

Corporate governance practices in steel industry

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Abstract

Good corporate governance is characterised by a firm commitment and adoption of ethical practices by an organisation across its entire value chain and in all of its dealings with a wide group of stakeholders encompassing employees, customers, vendors, regulators and shareholders (including the minority shareholders), in both good and bad times. To achieve this, certain checks and practices need to be whole-heartedly embraced.

Corporate governance at steel companies has been a continuous journey and the business goals of the companies are aimed at the overall well being and welfare of all the constituents of the system. These companies have laid a strong foundation for making corporate governance a way of life by constituting a board with balanced mix of experts of eminence and integrity, forming a core group of top level executives, inducting competent professionals across the organisation and putting in place best systems, process and technology.

Keywords: corporate governance, steel industry, board meeting, insider trading

Introduction

Steel Industry: An Introduction

Steel has been the key material with which the world has reached to a developed position. All the engineering machines, mechanical tools and most importantly buildings and construction structures like bars, rods, channels, wires, angles etc. are made of steel for its feature being hard and adaptable. Earlier when the alloy of steel was not discovered, iron was used for the said purposes but iron is usually prone to rust and is not so strong.

Steel is not new to India. In fact, the history of steel production in India dates back to antiquity. The 'wootz' steel, made in India for many centuries was being used for making swords. The Iron pillar in Delhi bears testimony to the Indian skill in making steel^[1]. Steel is a highly wanted alloy over the world. All the countries need steel for the infrastructural development and overall growth.

Steel production in India has increased by a compounded annual growth rate of 9.5 per cent over the period 2006-07 to 2010-11^[2]. Going forward, growth in India is projected to be higher than the world average, as the per capita consumption of steel in India, at around 46 kg., is well below the world average (150 kg.) and that of developed countries (400 kg.). Indian demand is projected to rise to 200 million tones by 2015. Given the strong demand scenario, most global steel players are into a massive capacity expansion mode, either through Brownfield or Greenfield route. By 2015, the steel production capacity in India is expected to touch 150 million tones and 275 million tones by 2020. While Greenfield projects are slated to add 28.7 million tones, Brownfield expansions are estimated to add 40.5 million tones to the existing capacity of 55 million tones^[3]

India is one of the few countries where the steel industry is

poised for rapid growth. India's share in world production of crude steel increased from 3.21 per cent in 2001 to around 4.82 per cent in 2010^[4]. The private sector is considered to be the engine of growth in the steel industry and technological changes and modernisation are taking place in both the Public and the Private sector.

Indian steel players, now, concentrate on the global market as they know the trend of world market of steel. The recent movement of Tata steel is also a big evidence for the development of Indian steel industry. The Corus acquisition, consummated on 3rd April, 2007 was a major milestone in Tata Steel's journey of becoming global. With this, Tata Steel Ltd., with a crude steel making of 28.1 million tones per annum became the sixth largest steel company in the world with presence in several countries across the continent^[5].

Research Hypothesis

Mohan, Elangocan revealed that a hypothesis is an assumption about:

1. the relationship between/ among variables, or
2. the level of influence of independent variables or the dependent variables, or
3. the value of population parameter.

It is a special proposition, formulation of the problem and tested the problem in a certain given situation as a part of research.

The following main hypothesis of the research is:

H₀: Steel companies are not properly implementing corporate governance rules.

Practices of Corporate Governance in the Industry

Good corporate governance is characterised by a firm commitment and adoption of ethical practices by an

organisation across its entire value chain and in all of its dealings with a wide group of stakeholders encompassing employees, customers, vendors, regulators and shareholders (including the minority shareholders), in both good and bad times. To achieve this, certain checks and practices need to be whole-heartedly embraced. Some considerations in this respect are below:

- Code of conduct and whistle blower policies are important, but more important is how they are communicated and practiced. It is vital for board members and senior management to lead by example.
- The concept of having independent directors is a good one in theory but more important is the process underlying selection of independent directors – is this process rigorous, transparent and objective and is it aligned to the company's needs?
- It is important to focus on not just earnings but on the sustainability of business models. Focus on not just “How much?” but on “How?”, “At what cost?” and “At whose expense?”
- Rating agencies need to develop criteria that focus on substance rather than the form of governance.
- Compensation of executive directors should flow from an objective performance evolution process conducted by the board.
- Greater transparency and disclosure of executive performance criteria are required which should include financial and non-financial measures.
- Regulators should send clear signals that they shall be proactive in imposing substantial penalties for non-compliance, so that compliance is strictly adhered to.

