Corporate Governance: A Focus on Disclosure and Transparency Practices of National Mineral Development Corporation Ltd. (NDMC)

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INTRODUCTION

Disclosure and transparency are the partners of good governance and is generally perceived to have a cardinal role in corporate governance. They demonstrate the quality and reliability of information -- financial and non-financial-- provided by management to lenders, shareholders, and the public.[1] Indeed, increased disclosure requirements are a response to the recent corporate governance failures for eg., Enron, Worldcom, etc that have made headlines. Increased disclosure is perceived as better governance because disclosure enables better decision making by actors in the capital markets.[2]

Corporate governance has at its backbone, a set of transparent relationships between an institution's management, its board, shareholders and other stakeholders. It, therefore, needs to take into account a number of aspects such as, enhancement of shareholder value, protection of shareholder's rights, composition and role of the board of directors, integrity of accounting practices and disclosure norms and internal control system[3]. The system of corporate governance in India provides for timely (on quarterly basis) financial reporting on true and fair view (not full and correct) on all material matters. Some of the material disclosures as proposed by clause 49 are:

1. Disclosures on materially significant related party transactions that may have potential conflict with the interests of a company at large.
2. Disclosure of accounting treatment, if different from that prescribed in Accounting Standards with explanation.
3. Board disclosures on risk assessment and minimization procedures.
4. Statement on utilization of the proceeds from public issues, rights issues, preferential issues, etc.
5. Disclosures on Remuneration of Directors.
6. Management Discussion and Analysis Report.
7. Information to shareholders on appointment of a new director or re-appointment of a director.
8. Presentation of financial information (quarterly) on the company's website.
9. Redressal of shareholder and investor complaints.

Shleifer and Vishny(1997) define corporate governance as the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Corporate governance is essentially an agency problem which is caused by separation of ownership and control. Of course, agency problems also arise in the relationship of block holders versus minority shareholders and in debt financing. In such situations, information is required in order that suppliers of finance control the agents[4]. Accounts and audit is an insurance to all those who have financial interest in the company. Given the separation of ownership from management, the directors/auditors are required to reflect the independence of their appointments in the company through their reports, responsibility statement and other financial statements, which are annually sent to the shareholders and regulatory authorities. The accounting policies and standards adopted are the backbone of the entire framework; for a scrutiny of financial affairs of the corporate entity, it is the auditors' report that shareholders rely on for greater transparency and disclosures. The accounting and audit mechanism should provide for necessary checks and balances for an external and objective examination to the reader, the ways in which financial statements have been prepared and presented.

The method of ensuring whether the board has accounted for its actions is to check if there are sufficient financial

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1 http://www.iccwbo.org/corporate-governance/id3081/index.html.
2 Apostolos A.Ballas,Irene Fafaliou,Dimitris Kaforos, Transparency and Disclosure Scores of Greek Listed Firms:An Empirical Study,International Journal of Economic Research,Vol.5,No. 2,July2008:173-184
3 Dr. Ram Sangapure, Chief Economist, Central Bank of India, Professional Banker, the ICFAI university press, Feb 2005, Indian Banking
4 Shleifer A.,and Vishny W.R.,(1997),A Survey of Corporate Governance,The journal of Finance,52,pp.737-783

disclosures and whether the audit reports/certifications state that such disclosures are sufficient and conform to the applicable accounting standards, principles and practices. Understanding of financial statements and the ability to analyze call for absolute skill and knowledge, which an ordinary investor may or may not have. But the ground reality is different: 'Let the shareholders beware' is a philosophical adage. The shareholders reciprocate positively if the auditors can assure them that their investments in the entity are being taken care of[5].

