BUSINESS PRACTICES AND SUSTAINABILITY

EDITORS

Samir Ghosh • Tarak Nath Sahu

Abhijit Sinha • Brajaballav Pal

DEPARTMENT OF COMMERCE

VIDYASAGAR UNIVERSITY

Business Practices and Sustainability

Editors
Samir Ghosh
Tarak Nath Sahu
Abhijit Sinha
Brajaballav Pal

First Edition : September, 2020

Published by
Department of Commerce
Vidyasagar University
Midnapore-721 102
West Bengal, India

ISBN : 978-93-5406-346-6

Printed at
Perfect Solution
9, Anthony Bagan Lane, Kolkata-700 009

Price ₹ : 850.00
US $: 40.00
UK £ : 30.00

Corporate Governance Disclosures by Indian FMCG Companies: A Comparative Study between Hindustan Unilever Ltd and ITC Ltd

Ram Ranjan Routh*
Jaba Rani Patta**

Abstract

Good governance generates investors goodwill and confidence. Better corporate framework benefits firms through greater access to financing, lower cost of capital, better firm performance and more favourable treatment of all stakeholders. The present study is an attempt to investigate the Corporate Governance Disclosure being adopted by Hindustan Unilever Ltd and ITC Ltd. For this purpose Corporate Governance Disclosure index has been developed. The data has been collected from the annual reports of the companies. The findings of the study reveal that both the companies doing excellent corporate governance practices but have significant difference.

Key words: *Fast Moving Consumer Goods Companies, Corporate Governance Disclosures, Hindustan Unilever Ltd and ITC Ltd.*

Introduction:

Corporate Governance in simple words means the extent to which companies run in an open and honest manner. Corporate Governance refers to the process, mechanism and structure by which the business affairs of the company are directed, managed and governed directly. Its objective is to enhance long term shareholder value through improving corporate performance and accountability while taking in to account the interest of other stakeholders. The three key constituents of corporate governance are - Shareholders, Board of Directors and Management.

The issue of corporate governance came to the fore-front in India only since the adaptation of liberalization, privatization and globalization program by the Central Government in 1991. The first formal attempt to formalize a code for good governance came from the Confederation of Indian Industries (CII) in 1998. Several Indian companies voluntarily initiated in-house

* Assistant Professor, Department of Commerce, Kharagpur College, Address: Chandipur, Jhargram, Paschim Medinipur, West Bengal, Pin - 721507

** Assistant Teacher, Nayabasan Janakalyan Vidyapith

reviews of their existing governance practices, particularly their board structure, operational mechanism and information disclosure norms. In May 1999 Securities Exchange Board of India (SEBI) set up the Kumar Mangalam Birla Committee on Corporate Governance. The committee gave its recommendations in February 2000. SEBI incorporated Clause 49, which required all listed companies (paid up capital more than Rs 3 crores or net worth Rs 25 crores at any time in history of the company) to comply by 31st March 2003.

It is believed that good governance generates investors goodwill and confidence. Better corporate framework benefits firms through greater access to financing, lower cost of capital, better firm performance and more favourable treatment of all stakeholders. But poorly governed firms are expected to be less profitable. We have taken two leading Indian listed companies from FMCG industries. The study examines the Corporate Governance Disclosure Practices in selected companies based on SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015. This research is trying to find that Hindustan Unilever Limited and ITC Limited comply or not of mandatory and non-mandatory requirements of Corporate Governance which are issued by SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015.

Review of Literature :

This section deals with the review of literature revealed to Corporate Governance Disclosure Practices.

Gupta, Nair & Gogula (2003), in their paper "Corporate Governance Reporting by Indian Companies: A Content Analysis Study" for a sample of 30 Indian companies listed in BSE for the year 2003 indicated that the disclosures were still inconclusive and the variation within the companies was also high. They used ordinary least squares regression method, the significant determinants of corporate governance disclosures were size of the company, number of independent directors, and overseas listing status.

Eng & Mak (2003), in their study "Corporate governance and voluntary disclosure" for a sample taken from firms listed on the Stock Exchange of Singapore (SES) at the end of 1995 found that lower managerial ownership and significant government ownership are associated with increased disclosure. However, block holder ownership is not related to disclosure. The study also found that an increase in outside directors reduces corporate disclosure and larger firms and firms with lower debt had greater disclosure.

Gupta & Parua (2006), in their study "An Enquiry into Compliance of Corporate Governance Codes by the Private Sector Indian Companies" for a sample of 1245 companies for the period 2004-05 observed that more than 70% of the sample companies comply with 80% or more of the codes and in respect of code-wise compliance rate, the compliance rate was greater than 80% in respect of 17 codes. Almost all the companies had compliance rate which was significant and the grand compliance rate was significant.

Bhuiyan & Biswas (2007), in their study "Corporate Governance and Reporting: An Empirical Study of the Listed Companies in Bangladesh" for a sample of 155 listed Public

Limited Companies for the period July 2006 shows that corporate governance disclosure index is significantly influenced by local ownership, the SEC notification, and the size of the company. Belonging to financial or non-financial institution, age, multinational company and size of the board of directors have no significant impact on corporate governance disclosure.

