

## Effectiveness of Corporate Governance Practices in an Infra Organization

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### Abstract:

Corporate Governance (CG) is a principle as well as policy guidelines for promoting corporate fairness, transparency, and accountability in its business operations. It is pertinent to all sectors and industries and not an exception to Infrastructure Company. Therefore, an attempt has been made to measure the effectiveness of CG practices from its employees' perspective and promote effective CG at GMR (Grandi Mallikarjun Rao) a leading infrastructure company in the industry as well as in the country. This study found that there is no difference of opinion among the Executives and Non-Executives of GMR towards its CG practices. However, corporate discipline, fairness and transparency as part of good CG should be improved further in order to boost up the stakeholders confidence.

### Keywords:

Corporate fairness, transparency, CSR, strategy, self-evaluation

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## INTRODUCTION

Every stakeholder expects his business organization should be perfect in all respects. Organizations must try to reach this through their policy guidelines for promoting corporate fairness, transparency, and accountability in its business operations. It is mandatory for organization which is being engaged with huge investments and investors spread across. Corporate governance (CG) is an initiative and a key aspect in enhancing the investor's confidence and encouraging competition in the market. It has become very much essence due to heavy inflow of foreign direct investment (FDI) and free market economy. Therefore, it has become a "buzzword" nowadays and mandatory to all corporate companies to follow the corporate governance principles as a matter of policy guidelines. In other words, CG concerned with holding the balance between the economic and social goals and between individual and common goals. It is pertinent to understand the concept of CG in its true sense. According to the Cadbury Committee (UK), CG is the system by which companies are directed and controlled Effective CG has been identified to be critical to all economic transactions especially in emerging and transition economies (Dhawardkar, et. al., 2000). On the other hand CG could be a way of bringing the interests of investors and managers into line and ensuring that firms are run for the benefit of investors (Mayer, 1997). The Institute of Company Secretaries of India (ICSI) defined CG is the application of best management practices, compliance with law in true letter and spirit and adherence to the ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustained development of all stakeholders.

### Policy Guidelines for CG in Infrastructure

After surveying challenges and progress, CG priorities were updated in 2011 with the publication of *Reform Priorities in Asia – Taking Corporate Governance to a Higher Level*. The 2011 report reflects the changes in the CG landscape since 2003 and is intended to continue to support decision-makers and practitioners in their efforts to take CG to a higher level. A company which applies the core principles of good CG; fairness, accountability, responsibility and transparency, will usually outperforms other companies and will be able to attract investors, whose support can help to finance further growth ([www.oecd.org](http://www.oecd.org)).

### Growth Prospects of Infrastructure

India's growth story has often been compared to that of China, which has tapped into domestic savings and foreign investment to build its [vast infrastructure](#). CFR's (corporate financial reporting's) [Ayres](#) notes that India's reforms came a decade later than China's, while others point to the disparity in political systems. "A lot of people point out the difference between democratic and authoritarian structures, and what those do and don't afford," says Kale, who adds that in the case of electricity, the problem is not Indian democracy but Indian federalism. "In China, the electricity sector was initially very centralized, and regional grids corresponded to techno-economic boundaries. In India, much of electricity development has been tied to federal boundaries and a political calculus."

The government has focused on clearing the project jam. In the summer of 2013, a committee formed by former Prime Minister Dr. Manmohan Singh fast-tracked [regulatory approval](#) to 125 previously stalled projects worth \$64 billion. Narendra Modi's new administration appears to have continued such efforts; with Central Bank Governor Raghuram Rajan (RBI Governor) saying in early September 2014 that the government was focusing on the implementation of stalled projects that would [help inflation and income](#). "In India, if you are looking for a grand, big picture reforms it may take some time," Rajan said in a speech. "But in terms of decentralizing, in terms of doing the small stuff which adds up to the big stuff, I think that is already happening." Research from the Economist Intelligence Unit predicts that infrastructure spending and expansion of the lower middle class will [buy GDP growth](#) in the next few years, achieving 4.5% in 2014 and rising to 5.7% by 2017. "India has been transformed in the last decade; there's no question about that," says Ayres. "But most people in India would feel that there's a lot more to do, and infrastructure is central to creating that twenty-first century India and making sure that it's a place that's accessible for everyone"

## IMPORTANCE OF CORPORATE GOVERNANCE

It is pertinent to know that the importance for CG in business setting because of: (i) wide spread of shareholders; (ii) changing ownership structure; (iii) corporate scams or scandals;

(iv) Greater expectations of society of the corporate sector; (v) Hostile take-overs; (vi) Huge increase in top management compensation; and (vii) globalization. As per prevalence of law and the companies act, 2013 made it mandatory to all companies despite their nature and scope of the business, CG strictly followed. Further, it is also important that the private sector plays vital role in the development of Indian financial system, hence, CG becomes essential. The following are the objectives of CG:

- i) Ensure fair and transparent relationship between the customer and the company;
- ii) Establish efficient risk management system and adequate disclosure of credit policies;
- iii) Speedy handling of customer complaints and quick redressal through proper mechanism;
- iv) Comply with all statues concerning company activities.