LITERATURE REVIEW

Corporate governance is the set of processes, system, customs, policies, laws and institutions which ensure that a company is governed to the best interest of all the players' i.e (stake holders) of the company. Ram Sangapure (Feb 2005), Chief Economist, Central Bank of India stressed on the quality of corporate governance .i.e. the governance should be fit and proper. According to Ram Sangapure, there is a need to carefully address issues like transparency, ethics and values in corporate governance, ownership and control[6]. One of the factors on which sound corporate governance depends on is the interaction and cooperation among the board of directors, senior management and the auditors. It would be desirable to separate the office of the chairman and managing director in respect of large-sized PSEs. This functional separation will bring about more focus on strategy and vision. One of the foremost demands of good corporate governance is to let investors know how their money has been used to further the interests of the company they have invested in. Corporate governance must be based on genuine respect for business ethics and values.

Disclosed information serves to reduce the unfavorable effects of moral hazard and adverse selection by capital markets first regarding the firm itself and then of the management team. *Ceteris paribus,* firms would disclose relevant information as fully as possible, especially when there are applicable legal requirements, to avoid adverse selection[7](Grossman, 1981).

A commonly cited benefit of disclosure is that by mitigating uncertainty, disclosure may reduce the magnitude of the impact of news about a firm's performance, which would reduce stock price volatility[8] (Lang and Lundholm 1993; Bushee and Noe 2000).

According to **Diamond (1985)** the disclosures result in Pareto improvement in welfare because they reduce investors' need to search privately for information which has substantial costs[9].

As per the survey by **Healy and Palepu, (2001),** there is no unambiguous theoretical framework regarding corporate disclosure supply and specifically about the effects of regulation of corporate communications, despite of corporate disclosures playing a cardinal role in financial markets. Apart from this, there has been limited direct empirical evidence on the costs and incentives of corporate disclosures[10].

Milgrom, 1981 focuses that companies would act strategically and disclose favorable items and suppress unfavorable ones, especially when such items affect management's remuneration and, generally, the managers' position in the market for managerial talent.Non-disclosure should not be necessarily attributed to management's base motives[11]; **Verrechia (1983, 1990)** demonstrated that the incentive to disclose information is a decreasing function of the potential, negative, effects of the disclosure on the firms' future cash-flows. Thus, non-disclosure should not necessarily be interpreted as bad news because it may be a favorable item whose disclosure would negatively affect the firm's future cash-flows. Thus, the non-disclosure is a positive action by the firm's management[12].

The model developed by **Darrough and Stoughton in 1990** predicts that firms that have less fear of potential entrants in their markets are more likely to respond to market demands for information[13].

Simple theories of market microstructure theory suggest that by increasing the amount of public information,

5 P.T.Giridharan,Wisdom of Corporate Governance Disclosures,The accounting world,Role of audit committees in the public sector,Nov 2005,pp.34-35.
6 Dr. Ram Sangapure, Chief Economist, Central Bank of India, Professional Banker, the ICFAI university press, Feb 2005, Indian Banking.
7Grossman.S.J.,(1981),The Informational Role of Warranties and Private Disclosure about Product Quality, The Journal of Law and Economics,24(3),pp.461-89.
8 Lang, M. H., andR. J. Lundholm. 1993. "Cross-sectionalDeterminants of Analyst Ratings of Corporate Disclosures." JOURNAL OP ACCOUNTING RESEARCH 31, no. 2 (autumn): 246-71.
9 Bushee, B.]., and C. F. Noe. 2000. "Corporate Disclosure Practices, Institutional Investors, and Stock Return Volatility." JOURNAL OF ACCOUNTING RESEARCH 38, no. 3 (supplement): 171-202.
Diamond D.W.,(1985),Optimal Release of Information by Firms,Journal of Finance,40(4),pp.1071-94.
10 Healy P.M., and K.G.Palepu, (2001), Information Asymmetry, Corporate Disclosure, and the Capital markets: A Review of the Empirical Disclosure Literature, Journal of Accounting and Economics, 31, pp.405-40.
11 Milgrom P., (1981),Good News and Bad News Representation Theorems and Applications,Bell Journal of Economics,12,pp.380-91.
12 Verrechia R.E.,(1983), Discretionary Disclosure,Journal of Accounting and Economics,5,pp.179-94.
Verrechia R.E.,(1990),Endogenous Proprietary Costs through Firm Independence, Journal of Accounting and Economics,12(1-3),pp.245-50.
13 Darrough,M.N., and N.M.Stoughton,(1990),Financial Disclosure Policy in an Entry Game, Jounal of Accounting and Economics,12(1-3),pp.45-56.