Balasubramanian, Black & Khanna (2010), in their study "The Relation Between Firm-level Corporate Governance and Market Value: A Study of India" for a sample of 506 Indian public companies for the period 2006 indicated that cross-sectional evidence of a positive relationship for an overall governance index and a sub-index covering shareholder rights and also found that the association is stronger for more profitable firms and firms with stronger growth opportunities. They use descriptive statistics, scatter plot, OLS regression model.

Bhasin (2010), in his study "Corporate Governance Disclosure Practices: The Portrait of a Developing Country" for Reliance Industries Limited (RIL) for the financial year 2008-2009 indicated that RIL group is in the forefront of implementation of "best CG practices in India," but some scope still exists for its improvement.

Sarkar, Sarkar & Sen (2012), in their study "A Corporate Governance Index for Large Listed Companies in India" for a sample of 500 large listed Indian firms for the period 2003 to 2008 found a rising trend in the level of the Corporate Governance Index of Indian companies and There was a strong association between the Corporate Governance Index and the market performance of companies. The study also indicated that Indian markets tend to reward companies that carry out governance reforms. It provides an impetus to regulators as well as to push for further reforms.

Haldar & Rao (2013), in their study "Corporate Governance Index for Indian Companies" for a sample of 500 large BSE listed firms for the period 2008 to 2011 revealed that an escalating trend in the level of Corporate Governance Index of Indian Companies. The study also confirms that Indian markets values companies that carry out governance reforms proactively and encourages regulators to initiate further reforms.

Aggarwal (2013), in her study "Impact of Corporate Governance on Corporate Financial Performance" for a sample of 20 companies listed on S&P CNX Nifty 50 Index for the period 2010-11 to 2011-12 indicated that governance ratings have positive and significant impact on corporate financial performance. The study also revealed that control variable firm size is also have significant impact on corporate financial performance. She used regression, correlation, t-test and F-test etc.

Amba (2014), in his study "Corporate governance and firms' financial performance" for a sample of 39 companies listed at Bahrain bourse for the years 2010 to 2012 indicated that corporate governance variables do influence firms' performance and CEO duality, proportion of non-executive directors and leverage has negative influence and board member as chairman of audit committee, proportion of institutional ownership has positive influence on firms' financial performance.

Rajyalakshmi & Memdani (2014), in their article "Comparative Study of Corporate Governance Disclosure practices adopted by Listed Companies in Manufacturing and

Software sectors in India" indicated that software sector being more advanced and modern, they are scoring better in their disclosure scores as well.

Otman (2014), in his study "Corporate Governance and Firm Performance in Listed Companies in the United Arab Emirates" for a sample of 80 listed companies on the Dubai Financial Market (DFM) and Abu Dhabi Securities Exchange (ADX) for the period 2010-11 revealed that corporate governance principle had been implemented in listed companies, and culture of the UAE community are regarded as possibly the main barrier, while the wide adaptation of international accounting standard is considered the most effective enabler.

He used descriptive statistics, Pearson and Spearman correlation, and non-parametric tests (Kruskal-Wallis and Mann-Whitney tests). He also used OLS and GLS regression model to find the relation between corporate governance and firm performance.

Vo & Nguyen (2014), in their study "The Impact of Corporate Governance on Firm Performance: Empirical Study in Vietnam" for a sample of 342 firms listed in Ho Chi Minh City Stock Exchange (HOSE) for the period 2008 to 2012 found that duality role of the CEO is positively correlated with firm performance, whereas, board independence has opposite impacts on firm performance and there is a structural change in relation between managerial ownership and firm performance. The study fails to provide an empirical evidence support the statistically significant relationship between board size and firm performance.

They measured corporate governance by dual role of the CEO, board's size, board independence and ownership concentration and firm's performance measured by return on asset (ROA), return on equity (ROE), Z-score by Altman (1968) and Tobin's Q.

Haider, Khan & Iqbal (2015), in their study "Impact of Corporate Governance on Firm Financial Performance in Islamic Financial Institution" for a population Islamic banks in Punjab, Pakistan for the period 2008 to 2012 revealed that the positive relationship between corporate governance and financial performance and strong positive relationship in large board size and firm financial performance in developing countries like Pakistani circumstances.

They use board size, number of meeting and audit committee size to measure corporate governance level and return on equity, return on asset and earning per share as a measure of financial performance.

Otieno, Mugo, Njeje & Kimathi (2015), in their study "Effect of Corporate Governance on Financial Performance of SACCOS in Kenya" for a sample of 53 sacco of Nakuru District indicated that the relationship between size of the board and financial performance was insignificant at 5% significance level. Management style also affected financial performance of Sacco's. The study conclude that the detrimental effect of large board size is arguably the result of boards becoming less effective at both the advisory and monitoring functions.