Corporate Governance in Steel Industry

The philosophy of the steel companies in relation to corporate governance is to ensure transparency, disclosures and reporting that conforms fully with laws, regulations, guidelines and to promote ethical conduct throughout the organization, with the primary objective of enhancing shareholders value, while being a responsible corporate citizen. These companies are committed to conforming to the highest standards of corporate governance in the country. It recognizes that the board is accountable to all shareholders and that each member of the board owes his/her first duty for protecting and furthering the interests of the company.

Corporate governance at steel companies has been a continuous journey and the business goals of the companies are aimed at the overall well being and welfare of all the constituents of the system. These companies have laid a strong

foundation for making corporate governance a way of life by constituting a board with balanced mix of experts of eminence and integrity, forming a core group of top level executives, inducting competent professionals across the organisation and putting in place best systems, process and technology. These companies combine leading edge technology and innovation with superior application and customer service skills. At the heart of company's corporate governance policy is the ideology of transparency and openness in the effective working of the management and board. It is believed that the imperative for good corporate governance lies not merely in drafting a code of corporate governance but in practicing it.

Implementation and Compliance of Corporate Governance in Selected Steel Companies

To evaluate the status of implementation of policies of corporate governance, a sample of 4 Companies (JSW Steel Ltd., Tata Steel Ltd., Steel Authority of India Ltd. (SAIL) and Essar Steel Ltd.) has been selected and the relevant data of 5 years (2006-07 to 2010-11) has been examined in detail.

Board Meetings

Steel companies tried to adhere to the highest standards of business ethics, compliance with statutory and legal requirements and commitment to transparency in business dealings. A code of conduct for board members and senior management has been adopted by steel companies. Directors of company attended board meetings from time to time. As per Clause 49 of Listing Agreement, none of the directors on the board can be member of more than 10 committees and further a director can not become chairman of more than 5 committees^[6]. Disclosure in this regard has been made by steel companies under study.

Table 1 reveals the number of directors in the company, board meetings held and attended by directors of selected steel companies. It also shows the percentage of directors who attended all meetings and average number of meetings attended by directors.

SAIL has highest number of directors, i.e. 27 in the year 2006-07. This number has been reduced to 20 in the year 2009-10 and 2010-11. Whereas number of directors in JSW Steel Ltd. increased year by year. This number was 12 in the year 2006-07, which increased to 16 in the year 2007-08 and 20 in the year 2009-10. In the year 2010-11 it reduced to 15. Number of directors of Tata Steel Ltd. remained 13 to 15 during the period of study. It was minimum 12 in the year 2006-07 and maximum 15 in the year 2007-08 and 2009-10.

Table 1: Board Meetings Held and Attended

Year	Particulars	JSW Steel Ltd.	Tata Steel Ltd.	SAIL
2006-07	No. of Board Meetings Held	5	11	10
	No. of Directors in Company	12	12	27
	No. of Directors who attended all Board Meetings	4	5	5
	Average No. of Meetings attended by each Director	4.08	7.58	5.85
	% of Directors who attended All Meetings	33.33	41.67	18.51
2007-08	No. of Board Meetings Held	8	7	15
	No. of Directors in Company	16	15	26
	No. of Directors who attended all Board Meetings	6	2	10
	Average No. of Meetings attended by each Director	4.81	5.07	11.12

	% of Directors who attended All Meetings	18.75	33.33	11.54
2008-09	No. of Board Meetings Held	6	10	15
	No. of Directors in Company	18	14	23
	No. of Directors who attended all Board Meetings	6	2	10
	Average No. of Meetings attended by each Director	3.89	7.29	11.96
	% of Directors who attended All Meetings	33.33	14.29	43.48
2009-10	No. of Board Meetings Held	7	9	11
	No. of Directors in Company	20	15	20
	No. of Directors who attended all Board Meetings	4	8	8
	Average No. of Meetings attended by each Director	3.20	6.87	7.95
	% of Directors who attended All Meetings	20	53.33	40
2010-11	No. of Board Meetings Held	6	5	10
	No. of Directors in Company	15	13	20
	No. of Directors who attended all Board Meetings	5	7	3
	Average No. of Meetings attended by each Director	4.07	4.15	5.60
	% of Directors who attended All Meetings	33.33	53.85	15