disclosure is likely to reduce information asymmetries in the market that result in pronounced price changes in response to changes in demand for the stock **(Diamond and Verrecchia 1991).** Disclosure may reduce heterogeneity of beliefs about the true value of the firm. It may thus reduce both the volume traded and the volatility of the stock price[14].

Economic theory **(Diamond andVerrecchia 1991)** and evidence **(Leuz and Verrecchia 2000)** suggest that the amount of disclosure that a firm provides depends on its size as well as on the need for external funds[15].

Thus corporate disclosures are an essential element of well functioning markets including both the capital markets as well as the market for managerial skills, markets for goods and services etc. Firms disclose information to the capital market both through regulated financial statements i.e annual reports and adhoc voluntary communications such as their Internet sites, newspapers i.e press releases and so on. In addition, one can locate disclosures about a firm made by third parties such as brokerage houses and, primarily, the financial press.

INDIAN CORPORATE GOVERNANCE

Corporate Governance

Corporate Governance is the system of relations between the shareholders, the board of directors and the management of a company as defined by the corporate charter: by laws, formal policy and rule of law are considered as corporate governance[16]. According to OECD, “Corporate Governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.”

The Cadbury Report (Para 2.5) defines it as the system by which companies are directed and controlled. The focus is largely on accountability. The Kumar Mangalam Birla Committee acknowledges that the fundamental objectives of corporate governance are, “the enhancement of the long-term shareholder value while at the same time protecting the interests of other stakeholders.” According to James D Wolfensohn, President, World Bank, “Corporate Governance is about promoting corporate fairness, transparency and accountability.”

Corporate Governance typically protects the investor from managers and directors who instigate self-deals, theft of corporate assets and corruption[17] **(Black, Jang, and Kim---2002).** According to CII's (Confederation of Indian Industry) draft code, corporate governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take managerial decisions vis-à-vis its claimants, particularly its shareholders, creditors, state and employees. The new paradigm of corporate governance focuses on laying down minimum standards and defining the role of the various players involved in corporate governance. Corporate governance is one of the critical issues in the business world today; and one may say, for companies, good governance means securing access to broader-based, cheaper capital, and for investors, a commitment to good governance means enhanced shareholder value and for both. Good governance equals good business. The broader objectives of corporate governance can be summarized as ---- to ensure shareholder value, to protect the interest of shareholders and others stakeholders including customers, employees and the society at large, to ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned, to ensure accountability for performance and to achieve excellence at all levels, to provide corporate leadership of highest standard for others to emulate and to establish a risk management system. In comparison to the other developing countries in Asia, the quality of the Indian corporate governance system is average. However, India's disclosure laws are stronger competitiveness and improved corporate behavior. The base of Indian corporate governance is the British model and that is considered among one of the good ones, but its enforcement of securities law is poor. Using Singapore as a starting point, because of its high-level of corporate governance, India ranks fourth in consulting group CLSA's corporate governance index after Hong Kong and Malaysia. The assessment is based on legal discipline, transparency, independence, responsibility, fairness and social awareness. Corporate governance practices include such activities as board composition, financial reporting and disclosure and shareholders right.

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14 Diamond, D. W., and R. E. Verrecchia. 1991. "Disclosure, Liquidity, and the Cost of Capital." JOURNAL OF FINANCE 46, no. 4 (September): 1325-59.

15 Leuz, C., and R. E. Verrecchia. 2000. "The Economic Consequences of Increased Disclosure." JOURNAL OF ACCOUNTING RESEARCH 38, no. 3 (supplement): 91-135.