Paul, Ebelechukwu & Yakubu (2015), in their study "Impact of Corporate Governance on Financial Performance of Microfinance Banks in North Central Nigeria" for a sample of 23 microfinance banks of Nigeria for the period 2011 to 2013 indicated that there is no significant relation between corporate governance and banks financial performance.

They use Board Composition (BC) and Composition of Board Committees (CBC) to measure corporate governance. Earnings per share (EPS) and Return on assets (ROA) are used as measure of Financial Performance. Pearson Correlation coefficient and regression (ANOVA) were used to determine the relation between the corporate governance and financial finance.

Rao & Desta (2016), in their study "Corporate Governance and Financial Performance: A study with reference to Commercial Banks in Ethiopia" for a sample of 19 banks operated in Ethiopia. They construct two regression models one for return on equity and another for return on asset. The study indicated that disclosure practice, board size, board gender diversity and ownership type have no significant impact on the financial performance of Ethiopian commercial banks, whereas asset size and capital structure have significant effect on both on the return on equity and return on asset. Content analysis was applied to determine the level of disclosure. Correlation and regression were used to determine the relation between the corporate governance and financial finance.

They used CEO duality, Chairman of Audit Committee, Proportion of Non-Executive Directors, Concentrated Ownership structure, Institutional Investors, Gearing Ratio as corporate governance variables. Return on asset used as a measure of Financial Performance. Multiple regression analysis had been employed to test the relationship between firms' financial performance and corporate governance.

Ararat, Black, Yurtoglu (2017), in their study "The effect of corporate governance on firm value and profitability: Time-series evidence from Turkey" for a sample of Turkish public firms from 2006 to 2012 indicated that TCGI predicts higher market value (with firm fixed effects) and higher firm-level profitability with firm random effects. They build Turkey Corporate Governance Index, (TCGI) composed of sub-indices for board structure, board procedure, disclosure, ownership, and shareholder rights.

Ram (2017), in his study "An empirical study on impact of corporate governance disclosure practices on financial performance of select financial banks" for a sample of 14 companies selected from the financial services sector listed on NSE for the period 2006 to 2015 found that a significant impact of corporate governance disclosure scores on the financial performance measurement variables such as Return on Assets, Return on Capital and Earnings per Share whereas, Return on Equity, Book Price per Share, Market Price per share and Dividend per Share were not significantly influenced by corporate governance disclosure scores. He used descriptive statistics, correlation analysis and OLS regression analysis.

Maheshwari (2018), in her study "Corporate Governance Practices in Indian Corporate IT Sector Included in BSE Sensex: A Comparative Study" for a sample of 3 BSE listed companies for the year 2016-17 indicated that that the degree of Corporate Governance Disclosure Practices is excellent in all sampled companies and All IT Sector companies included in BSE SENSEX fulfilled almost mandatory requirements in all sub-indices of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015. The Infosys Ltd. scored the highest score i.e.95 in Corporate Governance Index.

Research Gap:

Based on the review of existing literature, it is found that there are very few studies conducted in India dealt with Corporate Governance Disclosures by Indian listed companies. Moreover, Earlier literatures have not done comparative study between Hindustan Unilever Ltd and ITC Ltd.

Objectives of The Study:

1. To study the existing corporate governance disclosure practices followed by Hindustan Unilever Ltd and ITC Ltd.
2. To make a comparative analysis of the corporate governance disclosure practices by Hindustan Unilever Ltd and ITC Ltd.

Hypotheses :

The following hypotheses have been formulated:

- **$H0_1$:** There is no change in the Corporate Governance disclosures practices followed by Hindustan Unilever Ltd and ITC Ltd.
- **HA_1:** There is change in the Corporate Governance disclosures practices followed by Hindustan Unilever Ltd and ITC Ltd.

Research Methodology:

As SEBI regulations relating to clause 49 of the listing agreement are applicable to the listed companies in India, we have selected some listed companies in manufacturing sectors and service sector. Corporate governance disclosure practices adopted by these companies are to be examined from the CG section of annual reports of the companies. A list of 46 items from the Corporate Governance section of the annual reports will be collected and divided them into three dimensions like Board Evaluation, Board Control and Board Disclosure. A dichotomous procedure is followed to score each of the disclosure items comparing with the parameters selected basing on the suggested list of items by SEBI. A score of 1 is awarded to the company if the company has complied requirements and a score of 0 given if it has not complied the requirements in that parameters. All the 46 parameters are given equal weight as they are considered to be equally important.

Corporate Governance Index (CGI) =Total Score of individual company*100/ maximum possible score.

Sample: This study aims to show the corporate governance practices in India, especially the study covers two companies of FMCG Industries namely Hindustan Unilever Ltd and ITC Ltd. FMCG industries is the most renowned sector in any economy.

Source of Data: The research is based on the secondary data. Data was collected from the annual reports of the sample companies as well as data was collected from Capital line database.

Period of the Study: The study has been covered a period of fifteen years starting from the financial year 2015-16 to 2017-18.