## LITERATURE REVIEW

**Umakanth (2011)** examined the specific issues and concerns pertaining to CG in the infrastructure sector more generally, and in India in particular. It identifies three key relationships and issues therein. *First*, CG framework defines the manner in which managers of infrastructure companies can be incentivised to demonstrate optimal performance so as to benefit shareholders and lenders. *Second*, the infrastructure sector in India is vulnerable to the ill-effects of related party transactions that put external or minority shareholders at a disadvantage compared to the inside promoters, and this requires the imposition of checks and balances that monitor the impact of related party transactions to ensure fairness on all shareholder constituencies. *Third*, appropriate CG mechanisms will minimise the adverse impact of infrastructure activity on stakeholders outside the industry, and also act as a driving force in the fight against corruption. **Anthony (2007)** analyzes the effect of CG on the performance of firm in Africa by using both market and accounting based performance measures. Unique data from 103 listed firms drawn from Ghana, South Africa, Nigeria, and Kenya covering five years period 1997-2001 and the results indicate that the directions and the extent of impact of CG is dependent on the performance measure has been analyzed.

**Afra Afsharipour (2009)** examines recent CG reforms in India as a case study for evaluating the competing claims on global convergence of CG standards currently polarizing the field of corporate law. This study seeks to make a fresh contribution to the convergence debate by examining the implications of India's CG reform efforts. It contends that the Indian experience demonstrates that traditional theories predicting convergence or a lack thereof fail to fully capture the trajectory of actual CG reforms. **Ruchi, K and Balasundram (2014)** focussed on CG from the point of view of India. Being an emerging economy, it has its own sets of challenges and weaknesses. They have looked at how a following good CG practice is not only necessary for any firm but is essential for the benefit of the country's economy too. Further they identified that there are four factors influencing CG practices namely ethics, internal governance, and selection of auditors and audit committee. **Balaji Venkatachalam & Vidya (2011)** examined the CG reforms being implemented in India and how the hotel industry can benefit from integrating CSR into their daily operations. **Sumaira Jani & Mohi-ud-Din Sangmi (2016)** made an attempt to review the working of CG so far as the structure, size, composition and the functioning of CG is concerned. Moreover, it also evaluates the role of various board committees viz., audit committee, compensation committee etc to ensure good CG in the Indian Corporate.

## SIGNIFICANCE OF THE STUDY

India's emerging economic power, like that of neighboring China, has been spurred by its momentous growth rates in the past few decades. But years of underinvestment in infrastructure have left the country with poorly functioning transit systems and power grids that have further endangered its slowing economy. Growth slipped from 10.5 percent in 2010 to [4.8 percent in 2013](#), according to the World Bank. Bargaining trade is putting pressure on India's inefficient ports, and rapid urbanization is strain the country's unreliable electricity and water networks. Bureaucratic red tape and political inertia have thwarted the success of foreign partnerships, discouraging further investment in infrastructure. Such large-scale failures have raised sharp debate about how the country's infrastructure weaknesses could threaten its economic future. Research on CG with respect to the emerging market is much needed.

## OBJECTIVES OF THE STUDY

The important objectives of the study are:

- To understand the importance policy guidelines and growth prospects of CG; and
- To assess the effectiveness of Corporate governance practices at GMR from its employees' perspective.

## HYPOTHESIS

There is no difference of opinion among the Executives and Non-Executives of GMR towards its Corporate governance practices.

