exercise and reiterates its commitment to pursue highest standards of CG in the overall interest of all the stakeholders.

**9. Limitations and Scope for Further Research**

The present study is based on secondary information and it reflects only a partial view of the corporate governance practices at RIL.

Hence, the present study may be further extended for a large sample size. Moreover, empirical studies can be undertaken on corporate governance compliance and its relationship with firm performance over a period of time.

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