16 Hitesh J Shukla , Indian Corporate Governance and Board Structure, The Accounting World,Emerging Issues, July. 2005, p12-13.

17 Black, B., Jang, H., and Kim, W. (2002), "Does Corporate Governance Act Firm Value?", Working paper 327, Stanford Law School.

OBJECTIVES OF STUDY

1.To determine the Disclosure and Transparency score of NMDC Ltd with respect to the guidelines issued by Government of India, Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises for Central Public Sector Enterprises (CPSEs).

2. To determine the market valuation and operating performance of National Mineral Development Corporation Ltd.

3. To examine the relationship between Market Valuation and operating performance with Disclosure and Transparency score of National Mineral Development Corporation Ltd.

Hypothesis: In this study, we test 4 hypotheses in order to analyze the effects of Disclosure score on market valuation of the firm.

H_1 : There is a significant relationship between market capitalization and disclosure score of NMDC.

H_2 : The disclosure score influences dividend payout ratio of NMDC.

H_3: The disclosure score affects the profit after tax of the company.

H_4: There is a significant increase in revenue with the increase in the disclosure score.

SOURCES OF DATA

The following resources have been explored to collect the data required for the study: - Six year Annual Reports of the corporate, official documents of the corporate, The latest General Guidelines on Corporate Governance for Central Public Sector Enterprises given by the Government of India, Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises, Books on corporate governance, Journals, magazines, newspapers and websites.

ANALYTICAL TOOLS USED FOR THE STUDY

To determine the relationship between Disclosure and Transparency with performance of the company (from 2002-2008) the various statistical techniques are used, such as Correlation Analysis, Regression Analysis, Coefficient of Determination and T-test.

PROFILE OF NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED (NMDC)

National Mineral Development Corporation limited (NMDC) was formed in the public sector pursuant to the Industrial policy resolution of 1956 for exploration and exploitation of mineral resources. Its shares were disinvested in 1992-93 and have since been listed on the six major stock exchanges, viz. Hyderabad, Mumbai, Delhi, Kolkata, Bangalore and Chennai. In 1996-97, its shares were disinvested in favour of its employees too.A profit earning company, NMDC has been paying dividends for the last sixteen years.NMDC is involved in important activities such as Mining, Research and Development, Environment management and Corporate governance.

NMDC Ltd, a Navaratna company, believes in financial prudence, customer satisfaction, transparency, accountability and commitment to values. The good governance NMDC Ltd practices is based on its stated belief and guidelines the Government of India issues from time to time should go a long way to enhancing value for all those who are associated with the Company: shareholders, customers, suppliers, creditors, Government of India, State Governments, Governmental agencies/ departments and the society at large[18]. The Board of Directors oversees all major actions proposed to be taken by the company. The Board also reviews and approves the strategic and business plans including monitoring corporate performance.

MEASURING DISCLOSURE SCORES

In this study, the transparency and disclosure scores of the company is correlated with its market valuation. For calculation of disclosure score, the guidelines regarding transparency and disclosure issued by the Government of India, Ministry of Heavy Industries and Public Enterprises has been used. Weights are assigned to each of these components (as shown in Table 1).

Table 1 shows guidelines regarding transparency and disclosure issued by the Government of India, Ministry of Heavy Industries and Public Enterprises

	Disclosures	100%
1	All relevant transactions being placed before Audit Committee	17%
2	Treatment different from that prescribed in an Accounting Standard, if any, being reported	11%

18 National Mineral Development Corporation Limited, Annual Reports 2002-2008

3	Consolidated financial statements being prepared as prescribed accounting standards	12%
4	Segment—wise profit and loss statement as per prescribed accounting standard being prepared and published	12%
5	Proper risk assessment and risk minimization and internal risk management procedures laid down	11%
6	Disclosures regarding pecuniary relationship/transactions of part-time Directors and remuneration of directors being made in annual report	12%
7	Management Discussion and Analysis report part of annual report	14%
8	Senior management making necessary disclosures to Board, if required.	11%

Source: www.dpe.com

ANALYSIS OF THE ABOVE COMPONENTS

Transactions

A statement in summary form of transactions with related parties in the normal and ordinary course of business shall be placed periodically before the Audit Committee.