Source: Annual Reports and Corporate Governance Reports of JSW Steel Limited, Tata Steel Ltd. and SAIL, 2006-07 to 2010-11. (Average No. of meeting attended by each director is calculated by dividing total No. of meeting by No. of directors)

It is apparent from the table 1 that SAIL has done maximum number of meetings in comparison to other selected steel companies. During the year 2007-08 and 2008-09 the number of board meetings held by SAIL increased to 15. Whereas in the year 2006-07 and 2010-11 it has organised only 10 meetings. Apart from SAIL, Tata Steel Ltd. has also organised as many as 11 meetings in the year 2006-07 and as low as 5 meetings in the year 2010-11.

For proper functioning of company it is required that maximum number of directors attend board meeting so that fruitful decisions can be taken after discussion by all directors. But sometimes it is not possible by some directors to attend all the meetings. It is evident that Tata Steel Ltd. directors have attended maximum number of meetings. Out of total directors 53.85 per cent directors attended all the meetings in the year 2010-11 whereas 53.33 per cent directors attended 100 per cent board meetings during the year 2009-10. In the case of JSW Ltd. 33.33 per cent directors attended all the board meetings during the year 2006-07, 2008-09 and 2010-11. In the year 2009-10 only 20 per cent directors attended all the meetings. The position of SAIL is not so good, 47.48 per cent directors attended all the meetings in the year 2008-09. Only 11.54 per cent directors attended 100 per cent meetings during the year 2007-08 and 18.51 per cent directors attended all meetings in the year 2006-07.

Policy for Insider Trading

JSW Steel Limited has adopted the code of conduct for prevention of insider trading and this has been provided in pursuance to clause 49 (D) of the Listing Agreement and the Securities & Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, respectively:^[7]

The company has adopted a code of conduct for prevention of insider trading for its management, staff and directors. The code lays down guidelines and procedures to be followed and disclosures to be made by directors, top level executives and staff when dealing in shares of the company.

Minor modifications were made to the "JSW Limited code of conduct for prevention of insider trading" in line with the amendments made to the "Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2008, by SEBI. The amended code was adopted

by the board in its meeting held on 07.05.2009. The company secretary has been appointed as the compliance officer and is responsible for adherence to the code^[8].

TATA Steel Limited has adopted the code of conduct in accordance with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, as amended, for prevention of insider trading to be followed by directors, officers and other employees. The code is based on the principle that directors, officers and employees of Tata Steel Ltd. owe a fiduciary duty to, among others, the shareholders of the company to place the interest of the shareholders above their own and conduct their personal securities transactions in a manner that does not create any conflict of interest situation. The code also seeks to ensure timely and adequate disclosure of price sensitive information to the investor community by the company to enable them to take informed investment decisions with regard to the company's securities. In terms of the said code, a committee has been constituted on 30th May, 2002, called ethics and compliance committee. Latest meeting of the ethics and compliance committee was held on 12th November, 2010^[9].

The board has also appointed the group chief financial officer as the compliance officer to ensure compliance and effective implementation of the regulations and also the code across the company. During the years under review, the compliance officer submitted monthly committee report of the Tata code of conduct for prevention of insider trading to the board of directors.

SAIL and Essar Steel Ltd. have not disclosed their policies for prevention of insider trading.

Constitution of Remuneration Committee

All the selected steel companies other than SAIL have constituted a remuneration committee. The major tasks of the remuneration committee are as follows:

- Review the performance of the managing director and the whole-time directors, after considering the company's performance.
- Recommend to the board remuneration including salary, perquisites and commission to be paid to the company's managing director and whole-time directors.
- Finalise the perquisites package of the managing director

and whole-time directors within the overall ceiling fixed by the board.

- Recommend to the board, retirement benefits to be paid to the managing director and whole-time directors under the

retirement benefit guidelines adopted by the Board. The remuneration committee also functions as the compensation committee as per SEBI guidelines on the employees' stock option scheme^[10].

