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Governance Disclosure on the Internet by Leading Indian Public Sector Companies

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Abstract

Nowadays, internet satisfying people with different services related to different fields. The profit, as well as non-profit organization, uses the internet for various business purposes. One of the major is communicated various financial as well as non-financial information on their respective websites. This study is conducted on the top 30 BSE listed public sector companies, to measure the extent of governance disclosure (non-financial information) on their web pages. The disclosure index approach to examine the extent of governance disclosure on the internet was used. The governance index was constructed and broadly categorized into three dimensions, i.e., organization and structure, strategy & Planning and accountability, compliance, philosophy & risk management. The empirical evidence of the study reveals that all the Indian public sector companies have a website, and on average, 67% of companies disclosed some kind of governance information directly on their websites. Further, we found extreme variations in the web disclosure between the three categories, i.e., The Maharatans, The Navratans, and Miniratans. However, the result of Kruskal-Wallis indicates that there is no such significant difference between the three categories. The study provides valuable insights into the Indian economy. It explored that Indian public sector companies use the internet for governance disclosure to some extent, but lacks symmetry in the disclosure. It is because there is no such regulation for web disclosure. Thus, the recommendation of the study highlighted that there must be such a regulated framework for the web disclosure so that stakeholders ensure the transparency and reliability of the information.

Keywords: Internet Research, Corporate Reporting, Governance Disclosure, Public Sector.

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I. Introduction

In India, governance has been defined as the policies, procedures, and rules governing the relationships between the shareholders, directors, and managers in a company, as per the present applicable laws. The basic framework for governance regulations is provided by the Companies Act, 1956, and SEBI. In 1992 SEBI got regulatory power by the Indian parliament to regulate the capital market in India. To ensured the best practice of corporate governance in Indi, SEBI worked with the various committee over the period and finally revised Clause 49 in 2003 for the effective governance practice by the all listed Indian companies.

With the rapid expansion of the internet, it became a new way of communication globally, influence both developed and developing nations. The business world or corporate sectors use the internet for business communication (Lymer, 1997; Ashbaugh *et al*., 1999). The current paper examines the corporate governance disclosure practices on the internet by non-financial public sector companies. Companies Act, 1956 defined public sector companies, are those where the direct holding of the Central Government or other CPSEs is 51% or more. The paper specifically concerns the transparency of governance information of public sector companies.

II. Literature review

Studies Examining the Nature and Extent of Online Disclosure

While there is growing literature on the nature and extent of Internet use for financial and non-financial disclosure. A large amount of literature is available for financial reporting through, but specifically on governance disclosure, few studies were conducted in a developed economy. In the Indian context, no such study is conducted.

The preliminary efforts were undertaken in the US during the year 1996 and 1997. Petravick and Gillet (1996) found that 69 percent of Fortune 150 US firms have corporate websites, and 81 percent presented financial information on the websites. Gray and Debreceny (1997) analyzed the top 50 US industrial corporations in late 1996 and found that 49 industrial corporations had a web presence. The corporations provided annual reports as complete web documents rather than as an electronic version of the printed report. Ashbaugh et al. (1999) surveyed 290 US firms and found that 70 percent of the sample firms are engaged in Internet financial Reporting. The survey revealed that communication with potential investors is the prime reason for ensuring web

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presence. In line with US studies, the researchers gauged the practices of other geographic domains. Lymer (1997) examined top 50 UK firms and found 92 percent of the firms had a website and 60 percent furnished financial reports on the websites, though full financial reports were available for only 32 percent of the firms. Craven and Marston (1999) analyzed 206 UK firms and out of 74 percent of the sample companies having a web presence; 32.5 percent companies provided detailed financial reports whereas 20.4 percent companies furnished partial or summarized reports. Marston (2003) surveyed top 99 Japanese companies and revealed 92 percent had a web presence, and 79 percent had an English version of the corporate website.