Tools and Techniques:

The research comprises comparative analysis of Corporate Governance Disclosure Practices between Hindustan Unilever Ltd and ITC Ltd for the period 2015-16 to 2017-18. For this purpose, company's performance have been measured against certain governance parameter. The research has been undertaken to assess the level of compliance to key governance parameter in these companies in tune with mandatory and non- mandatory requirements under the Companies Act 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015. To evaluate how much these companies are following governance standard, we develop indices mainly, Board Evaluation Index, Board Control Index and Board Disclosure Index. Such index may act as the indicator of any changes in the governance disclosures.

Corporate Governance Index

Index	Description	Measurement
BE	Board Evaluation	Board Evaluation measures the compliance relating to the board, as well as Board meeting held as reported in the annual report. A score 1 is given where complied with the requirements by the company and 0 otherwise.
BC	Board Control	Board Control measures compliance relating to the committees of the board. A score 1 is given where complied with the requirements by the company and 0 otherwise.
BD	Board Disclosure	Board Disclosure includes disclosures for executive and non-executive director's remuneration and other mandatory and non-mandatory items as given in Clause 49 of listing agreement by SEBI. A score 1 is given where complied with the requirements by the company and 0 otherwise.
CGI	Corporate Governance Index	Constructed from three sub-indices Board evaluation, Board control and Board disclosure index.

Source: Conceptualised by author

Table 1: Parameter wise Index table of Hindustan Unilever Limited

Sl. No.	Factors	2017-18		2016-17		2015-16	
		Value	Score	Value	Score	Value	Score
	Board Evalution						
1	Presence of non-executive or promoter chairman	Y	1	Y	1	Y	1
2	Board Size	10	1	9	1	9	1
3	Percentage of Independent Directors	50.00%	1	50.00%	1	50.00%	1
4	Presence of Women Director	Y	1	Y	1	Y	1
5	CEO Duality	N	1	N	1	N	1
6	Board Meeting Frequency	5	1	5	1	5	1
7	Gap between board meetings	Y	1	Y	1	Y	1
8	% of board meetings attended by directors	100%	1	53/55	1	53/54	1
9	% of directors who attended Annual General meeting	100%	1	100%	1	100%	1
10	Tenure of independent director	Y	1	Y	1	Y	1
11	Total number of committee membership and chairmanship held by a director	Y	1	Y	1	Y	1
12	A director shall not serve as an independent director in more than seven listed companies.	N	0	N	0	N	0
13	A whole-time director in any listed company shall serve as an independent director in not more than three listed companies	Y	1	Y	1	Y	1
14	The independent directors shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management.	Y	1	Y	1	Y	1
			13		13		13
	Board Control						
15	Presence of Audit Committee.	Y	1	Y	1	Y	1
16	Audit Committee chaired by the independent Director	Y	1	Y	1	Y	1
17	Percentage of Independent Directors in Audit Committee	100%	1	100%	1	100%	1
18	Unqualified Auditor Report	Y	1	Y	1	Y	1
19	Presence of the Audit Committee Chairman in the AGM	Y	1	Y	1	Y	1
20	Number of Audit Committee Meetings	6	1	6	1	6	1
21	Quorum at the Audit Committee Meeting	Y	1	Y	1	Y	1
22	Presence of Nomination and Remuneration Committee	Y	1	Y	1	Y	1
23	Committee chaired by the independent Director	Y	1	Y	1	Y	1
24	Percentage of Independent Directors in N & R Committee	80%	1	80%	1	80%	1
25	Presence of the N & R Committee Chairman in the AGM	Y	1	Y	1	Y	1
26	Information Placed Before the Board	Y	1	Y	1	Y	1
27	Presence of Stakeholder's Grievance Committee	Y	1	Y	1	Y	1
28	Number of Investor's Grievance received and redressed	100%	1	100%	1	100%	1
29	No. of Meeting held and attended	100%	1	83%	1	83%	1
30	Post-meeting follow-up system	Y	1	Y	1	Y	1
31	Presence of the S & G Committee Chairman in the AGM	Y	1	Y	1	Y	1
32	Presence of CSR Committee	Y	1	Y	1	Y	1
33	Review of Subsidiary companies account	Y	1	Y	1	Y	1
			19		19		19
	Board Disclosure						
34	Presence of Corporate Governance Philosophy	Y	1	Y	1	Y	1
35	Code of Conduct	Y	1	Y	1	Y	1
36	Disclosure of Related Party Transactions	Y	1	Y	1	Y	1
37	Disclosure of Accounting Treatment	Y	1	Y	1	Y	1
38	Disclosure of Remuneration of Directors	Y	1	Y	1	Y	1
39	Disclose of directors' share ownership in its annual report	Y	1	Y	1	Y	1
40	Postal ballot, voting by proxy or mail to appoint directors	Y	1	Y	1	Y	1
41	Non-compliance, Penalty or stricture	Y	1	Y	1	Y	1
42	Whistle Blower Policy	Y	1	Y	1	Y	1
43	Management Discussion and Analysis Report (MDAR)	Y	1	Y	1	Y	1
44	CEO/CFO Certification	Y	1	Y	1	Y	1
45	Compliance Report on Corporate Governance	Y	1	Y	1	Y	1
46	Stock option for Directors	Y	1	Y	1	Y	1
			13		13		13
	TOTAL		45		45		45
	CGI		97.83		97.83		97.83