## METHODOLOGY AND DATABASE

This study was carried out based on both primary and secondary sources of data. However, the primary data has been used extensively because the study is empirical in nature. For gathering secondary information, from previous studies on the subject, journals and internet were used whereas for collecting primary data, a structured questionnaire has been used to elicit the required information from the target sample respondents based on random sampling. A sample of 100 employees randomly picked-up out of 511 employees working at middle & lower levels (both executives and non- executives 50 each) from the GMR (Grandi Mallikarjun Rao) corporate office, Hyderabad, has been involved. Having collected the questionnaire data, a suitable statistical technique (chi-square - a non-parametric test) was employed for validating results. For analyzing the data, Five point likert's scale (1-5) has been used and 5 indicates strongly agree and 1 indicates strongly disagree. This study is confined to the employees working at middle and lower level employees and to examine the CG practices at GMR and in terms of seven factors, they include: (i) corporate strategy; (ii) risk management; (iii) corporate discipline; (iv) trust worthy and fairness; (v) transparency;

(vi) Social Responsibility; and (vii) self-evaluation approach for measuring CG effectiveness.

## RESULTS AND DISCUSSION

**Corporate strategy:** Good CG starts with a clear corporate strategy for the organization. It should reflect in the mission statement and ensure that every stakeholder aware of this including employees at all levels. At each stage, knowing the corporate strategy helps the company's workforce stay focused on the organizational mission- meeting the needs of the target market. In order to know the same, a sample of 100 respondents from the GMR has been taken into consideration and out of which a majority of respondents (39%) are strongly agreed, 26 percent of them are agreed with the statement that GMR has clear corporate strategy and rest of them (35%) are disagreed with it. Among the Executives and Non- Executives, the responses were varied and the majority of Executives have agreed than Non- Executives. It advocates that the GMR has a corporate strategy is in vogue.

**Table- 1 Category of employees and Corporate Strategy**

| Perceptions       | Executives | Non-Executives | Total      |
|-------------------|------------|----------------|------------|
| Strongly agree    | 21         | 18             | 39         |
| Agree             | 12         | 14             | 26         |
| Undecided         | 02         | 04             | 06         |
| Disagree          | 06         | 07             | 13         |
| Strongly disagree | 09         | 07             | 16         |
| <b>Total</b>      | <b>50</b>  | <b>50</b>      | <b>100</b> |

Source: Field data

H<sub>0</sub>=There is no difference of opinion among the Executives and Non-Executives towards corporate strategy of GMR.

**Chi-square test**

| Test                 | Value |
|----------------------|-------|
| Pearson's chi-square | 2.312 |

Chi-square value form above table with 2 degree of freedom at 5% level of significance and table value is 5.991 and the calculated value of Chi-square is 2.312 which is less than the table value, then H<sub>0</sub> may be accepted. Hence, it may be concluded that there is no difference of opinion among the Executives and Non-Executives towards corporate strategy as part of CG at GMR.

**Risk management:** Even if the company implements smart policies, competitors might steal its customers, unexpected disasters might cripple company operations and economy fluctuations might erode the buying capabilities of its target market. One can't avoid risk, so it's vital to implement effective risk management strategy at GMR and is found that almost 88 percent of employees have agreed and rest of them disagreed. Among the Executives and Non-Executives, the responses were varied and the majority of Executives have agreed whereas two-third of Non-Executives has shown disagreement towards risk management strategy as a CG practice at GMR.

**Table- 2 Category of employees and risk management**

| Perceptions       | Executives | Non-Executives | Total      |
|-------------------|------------|----------------|------------|
| Strongly agree    | 22         | 20             | 42         |
| Agree             | 25         | 21             | 46         |
| Undecided         | 1          | 2              | 03         |
| Disagree          | 2          | 4              | 06         |
| Strongly disagree | 0          | 03             | 03         |
| <b>Total</b>      | <b>50</b>  | <b>50</b>      | <b>100</b> |

Source: Field data

H<sub>0</sub>=There is no difference of opinion among the Executives and Non-Executives towards risk management strategy as a part of CG at GMR.

**Chi-square test**

| Test                 | Value |
|----------------------|-------|
| Pearson's chi-square | 1.929 |

Chi-square value form above table with 2 degree of freedom at 5% level of significance and table value is 5.991 and the calculated value of Chi-square is 1.929 which is less than the table value, and then H<sub>0</sub> may be accepted. Hence, it may be concluded that there is no difference of opinion among the Executives and Non-

Executives towards risk management strategy as a part of CG at GMR.

**Corporate discipline:** Good CG requires having the discipline and commitment to implement policies, resolutions and strategies. To know the same from GMR a more than 60% of respondents said that they do under the surveillance of sound corporate discipline on the other hand others disagreed. Among the Executives and Non-Executives, the responses were varied and the majority of Executives have agreed than Non-Executives.