Table 2: Remuneration Committee Meetings

Year	Particulars	JSW Steel Ltd.	Tata Steel Ltd.
2006-07	No. of Members	4	3
	No. of Meetings Held	1	1
2007-08	No. of Members	3	3
	No. of Meetings Held	2	2
2008-09	No. of Members	5	3
	No. of Meetings Held	0	1
2009-10	No. of Members	4	3
	No. of Meetings Held	2	3
2010-11	No. of Members	4	3
	No. of Meetings Held	1	1

Source: Annual Reports and Corporate Governance Reports of JSW Steel Limited and Tata Steel Ltd., 2006-07 to 2010-11.

Table 2 reveals the number of members of remuneration committee and number of meetings held during the years under study. SAIL has not constituted remuneration committee because it is government sector company. The remuneration policy is decided by the government in accordance with pay commissions. JSW Steel Ltd. has 4 members in remuneration committee during the year 2006-07 but in the year 2007-08 it reduced to 3 and increased to 5 in the year 2008-09 then in the year 2009-10 and 2010-11 it reduced to 4. JSW Steel Limited did not hold any meeting during the year 2008-09. During other years it held only 1 or 2 meetings. In the year 2006-07 and 2010-11 it held only one meeting and in the years 2007-08 and 2009-10 it held two meetings. Tata Steel Ltd. has 3 directors as members of remuneration committee, and this number remained constant during the period of study. Number of meetings held by Tata steel Ltd. was maximum 3 in the year 2009-10 but in the years 2006-07, 2008-09 and 2010-11 it held only one meeting. In the year 2007-08 it held 2 meetings.

Constitution of Audit Committee

Steel companies constituted an audit committee to conduct various activities in a smooth manner. The scope of the activities of the audit committee is as set out in Clause 49 of

the listing agreements with the stock exchanges read with Section 292A of the Companies Act, 1956^[11]. The scope of work of the audit committee is broadly as follows:

- To review compliance with internal control systems;
- To review the findings of the internal auditor relating to various functions of the company;
- To hold periodic discussions with the statutory auditors and internal auditors of the company concerning the accounts of the company, internal control systems, scope of audit and observations of the auditors/internal auditors;
- To review the quarterly, half-yearly and annual financial results of the company before submission to the board;
- To make recommendations to the board on any matter relating to the financial management of the company, including statutory and internal audit reports;
- Recommending the appointment of statutory auditors and branch auditors and fixation of their remuneration.

Table 3 reveals the number of members of audit committee and number of meetings held during the period under review. Tata Steel Ltd. has organised maximum 11 meetings during the year 2007-08. Whereas in the year 2008-09 it held 9 meetings and in 2009-10 it held 8 meetings. SAIL held maximum 8 meetings in the year 2008-09 and minimum 5 meetings in the year 2010-11.

Table 3: Audit Committee Meetings

Year	Particulars	JSW Steel Ltd.	Tata Steel Ltd.	SAIL
2006-07	No. of Members	4	5	5
	No. of Meetings Held	4	6	7
2007-08	No. of Members	3	5	6
	No. of Meetings Held	5	11	7
2008-09	No. of Members	5	4	4
	No. of Meetings Held	4	9	8
2009-10	No. of Members	4	4	9
	No. of Meetings Held	7	8	6
2010-11	No. of Members	4	4	4
	No. of Meetings Held	7	5	5

Source: Annual Reports and Corporate Governance Reports of JSW Steel Limited, Tata Steel Ltd. and SAIL, 2006-07 to 2010-11.

JSW Steel Ltd. organised maximum 7 meetings in the year 2009-10 and 2010-11. SAIL has maximum 9 members in

audit committee during the year 2009-10. During the year 2008-09 and 2010-11 SAIL has only 4 members in audit

committee. Tata Steel Ltd. has 5 members in the year 2006-07 and 2007-08 but in the next year this number reduced to 4 and it remained 4 upto 2010-11. JSW Steel Ltd. has only minimum 3 members in the year 2007-08. During the year 2008-09 it has 5 members but in the year 2009-10 and 2010-11 JSW Steel Ltd. has 4 members.

Grievance Resolution System

Every company tries to minimise the number of complaints from stakeholders. Shareholders are real owner of company, they invest their hard earned money in company, so it is first duty of directors to resolve the problems faced by the shareholders. For this purpose every company forms a special grievances redressal cell. In order to achieve high standards of corporate governance, steel companies have also done very well in the field of grievances resolution. The table 4 provides detail about number of grievances pending at the beginning and end of the year and grievances received during the year. It also shows the percentage of complaints resolved and remained unresolved during the period of study.