Source: Annual Reports of the Hindustan Unilever Ltd

Table 2: Parameter wise Index table of ITC Limited

Sl. No.	Factors	2017-18		2016-17		2015-16	
		Value	Score	Value	Score	Value	Score
	Board Evalution						
1	Presence of non-executive or promoter chairman	Y	1	Y	1	N	0
2	Board Size	12	1	14	1	15	1
3	Percentage of Independent Directors	50.00%	1	50.00%	1	46.00%	0
4	Presence of Women Director	Y	1	Y	1	Y	1
5	CEO Duality	N	1	N	1	Y	0
6	Board Meeting Frequency	6	1	6	1	6	1
7	Gap between board meetings	Y	1	Y	1	Y	1
8	% of board meetings attended by directors	87.21%	0	88.51%	0	95.74%	1
9	% of directors who attended Annual General meeting	86.67%	0	100%	1	93%	1
10	Tenure of independent director		1		1		1
11	Total number of committee membership and chairmanship held by a director	C	1	C	1	C	1
12	A director shall not serve as an independent director in more than seven listed companies.	N	0	N	0	N	0
13	A whole-time director in any listed company shall serve as an independent director in not more than three listed companies	NC	0	NC	0	NC	0
14	The independent directors shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management.	1	1	1	1	1	1
			10		11		9
	Board Control						
15	Presence of Audit Committee.	Y	1	Y	1	Y	1
16	Audit Committee chaired by the independent Director	Y	1	Y	1	Y	1
17	Percentage of Independent Directors in Audit Committee	75%	1	80%	1	80%	1
18	Unqualified Auditor Report	Y	1	Y	1	Y	1
19	Presence of the Audit Committee Chairman in the AGM	Y	1	Y	1	Y	1
20	Number of Audit Committee Meetings	8	1	8	1	10	1
21	Quorum at the Audit Committee Meeting	Y	1	Y	1	Y	1
22	Presence of Nomination and Remuneration Committee	Y	1	Y	1	Y	1
23	Committee chaired by the independent Director	Y	1	Y	1	Y	1
24	Percentage of Independent Directors in N & R Committee	60%	1	60%	1	75%	1
25	Presence of the N & R Committee Chairman in the AGM	Y	1	Y	1	Y	1
26	Information Placed Before the Board	Y	1	Y	1	Y	1
27	Presence of Stakeholder's Grievance Committee	Y	1	Y	1	Y	1
28	Number of Investor's Grievance received and redressed						
29	No. of Meeting held and attended	73%	0	69%	0	72%	0
30	Post-meeting follow-up system	Y	1	Y	1	Y	1
31	Presence of the S & G Committee Chairman in the AGM	Y	1	Y	1	N	0
32	Presence of CSR Committee	Y	1	Y	1	Y	1
33	Review of Subsidiary companies account	Y	1	Y	1	Y	1
			17		17		16
	Board Disclosure						
34	Presence of Corporate Governance Philosophy	Y	1	Y	1	Y	1
35	Code of Conduct	Y	1	Y	1	Y	1
36	Disclosure of Related Party Transactions	Y	1	Y	1	Y	1
37	Disclosure of Accounting Treatment	Y	1	Y	1	Y	1
38	Disclosure of Remuneration of Directors	Y	1	Y	1	Y	1
39	Disclose of directors' share ownership in its annual report	Y	1	Y	1	Y	1
40	Postal ballot, voting by proxy or mail to appoint directors	N	1	Y	1	N	1
41	Non-compliance, Penalty or stricture	Y	1	Y	1	Y	1
42	Whistle Blower Policy	Y	1	Y	1	Y	1
43	Management Discussion and Analysis Report (MDAR)	Y	1	Y	1	Y	1
44	CEO/CFO Certification	Y	1	Y	1	Y	1
45	Compliance Report on Corporate Governance	Y	1	Y	1	Y	1
46	Stock option for Directors	Y	1	Y	1	Y	1
			13		13		13
	TOTAL		40		41		38
	CGI		86.96		89.13		82.61

Source: Annual Reports of the ITC Ltd

Findings:

Following points have been found from the index table:

- In case of Hindustan Unilever Ltd they have separate post of Chairman and CEO for the period 2016 to 2018. Where as in ITC Ltd they have separate post of Chairman and CEO for the year 2017 and 2018 But in 2016 the same person hold these two post.
- In HUL Ltd the Chairman is Promoter and Non Executive Director. Where as in ITC Ltd the Chairman is Promoter and Non Executive Director for the year 2017 and 2018. But in 2016 the Chairman is promoter as well as executive director.
- The Board of Director of both companies is duly constituted with proper balance of Executive Director, Non-Executive Director, Women Director and Independent Director. Except ITC Ltd, in 2016 they have 46% Independent Director when there is a Executive promoter Chairman.
- According to SEBI's Regulations Company's Board Of Directors should be meet minimum four times with maximum gap 120 days. Both companies also comply it.
- Companies disclose tenure and age limit of Board member according to SEBI's Regulations.
- According to SEBI's Regulations Company's Independent directors shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management. Both companies also comply it.
- Both companies comply mandatory requirements of statuary committee like Audit Committee, Stakeholders' Relationship Committee, Remuneration Committee and Corporate Social Responsibility Committee.
- Both the companies statutory committees chairmen were present in their Annual General Meeting except ITC Ltd in 2016, their Stakeholders' Relationship Committee's chairman not present in the AGM.
- Both the companies have post board meeting follow up system and compliances of the board procedure.
- Both the companies reviewed their subsidiary companies accounts.
- Both HUL Ltd and ITC Ltd have their own philosophy on code of governance.
- HUL Ltd and ITC Ltd disclose their director's remunerations as per SEBI's Regulation. Also both the companies have Remuneration policy towards the Director's remuneration.
- Both Companies have stock option for the directors and showing share of ownership of Board of Directors in Annual Report.
- HUL Ltd and ITC Ltd framed policy towards the related party transactions and insider trading.
- Both the Companies have a Whistle Blower Policy, as part of vigil mechanism to provide appropriate avenues to the Directors and employees to bring to the attention of the management any issue which is perceived to be in violation of or in conflict with the Code of Business Principles.

- There were no non-compliances by the both Company and no instances of penalties and strictures imposed on any matter related to the capital market during the last three years
- HUL Ltd and ITC Ltd have an auditor's certificate to comply with corporate governance.
- HUL Ltd and ITC Ltd have a CEO's/CFO's certificate to comply with corporate governance.

After construction of Corporate Governance Index given in table 4 companies are graded on a five-point scale as given below in Table 3.

Table 3: Score Result

Marks	Remarks
90-100	Excellent
75-89	Very Good
60-74	Good
50-59	Satisfactory
0-49	Bad

Table 4: Parameter wise Index table

	2015-16		2016-17		2017-18	
	HUL Ltd	**ITC Ltd**	**HUL Ltd**	**ITC Ltd**	**HUL Ltd**	**ITC Ltd**
Board Evalution (out of 14 parameter)	13	9	13	11	13	10
Board Control (out of 19 parameter)	19	16	19	17	19	17
Board Disclosure (out of 13 parameter)	13	13	13	13	13	13
Total (out of 46 parameter)	45	38	45	41	45	40
Corporate Governance Index (CGI)	97.83%	82.61%	97.83%	89.13%	97.83%	86.96%

Source: Computed by the author

From the Table 4 in case of Hindustan Unilever Limited (HUL) it is shows that in Board Evalution out of 14 parameter HUL got 13 score in all the year, in Board Control out out of 19 parameter HUL got 19 score in all the year, in Board Disclosure out of 13 parameter HUL got 13 score in all the year. In Corporate Governance Disclosure Index Hindustan Unilever Ltd's value is 97.83. It means as per Table 3 Hindustan Unilever Ltd's grade is excellent.

In case of ITC Limited it is shown that in Board Evalution out of 14 parameter they got 9,11,10 score respectively for the year 2015-16, 2016-17 and 2017-18. In Board Control out of 19 parameter they got 16,17,17 score respectively for the year 2015-16, 2016-17 and 2017-18. In Board Disclosure out of 13 parameter they got 13 score for all the year. In Corporate Governance Disclosure Index ITC Ltd's scores are 82.81, 89.13 and 86.96 respectively for the year 2015-16, 2016-17 and 2017-18. It means in all the year they got very good grade.

Conclusion:

From the above analysis it can be concluded that FMCG Industies companies have excellent Corporate Governance Practices. Both companies have separate post of Chairman and CEO for the period 2016 to 2018 except in 2016 ITC Ltd same person hold these two post. Both HUL and ITC Ltd have Promoter and Non Executive Director Chairman except in 2016 ITC Ltd the Chairman is promoter as well as executive director. The Board of Director of both companies is duly constituted with proper balance of Executive Director, Non-Executive Director, Women Director and Independent Director. Except ITC Ltd, in 2016 the have 46% Independent Director when there is a Executive promoter Chairman. Number of board meeting and gap between board meeting both the company comply it. Both companies comply mandatory requirements of statuary committee like Audit Committee, Stakeholders' Relationship Committee, Remuneration Committee and Corporate Social Responsibility Committee. Both the companies statutory committees chairmen were present in their Annual General Meeting except ITC Ltd in 2016, their Stakeholders' Relationship Committee's chairman not present in the AGM. Both the companies have post board meeting follow up system and compliances of the board procedure. Both HUL Ltd and ITC Ltd have their own philosophy on code of governance. HUL Ltd and ITC Ltd disclose their director's remunerations as per SEBI's Regulation. Also both the companies have Remuneration policy towards the Director's remuneration. Both Companies have stock option for the directors and showing share of ownership of Board of Directors in Annual Report. HUL Ltd and ITC Ltd framed policy towards the related party transactions and have a Whistle Blower Policy. There were no non-compliances by the both Company and no instances of penalties and strictures imposed on any matter related to the capital market during the last three years. However, all the companies are doing good corporate governance practices. But the average Corporate Governance Index of HUL (97.83) is higher than ITC Ltd (86.23) so we can conclude that level of compliance of HUL is better then the ITC Ltd. In order to maintain interest of stakeholders and for more transparency in business operation, SEBI should take more stringent steps to avoid any kind of fraud and to fair trading practice in the stock market. Good legislation and a market environment that is free from corruptions are essential for Corporate Governance disclosure to be efficient.