**Table- 3 Category of employees and corporate discipline**

| Perceptions       | Executives | Non-Executives | Total      |
|-------------------|------------|----------------|------------|
| Strongly agree    | 19         | 14             | 33         |
| Agree             | 20         | 12             | 32         |
| Undecided         | 03         | 09             | 12         |
| Disagree          | 05         | 09             | 14         |
| Strongly disagree | 03         | 06             | 09         |
| <b>Total</b>      | <b>50</b>  | <b>50</b>      | <b>100</b> |

**Source:** Field data

H<sub>0</sub>=There is no difference of opinion among the Executives and Non-Executives towards corporate discipline as a part of GMR.

**Chi-square test**

| Test                 | Value |
|----------------------|-------|
| Pearson's chi-square | 7.132 |

Chi-square value from above table with 2 degree of freedom at 5% level of significance and table value is 5.991 and the calculated value of Chi-square is 7.132 higher than the table value, and then H<sub>0</sub> may be rejected. Hence, it may be concluded that there is a significant difference of opinion among the Executives and Non-Executives towards corporate discipline as a part of CG at GMR.

**Trust worthy and fairness:** Fairness must always be a high priority for management and is not exception to infrastructure industry. The fairer the entity appears to stakeholders, the more likely it is that it can survive the pressure of interested parties. It is revealed from the study that a mixed feeling is noticed with regard to the organizational priority to trust worthy and fairness in its business operations i.e., more than half of the respondents (52%) had disagreed and 38% of them agreed. Among the Executives and Non-Executives, the responses were varied and the majority of Executives have agreed than Non-Executives. Hence, it may be concluded that the fairness is lacking at the case of this organization.

**Table- 4 Category of employees and trust worthy and fairness**

| Perceptions       | Executives | Non-Executives | Total      |
|-------------------|------------|----------------|------------|
| Strongly agree    | 6          | 6              | 12         |
| Agree             | 18         | 08             | 26         |
| Undecided         | 07         | 12             | 19         |
| Disagree          | 11         | 15             | 26         |
| Strongly disagree | 06         | 11             | 17         |
| <b>Total</b>      | <b>50</b>  | <b>50</b>      | <b>100</b> |

**Source:** Field data

H<sub>0</sub>=There is no difference of opinion among the Executives and Non-Executives towards trust worthy and fairness as a part of CG at GMR.

#### Chi-square test

| Test                 | Value  |
|----------------------|--------|
| Pearson's chi-square | 13.279 |

Chi-square value form above table with 2 degree of freedom at 5% level of significance and table value is 5.991 and the calculated value of Chi-square is 13.279 and is higher than the table value, and then H<sub>0</sub> may be rejected. Hence, it may be concluded that there is a significant difference of opinion among the Executives and Non-Executives towards trust worthy and fairness as a part of CG at GMR.

**Transparency:** Transparency ensures that stakeholders can have confidence in the decision- making and management processes of a company. When employees understand management strategies and are allowed to monitor the company's financial performance, they understand their role within the company. Transparency is also important to the public, who tend not to trust secretive companies. To know the same from GMR employees, it is found that a majority of respondents (52%) opined that the transparency is doubtful. Only 38 percent are agreed that they follow transparency. Among the Executives and Non-Executives, the responses were varied and the majority of Executives have agreed than Non-Executives which they have given negative response towards the issue.

**Table- 5 Category of employees and transparency**

| Perceptions       | Executives | Non-Executives | Total      |
|-------------------|------------|----------------|------------|
| Strongly agree    | 11         | 08             | 19         |
| Agree             | 11         | 10             | 21         |
| Undecided         | 03         | 16             | 19         |
| Disagree          | 14         | 19             | 33         |
| Strongly disagree | 02         | 06             | 08         |
| <b>Total</b>      | <b>50</b>  | <b>50</b>      | <b>100</b> |

**Source:** Field data

H<sub>0</sub>=There is no difference of opinion among the Executives and Non-Executives towards transparency as a part of CG at GMR.

#### Chi-square test

| Test                 | Value  |
|----------------------|--------|
| Pearson's chi-square | 11.308 |

Chi-square value form above table with 2 degree of freedom at 5% level of significance and table value is 5.991 and the calculated value of Chi-square is 11.308 higher than the table value, and then H<sub>0</sub> may be rejected. Hence, it may be concluded that there is a significant difference of opinion among the Executives and Non-Executives towards business transparency at GMR.