The studies like (Pirchegger and Wagenhofer, 1999; Ettredge et al., 2001; Bonson and Escobar, 2002; Ettredge et al., 2002; Allam and Lymer, 2003; Marston, 2003; Davey and Homkajohn, 2004) extended the work by using checklist to gauge internet reporting practices rather than merely relying on dichotomous measure of presence or absence of website. Pirchegger and Wagenhofer (1999) using 38 item checklist, examined how Austrian firms are presenting financial information on their corporate websites. The study used weighted approach, where content and timeliness dimension were assigned higher weights than technology and user support dimension. Ettredge et al. (2001) surveyed a broad sample of 490 US firms and quantified the financial disclosure practices on the web using 17 items non-weighted checklist. The checklist incorporated both accounting and non-accounting-based financial items. The findings revealed that quarterly reports were most disclosed accounting item with 54 percent disclosure score, whereas financial news (80 percent) was most reported non- accounting financial item. Allam and Lymer (2003) based on 36 attributes checklist gauged the online reporting practices of the fifty most significant companies of five countries. The findings revealed that the US, UK, and Canadian firms are leading in exploiting the various aspects of web technologies, followed by Australia firms, whereas Hong Kong firms lagged.

The above-stated studies investigated the financial information on the company's websites, few studies have been conducted about governance disclosure. Jiang et al., 2009 investigated 30 Dow Jones companies on governance disclosure and found companies disclosed information in a limited manner. Gandia, 2008 examined 92 non-financial Spanish companies and observed only 20% companies report governance information on their respective websites they further analyze the determinants of corporate governance and found the size of the board, CEO duality, and free

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float has no impact on governance disclosure in Spanish companies. Stewart et al., 2012 analyses 36 Australian state government department and found 72% reports about organizational structure and 67% has a link to strategy and planning on their websites.

The above-stated literature data covering developed and emerging economy, while about India few studies have been conducted (Garg and Verma, 2010; Singh 2009; Singh, 2013) on financial and non-financial disclosure on Indian companies websites which included governance disclosure. Thus, the present paper aims to fill the gap of literature and adding the existing literature by study the corporate governance disclosure through the web by Indian public sector non-financial companies and measure the nature and extent of governance disclosure on the internet of selected companies.

Hypothesis Development

Previous research examined the association between size and web disclosure. Various authors reported the positive association between size of the company and internet disclosure (Ashbaugh *et al.*, 1999; Giner & Larran, 2000; Alali & Romero, 2009; Al-Htaybay, 2011; Uyar, 2011). They concluded larger the size of the company higher the disclosure level. On the contrary, various studies found a negative association between these two variables (Allam & Lymer, 2003; Gandia, 2003; Oyelere *et al.*, 2005; Agyei-Mensah, 2011). Hence, based on this background, the hypothesis is:

H1. There is no significant association between the type of public sector companies and the extent of governance disclosure on the web

For the study, we classified the public sector companies based on their turnover and power of the board. The classification is based on the department of public enterprises of the Indian government.

Table 1: Corporate Governance Disclosure Index

S.No.	Attributes

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I	**Organization and Structure**
1	Company Background
2	Board Of Director
3	Information on BOD
4	List of Board Committee
5	Organization Structure
II	**Strategy & Planning**
1	Mission
2	Vision
3	Chairman Message
III	**Accountability, Compliance, Philosophy and Risk Management**
1	CEO/CFO Compliance With SEBI Clause 49
2	Code Of Ethical Conduct
3	Shareholding Pattern
4	Management Discussion and Analysis
5	Policies
6	Investor Contact
7	Information on Board Meeting

III. Research Methodology

Sample

The present paper is based on the 30 non-financial public sector undertakings in India. This, companies are selected based on market capitalization. The fact to select companies on market capitalization, as firms with websites and provide some information on it, were larger and more profitable as compared to firms without websites (Ashbaugh et al., 1999).

Data Collection and Analysis

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For the data collection firstly, it is checked whether the sampled companies have a website or not. If the sample company fulfills the first criteria, then it is measured through the corporate governance index (CGI). For determining the content of corporate governance on websites, the environment of the regulatory framework in India was analyzed. The essential items as per clause 49 of SEBI Act, 1992 and some other voluntary items (Garg, 2005; Singh, 2009; Gandia, 2008 and Stewart *et al*., 2012) are included in corporate governance index. The index is distributed broadly into three categories organization and structure, strategy & Planning and accountability, compliance, philosophy, and risk management. The corporate governance checklist is shown in Table 1.

In the present study, the corporate governance disclosure is analyzed through the direct observation of websites. The criteria for assigning score is we checked whether the checklist attributes were present on the homepages of companies or a direct link was given to the required information. We assigned one if the required information is available on the websites otherwise 0. The total score is calculated by the number of attributes present on the websites of companies. The maximum score can company achieved 15 and a minimum of 0.