Suggestions :

According to Index table HUL got above 90 score in all the year where as ITC Ltd got 80 to 90 score in all the year. All the company's scores are very good, but to bring full score, the company should adopt the following suggestions-

- HUL and ITC Ltd's Director should not serve more then seven listed companies as Independent Director.
- ITC Ltd's wholetime Director should not serve more then three listed companies as Independent Director.

- ITC Ltd's members of Nomination & Compensation Committee should attend maximum number of meetings.
- All Companies should disclose the policy for stakeholders' interest like Environment, Health and Safety measures, Human Resources Development initiative, Corporate Social Responsibility and Industrial Relation.

References:

Aggarwal, P. (2013). Impact of Corporate Governance on Corporate Financial Performance. *Journal of Business and Management.* Vol 13(3). pp 01-05. e-ISSN: 2278-487X.

Amba, S. M. (2014). Corporate governance and firms' financial performance. *Journal of Academic and Business Ethics.* Vol 8(July). pp 1-11. e-ISSN: 1941-336X.

Ararat, M., Black, B. S., & Yurtoglu, B. B. (2017). The effect of corporate governance on firm value and profitability: Time-series evidence from Turkey. Emerging Markets *Review.* Vol. 30(2017). pp. 113-132.

Balasubramanian, N., Black, B. S., & Khanna, V. (2010). The Relation Between Firm-level Corporate Governance and Market Value: A Study of India. *Emerging Markets Review.* Vol. 11. pp. 319-340.

Bhagat, S., & Black, B. (2002). The non-correlation between board independence and long-term firm performance. *Journal of Corporation Law*. Vol. 27.

Bhagat, S., & Bolton, B. (2008). Corporate Governance and Firm Performance. Corporate Law Seminar. Cornell University, Dartmouth College (Tuck), University of Chicago, University of Rochester, and Yale University.

Bhasin, M. L. (2010). Corporate Governance Disclosure Practices: The Portrait of a Developing Country. *International Journal of Business and Management.* Vol. 5(4). pp. 150-167.

Bhuiyan, H. U., & Biswas, P. K. (2007). Corporate Governance and Reporting: An Empirical Study of the Listed Companies in Bangladesh. *Journal of Business Studies.* Vol. XXVIII(1). pp. 1-32.

Cadbury, Adrian. (1992). Report of the Committee on the Financial Aspects of Corporate Governance, Gee, London.

Claessens, J.P., Fan, P.H., & Wong, T.J. (2002). A study of the relationship between the independent director system and the operating performance of the business in Taiwan. Working paper.

Demsetz, H., Villalonga, B. (2002). Ownership structure and corporate performance. *Journal of Corporate Finance*. Vol. 7.

Donaldson, W. (2003). Congressional testimony concerning the implementation of the Sarbanes-Oxley Act of 2002. Available at:www.sec.gov/news/testimony/090903 tswhd.

Eng, L. L., & Mak, Y. T. (2003). Corporate governance and voluntary disclosure. *Journal of Accounting and Public Policy.* Vol. 22. pp. 325-345.

Gupta, A., Nair, A. P., & Gogula, R. (2003). Corporate Governance Reporting by Indian Companies: A Content Analysis Study. *The ICFAI Journal of Corporate Governance.* Vol. 2(4) pp. 7-18.

Gupta, A., & Parua, A. (2006). An Enquiry into Compliance of Corporate Governance Codes by the Private Sector Indian Companies. http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID962001_code551806.pdf?abstractid=962001&mirid= 1

Haider, N., Khan N., & Iqbal, N. (2015). Impact of Corporate Governance on Firm Financial Performance in Islamic Financial Institution. *International Letters of Social and Humanistic Sciences.* Vol 51. pp 106-110. ISSN: 2300-2697.

Haldar, A., & Rao, S.V.D. N (2013). Corporate Governance Index for Indian Companies. *https://www.researchgate.net/publication/256060497.*

Maheshwari, M. (2018). Corporate Governance Practices in Indian Corporate IT Sector Included in BSE Sensex: A Comparative Study. *Indian Journal of Accounting (IJA).* Vol 50(1). Pp 13-20. ISSN: 2395-6127.