**Social Responsibility:** Corporate social responsibility (CSR) at the corporate level is increasingly a topic of concern. Good CG identifies ways to improve company practices and also promotes social good by reinvesting in the local community. It is observed that GMR has clear CSR policy and found and it reveals that majority of respondents have agreed to the extent of 40 percent, 30 percent of them are disagreed and only 8 percent of respondents were undecided to say anything on the issue. Among the Executives and Non-Executives, the responses were varied and the majority of Executives have agreed but in case of Non-Executives level of disagreement is higher than Executives.

**Table- 6 Category of employees and Social Responsibility**

| Perceptions       | Executives | Non-Executives | Total      |
|-------------------|------------|----------------|------------|
| Strongly agree    | 14         | 09             | 23         |
| Agree             | 21         | 18             | 39         |
| Undecided         | 02         | 06             | 08         |
| Disagree          | 5          | 10             | 15         |
| Strongly disagree | 04         | 11             | 15         |
| <b>Total</b>      | <b>50</b>  | <b>50</b>      | <b>100</b> |

**Source:** Field data

H<sub>0</sub>=There is no difference of opinion among the Executives and Non-Executives towards social responsibility as a part of CG at GMR.

**Chi-square test**

| Test                 | Value |
|----------------------|-------|
| Pearson's chi-square | 4.234 |

Chi-square value form above table with 2 degree of freedom at 5% level of significance and table value is 5.991 and the calculated value of Chi-square is 4.234 less than the table value, and then H<sub>0</sub> may be accepted. Hence, it may be concluded that there is no significant difference of opinion among the Executives and Non-Executives towards social responsibility as a part of CG at GMR.

**Self-evaluation approach:** Mistakes will be made, no matter how well you manage your company. The key is to perform regular self-evaluations to identify and mitigate brewing problems. To this extent an analysis is made to know the perceptions of the GMR employees towards this issue and it is evident that there are more than 60 percent of respondents agreed that GMR has self-evaluation approach in vogue. Rest of them disagreed to the extent of 40 percent. Among the Executives and Non-Executives, the responses were slightly varied and the majority of Executives have agreed but in case of Non-Executives level of disagreement is slightly higher than Executives.

**Table- 7 Category of employees and self-evaluation approach**

| Perceptions       | Executives | Non-Executives | Total      |
|-------------------|------------|----------------|------------|
| Strongly agree    | 23         | 21             | 44         |
| Agree             | 14         | 09             | 23         |
| Undecided         | 15         | 07             | 22         |
| Disagree          | 05         | 06             | 11         |
| Strongly disagree | 04         | 06             | 10         |
| <b>Total</b>      | <b>50</b>  | <b>50</b>      | <b>100</b> |

**Source:** Field data

H<sub>0</sub>=There is no difference of opinion among the Executives and Non-Executives towards self-evaluation approach as a part of CG at GMR.

**Chi-square test**

| Test                 | Value |
|----------------------|-------|
| Pearson's chi-square | 0.989 |

Chi-square value form above table with 2 degree of freedom at 5% level of significance and table value is 5.991 and the calculated value of Chi-square is 0.989 less than the table value, and then H<sub>0</sub> may be accepted.

Hence, it may be concluded that there is no significant difference of opinion among the Executives and Non-Executives towards self-evaluation approach as a part of corporate governance at GMR.

## **SUGGESTIONS**

- Corporate discipline, trustworthy & fairness and transparency in its business operations as a part of CG found ineffective, therefore, it should be ensured in the larger interest of the company in order to boost up the confidence of its stakeholders.
- The CG framework should be developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and well-functioning markets.
- Stock market regulation should support effective corporate governance at the case organization and should provide a way forward to others in future.
- Supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfil their duties in a professional and objective manner. Moreover, their rulings should be timely, transparent and fully explained.
- Stock markets should provide fair and efficient price discovery as a means to help promote effective corporate governance at GMR as a leading infrastructure company in the industry as well as in the country.

## **CONCLUSION**

Strong CG maintains investors' confidence, whose support can help to finance for further growth. Companies who implement the principles of good CG into working environment life will ensure corporate success and economic growth. They are the basis on which companies can grow. In this paper, it is examined that how important it is for a company to follow good CG practices. Then it looked at the importance of corporate governance in India and its present economic and financial situation. This study "CG practices at GMR" concludes that, out of seven factors, four are implemented effectively whereas remaining three (corporate discipline, fairness and transparency) factors found ineffective i.e., not up to the expectations of its employees of both middle and lower level at GMR and it is suggested for effective implementation. The future of corporate governance is becoming a little clear now, as in the future the investors would be promoted to behave like owners rather than just traders.

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