Details of material individual transactions with related parties, which are not in the normal and ordinary course of business, shall be placed before the Audit Committee.

Details of material individual transactions with related parties or others, which are not on an arm's length basis should be placed before the Audit Committee, together with Management's justification for the same.

Accounting Standards

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

The Companies Act, 1956 as well as many other statutes requires that financial statements of an enterprise should give a true and fair view of its financial position and working results. That requirement is implicit even in the absence of a specific detailed provision to this effect. However, what constitutes a true and fair view has not been defined either in the Companies Act, 1956 or in any other statute. The Accounting Standards as well as other transactions of the Institute of Chartered Accountants of India on accounting matters seek to prescribe the accounting principles and the methods of applying these principles in preparation and presentation of financial statements so that they give a true and fair view.

Consolidated financial statements presents financial information about the parent company, its subsidiaries, its associates and joint ventures as an economic entity to show the economic resources controlled by the group, the obligation of the group and the results the group achieved with its resources, which is not determinable from individual financial statements of parent, subsidiaries, associates and joint ventures. All CPSEs shall prepare consolidated financial statements as per Accounting Standards, namely, AS21, AS23 and AS27 issued by the Institute of Chartered Accountants of India (ICAI) in relation to the Consolidation of Financial Statements.

Many CPSEs provide groups of products and services or operate in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects, and risks which may not be determinable from the aggregated data. Reporting of segment information is widely regarded as necessary for meeting the needs of users of financial statements. Hence, all CPSEs are required to publish segment wise profit and loss as per Accounting Standard 17 “Segment Reporting” issued by ICAI.

Board Disclosures-Risk management

The company shall lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. Procedure will be laid down for internal risk management also.

The Board should implement policies and procedures which should include:

(a) Staff responsibilities in relation to fraud prevention and identification.
(b) Responsibility of fraud investigation once a fraud has been identified.
(c) Process of reporting on fraud related matters to management.
(d) Reporting and recording processes to be followed to record allegations of fraud.
(e) Requirements of training to be conducted on fraud prevention and identification.

Remuneration of Directors

All pecuniary relationship or transactions of the part-time Directors vis-à-vis the company shall be disclosed in the Annual Report.

Further the following disclosures on the remuneration of Directors shall be made in the section on the Corporate Governance of the Annual Report.

a. All elements of remuneration package of all the directors .i.e. salary, benefits, bonuses, stock options, pension etc.
b. Details of fixed component and performance linked incentives, along with the performance criteria.
c. Service contracts, notice period, severance fees.
d. Stock option details, if any and whether issued at a discount as well as the period over which accrued and over which exercisable.

Management

As part of the Directors' Report or as an addition thereto, a Management Discussion and Analysis Report should form part of the Annual Report. This Management Discussion and Analysis should include discussion on the following matters within the limits set by the company's competitive position:

i. Industry structure and developments
ii Strength and weakness
iii. Opportunities and Threats
iv. Segmentwise or product-wise performance
v. Outlook
vi. Risks and concerns
vii. Internal control systems and their adequacy
viii. Discussion on financial performance with respect to operational performance
ix. Material developments in Human Resources, Industrial Relations front, including number of people employed.
x. Environmental Protection and Conservation, Technological conservation, Renewable energy developments, Foreign Exchange conservation
xi. Corporate social responsibility

Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the company (e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)

IMPACT OF DISCLOSURES' SCORE ON MARKET VALUATION OF A FIRM-AN ANALYSIS

The disclosure and transparency of NMDC Ltd is crossed checked with the latest guidelines of DPE by using Annual reports of the company from 2002-2008 in detail and specific scores are allotted for the compliance of each clause. The following Disclosure scores for National Mineral Development Corporation Ltd were determined.