Otieno, K., Mugo, R., Njeje, D. & Kimathi, A. (2015). Effect of Corporate Governance on Financial Performance of SACCOS in Kenya. *Research Journal of Finance and Accounting.* Vol 6 (2). pp 48-58. e-ISSN: 2222-2847.

Otman, K. A. M. (2014). Corporate Governance and Firm Performance in Listed Companies in the United Arab Emirates.

Paul, G. D., Ebelechukwu, E. C. & Yakubu, S. (2015). Impact of Corporate Governance on Financial Performance of Microfinance Banks in North Central Nigeria. *International Journal of Humanities Social Sciences and Education.* Vol 2(1). pp 153-170. e-ISSN: 2349-0381.

Rajyalakshmi & Memdani, L. (2014). Comparative Study of Corporate Governance Disclosure practices adopted by Listed Companies in Manufacturing and Software sectors in India. *Pacific Business Review International.* Vol 6 (8). Pp 31-35.

Ram, P. S. (2017). An empirical study on impact of corporate governance disclosure practices on financial performance of select financial banks. *International Journal of Commerce and Management Research.* Vol 3(7). Pp 20-25. e-ISSN: 2455-1627.

Rao, K. S., & Desta, K. K. (2016). Corporate Governance and Financial Performance: A study with reference to Commercial Banks in Ethiopia. *International Journal of Applied Research.* Vol 2(8). pp 551-557. e-ISSN: 2394-5869.

Sarkar, J., Sarkar, S., & Sen, K. (2012). A Corporate Governance Index for Large Listed Companies in India. Indira Gandhi Institute of Development Research, Mumbai. *http://www.igidr.ac.in/pdf/publication/WP-2012-009.pdf*

Vo, D. H., & Nguyen, T. M. (2014). The Impact of Corporate Governance on Firm Performance: Empirical Study in Vietnam. *International Journal of Economics and Finance.* Vol 6(6). pp 1-13. e-ISSN: 1916-9728.

EDITORS

Dr. Samir Ghosh is a Professor in Commerce. His academic qualification is Ph.D., M.Com. ACMA, DCA, DFA. He is teaching near about 25 years at post graduate level (M.Com. and MBA) of Vidyasagar University. His specialized areas of teaching and research are Finance and Accounting. Nine scholars are already awarded Ph.D. under his guidance and five scholars are doing Ph.D. under his supervision. He is the author of three books and edited three books. Prof. Ghosh has published 30 articles in different reputed journals and also presented a lot of papers in different conferences both at national and international level.Recently, he has completed a major project on the "Measurement of the impact of different development programmes of both Government and Non-Government Organisations on the Socio-Economic status of the Scheduled Tribe people in Jungle Mahal areas of West Bengal- A Case Study" sponsored by ICSSR, New Delhi.

Dr. Tarak Nath Sahu is an Assistant Professor in the Department of Commerce, Vidyasagar University, Midnapore, West Bengal, India. He has over 12 years of postgraduate teaching and research experience. His specialization is in finance and financial markets and his research publications are in the area of stock market behavior, corporate finance, corporate governance investor behavior etc. Dr. Sahu, a gold medalist at both graduate and post-graduate level, has authored three books published by **Palgrave Macmillan**, New York and **Emerald Publishing Limited**, UK and co-edited four books. He has already completed a research project sponsored by UGC. His research work has also been shared in a number of national and international journals and conferences. He has over sixty research publications in different refereed and indexed journals, published by different reputed publishers, including **Springer, Emerald, SAGE, Inderscience, Mac-Millan** etc.

Dr. Abhijit Sinha is engaged in teaching and research for fifteen years at the post-graduate level in Commerce at Vidyasagar University in West Bengal, India. He is a gold medalist and silver medalist in the M.Com and MBA Examinations respectively. He is a prolific researcher having published around sixty research articles and made presentations in more than fifty occasions in International and National Conferences. He has also successfully completed one UGC Sponsored Research Project. He is a Ph.D and M.Phil. supervisor and has successfully guided research scholars for the award of Doctorate and Master of Philosophy degrees. He has authored two books published by International Publishers and also edited two books published by National level publishers.

Dr. Brajaballav Pal is an Associate Professor in Department of Commerce at Vidyasagar University. He has a total teaching experience of more than 24 years. He has interest in the areas of Operations Research, Advanced Management Accounting, Advanced Costs Accounting & Financial Engineering. He has authored more than 24 articles and presented several papers at 26 national and international conferences. He is a life member of the Indian Accounting Association, Indian Accounting Association Research Foundation & Indian Commerce Association.

DEPARTMENT OF COMMERCE
VIDYASAGAR UNIVERSITY
Midnapore-721 102
West Bengal, India
Website : www.vidyasagar.ac.in

ISBN 93-5406-346-2
9789354063466

Price ₹ 850.00
US $:40.00 ◆ UK £:30.00