IV. Result and Discussion

The disclosure of governance information on the website

Content Wise

The result of content analysis depicts that all the public sector companies provided some kinds of governance information on their web pages. Only a few companies have a different section of corporate governance on their websites. Mostly companies provided this information under the Investor relation section. We analysis only those governance attributes which are available on web pages or hyperlink is provided to the required information. The results for the three categories are shown in Table 2.

This section measured the general information of company such as their background, broad of director, board committee, etc. the result indicates that 100% companies disclosed on company history and background, 97% companies provided information on board of director and 67% about their profile. On the other hand, fewer public sector companies (27%) provided the

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structure of organization or management on their websites. Only 20% of companies have a direct link to their important board committee, which is very low. We find companies disclosed about their board committee in their annual report, but our study concerned only information available directly on web pages. These results are parallel to the findings of (Hussainey and al-nodel, 2008) that, majority of companies provided detailed information on the company board and some companies on organizational structure.

I. Strategy and Planning

It has been found that companies were highly concern towards the disclosure of the strategy and planning. Still, this is the voluntary information, besides this 87% of companies disclosed information about their mission and 83% companies disclosed on vision. Information on chairman message is less commonly provided by companies.

II. Accountability, Compliance and Risk Management

The good governance shows the accountability and transparency of the company's affairs to the entire stakeholder equally. This section measured the disclosure on accountability and compliance toward regulation. Information on the shareholding pattern, code of management conduct, company's policies, investor contact, and information on board meetings such as notice, result, etc are provided on the web. It has been found that more than 80% of the sample companies have a direct link to the information above on their websites. Surprisingly, with manner to compliance, only 14 (47%) companies have provided the CEO/CFO certificate on the web. Furthermore, fewer companies have a link to management discussion and analysis on the web. The result is consistent with the findings of Stewart *et al*., 2012, that the fewer departments had section or link to compliance and risk management on their web pages.

Company Wise

Specifically, The BSE public sector undertaking has been classified based on their annual turnover and powers to board into three categories, i.e., The Maharatans, The Navratans, and Miniratans. The objective for the classification of public sector companies is to facilitate the expansion of their operations. We analysis the public sector companies as per the classification provided by public sector enterprises. In our sample, all 7 Maharatans, 13 Navratans, and 10 Miniratans are included. The company-wise governance disclosure is shown in the Table 3.

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Table 2: Content-Wise disclosure of Corporate Governance on Websites

Attributes	**Score**	
	N	*%*
Organization and Structure		
Companies Background	30	100
Board of Director	29	97
Information on BOD	20	67
List OF Board Committee	6	20
Organization structure	8	27
Strategy & Planning		
Mission	26	87
Vision	25	83
Chairman Message	11	37
Accountability, Compliance and Risk Mgt		
CEO/CFO certificate	14	47
Code Of Ethical Conduct	25	83
Shareholding Pattern	27	90
Management discussion & analyses	6	20
Policies	26	87
Investor Contact	23	77
Information On Board Meetings	25	83

Table 3: Company Wise Disclosure of Corporate Governance Information on Websites

Companies	Score

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	N	%
Maharatans		
COAL INDIA LTD.	11	73
OIL & NATURAL GAS CORP.LTD.	10	67
NTPC LTD.	13	87
INDIAN OIL CORP.LTD.	10	67
BHARAT HEAVY ELECTRICALS LTD.	7	47
GAIL (INDIA) LTD.	12	80
STEEL AUTHORITY OF INDIA LTD.	8	53
Navratans		
BHARAT PETROLEUM CORP.LTD.	8	53
POWER GRID CORP.OF INDIA LTD.	10	67
NMDC LTD.	9	60
POWER FINANCE CORP.LTD.	10	67
CONTAINER CORP.OF INDIA LTD.	6	40
HINDUSTAN PETROLEUM CORP.LTD.	8	53
BHARAT ELECTRONICS LTD.	10	67
RURAL ELECTRIFICATION CORP.LTD.	13	87
OIL INDIA LTD.	9	60
NEYVELI LIGNITE CORP.LTD.	11	73
NATIONAL BUILDINGS CONSTRUCTION CORP.LTD.	13	87
NATIONAL ALUMINIUM CO.LTD.	7	47
ENGINEERS INDIA LTD.	11	73
Miniratans		
NHPC LTD.	12	80
MANGALORE REFINERY & PETROCHEMICALS LTD.	7	47
SJVN LTD.	15	100
BEML LTD.	11	73
HINDUSTAN COPPER LTD.	9	60
MMTC LTD.	10	67
MOIL LTD.	8	53
HMT LTD.	12	80
CHENNAI PETROLEUM CORP.LTD.	10	67
RASHTRIYA CHEMICALS & FERTILIZERS LTD.	11	73