Table provided detailed information about grievances received and resolved during the period of study. Such analysis has been done with the help of figures and percentages. It is clear from the analysis that JSW Steel Ltd. is very efficient in grievances resolution.

Out of five years of study, three years it has solved 100 per cent grievances and during the year 2006-07 it has solved 99.23 per cent and during 2007-08 it has solved 99.74 per cent grievances. It is very prompt in solving the problems of shareholders. This is very good for shareholders and gives

satisfaction to shareholders. SAIL also has equally good system of complaint resolution. During the year 2006-07 it solved 98.73 per cent complaints and during the year 2007-08 it solved 98.04 per cent of complaints received. After 2007-08 it achieved 100 per cent complaint resolution target. It maintained this level during the years 2008-09, 2009-10 and 2010-11. Numbers of complaints received are very less in comparison to JSW Steel Ltd. Therefore JSW Steel Ltd. can be ranked first in adoption of grievances resolution process in an efficient manner. Number of complaints received by JSW Steel Ltd. is reducing year by year. Whereas number of complaints received during 2006-07 was 7342 which reduced to 4538 during 2007-08 and further reduced to 2701 during 2008-09. This reduction shows that administration of company is improving year by year. In the year 2009-10 the number of complaints received reduced to a great extent and reached at the level of 696.

It is evident from the Table that in Tata Steel Ltd. No. of grievances registered in 2006-07 was very low but it increased drastically to 4656 during 2007-08. During this year company is able to solve only 91.61 per cent problems of shareholders. During the next year 2008-09, the number of complaints received reduced at the level of 2647 and company has solved 99.80 per cent complaints. Next year 2009-10 witnessed some less number of grievances. During this year number of grievances were only 1492 which further reduced to 755 in the year 2010-11. Continuous reduction in number of grievances is due to efficient management and effectively working of grievance redressal cell.

Table 4: Detail of Grievances Received and Resolved

Year	Particulars	JSW Steel Ltd.	Tata Steel Ltd.	Sail
2006-07	Opening balance of complaints	Nil	7	Nil
	No. of Complaints Received	7342	924	79
	No. of Complaints Resolved	7323	928	78
	Closing balance of complaints	19	3	1
	Complaints Resolved (%)	99.74	99.68	98.73
2007-08	Opening balance of complaints	19	3	1
	No. of Complaints Received	4538	4656	50
	No. of Complaints Resolved	4533	4268	50
	Closing balance of complaints	24	391	1
	Complaints Resolved (%)	99.47	91.61	98.04
2008-09	Opening balance of complaints	24	391	1
	No. of Complaints Received	2701	2647	62
	No. of Complaints Resolved	2725	3032	63
	Closing balance of complaints	Nil	6	Nil
	Complaints Resolved (%)	100	99.80	100
2009-10	Opening balance of complaints	Nil	6	Nil
	No. of Complaints Received	696	1492	51
	No. of Complaints Resolved	696	1492	51
	Closing balance of complaints	Nil	6	Nil
	Complaints Resolved (%)	100	99.60	100
2010-11	Opening balance of complaints	Nil	6	Nil
	No. of Complaints Received	769	755	39
	No. of Complaints Resolved	769	757	39
	Closing balance of complaints	Nil	4	Nil
	Complaints Resolved (%)	100	99.47	100

Source: Annual Reports and Corporate Governance Reports of JSW Steel Limited, Tata Steel Ltd. and SAIL, 2006-07 to 2010-11.

Essar Steel Ltd. has not disclosed any information about board meetings, meetings of remuneration committee, meetings of audit committee and grievances resolution process, shown in different table in the study. It shows lack of implementation of policies of corporate governance. It is imperative for the company to disclose all of these information in its annual reports so that stakeholders of the company could know that how company has performed for implementation of corporate governance practices.

Conclusion

The main research hypothesis was “steel companies are not properly implementing corporate governance rules.” In light of the above facts, the main hypothesis stands rejected in case of JSW Steel Ltd., Tata Steel Ltd. and SAIL. These companies were well managed and following corporate governance rules as directed by law, SEBI and by various committees. In the case of Essar Steel Ltd., the hypothesis is accepted as company has not followed corporate governance rules and also not disclosed corporate governance practices in its annual reports.

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