The company-wise total disclosure score is computed under each category. The percentage of the total score is also computed for better comparison. The result indicates that total of 30 companies disclosed some kinds of governance information on their respective web pages. On average, 68%

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Maharatans, 64% Navratans, and 70% Miniratans companies disseminating governance information on their websites. The variation is seen in the disclosure of governance information between the companies. The maximum score is achieved by NTPC Ltd (87%) from Maharatans, National Building Construction Corporation Ltd (87%) from Navratans and SJVN Ltd (100%) from Miniratans. On the bottom, the minimum score is achieved by Bharat massive electrical Ltd (47%) from Maharatans, Containers Corp. of India Ltd (40%) from Navratans and Mangalore refinery (47%) from Miniratans. An overall higher score is achieved by SJVN Ltd (100%), it disclosed full governance information on the web and lower is achieved by Container Corp. of India Ltd (40%). Thus, the result highlighted that these companies utilizing the internet for higher transparency on corporate governance. It indicated the valuable insight that the regulated framework by SEBI has full potential in the governance practices. Each company has a deeper concern on the strategy, planning, compliance stated by SEBI.

Table 4 Kruskal-Wallis test for public sector companies classification against the extent of governance disclosure on the web.

	Companies	**N**	**Mean Rank**
Score	**Maharatans**	7	16.21
	Navratans	13	13.85
	Miniratans	10	17.15
	Total	30	

Test Statistics

	Score
Chi-Square	0.876
Df	2
Asymp. Sig.	0.645

In order to test the hypothesis *H1*, Kruskal-Wallis test was conducted. Kruskal-Wallis test is a widely used non-parametric test for *k* independent samples. It is appropriate to test for the unequal sample size and non-normal data. The test result indicates that Maharatans companies ranked higher with the maximum mean score (16.21) followed by Miniratans (17.15) and Navratans (13.85). This shows that turnover size is not affected the web disclosure. Further, the test result is not significant at 0.05 levels. Thus the null hypothesis cannot be rejected, which

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means there is no difference in the governance disclosure through the web between the three categories public sector companies.

V. Conclusion and Discussion

The paper explored the results of a study that examines the websites of Indian public sector companies to determine the nature and extent of corporate governance information. First, our study reveals that all the Indian public sector companies have a website and on average, 67% of public companies disclosed some kind of governance information directly on their websites. Second, information on the background of the company, the board of director, board meeting, mission & vision of the company, shareholding pattern, and policies are highly disclosed by the sampled companies. On contrary, few companies disclosed about companies organization structure, management discussion, and analysis on their websites. Third, company wise score is computed on the classification provided by the department of public sector enterprise. The result shows that on average, 66% of attributes are disseminated by public sector companies on their websites. The higher disclosure from sampled companies is achieved by SJVN Ltd, and lower by the Container Corp of India Ltd. The high level of variation is seen between the companies on the disclosure of governance information on their websites. The variation may be caused by various factors such as the size of the board, the inclusion of independent director, ownership structure, or some other determinates; we do not try to measure the cause.

The study provides valuable insights into the Indian economy. It explored that Indian public sector companies use the internet for governance disclosure to some extent, but lacks symmetry in the disclosure. It is because there is no such regulation for web disclosure. Thus, the recommendation of the study highlighted that there must be such a regulated framework for the disclosure. Secondly, companies disseminated the information but not with the appropriate root. Some companies, governance information is available directly on the home page, some disclosed under the investor relation category. Fewer companies have separate corporate governance category.

We acknowledge that the study has several limitations which should be kept in mind when interpreting the findings. First, the study is based on only 30 public sector companies. Second, only non-financial companies were included. Third, the study is considered a few attributes some other governance attributes may affect the result.

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