Table 2 shows the Disclosure Score of National Mineral Development Corporation Ltd (2002-2008)

Years	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Disclosure score	89%	74%	74%	63%	63%	63%

Source: Annual Reports of NMDC Ltd and office memorandum on guidelines on corporate governance for CPSEs issued by DPE

To determine the impact of Disclosure and transparency and market valuation, the following three parameters are taken into consideration:

1. Market Capitalization
2. Dividend Payout Ratio
3. Operating Performance (Revenue and Profit after Tax)

DISCLOSURE SCORE AND MARKET CAPITALIZATION

Market capitalization represents the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current price per share. It's an important number to consider when market value of a company is calculated. Table 3 shows the Disclosure Score and Market Capitalization of NMDC Ltd.

Years	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Disclosure score	89%	74%	74%	63%	63%	63%
Market Capitalization[19] (in Rs. Cr)	96075	35179	15946	6176	3714	1180

Source: Annual Reports of National Mineral Development Corporation Limited (2002-2008)

Result of Correlation Analysis: between Market capitalization and Disclosure score is + 0.96.It is very interesting to note from the table 3 that with the increase in disclosure score, the market capitalization is also increasing, which means the disclosure score and market capitalization are positively correlated.

REGRESSION ANALYSIS AND COEFFICIENT OF DETERMINATION

To determine the functional relationship between disclosure score and market capitalization regression or causal analysis is done. The regression equation for Market capitalization(Y) dependent on disclosure score(X) i.e. Y on X is Y= -221.71 + 3.51 X. The disclosure score highly affects change in market capitalization of the company.

After regression analysis is done, coefficient of determination is used to know how well the regression equation "explains" the variation observed in the dependent variable(Y). The coefficient of determination is identified as R^2.The higher the R^2, the better the model fits the data.

Here, the coefficient of determination between the disclosure score and market capitalization is: $R^2 = 0.92$

Therefore, the regression equation Y = -221.71 + 3.51 X. is capable of explaining about 92% of the total variation observed in the dependent variable i.e. Market Capitalization. Finally to know whether the simple correlation coefficient that was calculated on the basis of sample data is indicative of significant correlation, t-test is used[20].

After calculation, the value of t =10.84 when compared with the table value 3.169 at 1% level of significance with 10 degree of freedom, it is found that t- value is higher than the table value .Thus null hypothesis is rejected and alternative hypothesis is accepted.

DISCLOSURE SCORE AND DIVIDEND PAYOUT RATIO

Dividend payout ratio is the percentage of earnings paid in cash to shareholders. It is calculated by dividing the dividends paid on common stock by the earnings per share. In general, a corporation with a higher payout ratio will be more mature where as company in a growth phase usually reinvests all earnings and pays little or no dividends. The company's board of directors authorizes and determines the amount of the dividend. In this part, the impact of corporate governance on dividend payout ratio is determined. The result of the calculation is given below:

Table 4 shows the Disclosure Score and Dividend payout ratio of NMDC Ltd.

Years	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Disclosure score	89%	74%	74%	63%	63%	63%
Dividend payout ratio[21]	20.03%	20.04%	19.99%	20.03%	10.69%	12.71%

Source: Annual Reports of National Mineral Development Corporation Limited (2002-2008)

The result of correlation between disclosure score and dividend payout ratio is +0.59. The regression equation for dividend payout ratio(Y) dependent on disclosure score(X) i.e. Y on X is Y= 0.29 + 0.24 X. The coefficient of determination between the disclosure score and dividend payout ratio is:$R^2 = 0.35$.Therefore, the regression equation Y= 0.29 + 0.24 X is of only moderate use in explaining the variation observed in a depended variable(Y). To know the significance of correlation, the value of t is calculated which is 2.31, when compared with the table value 2.228 at 5% level of significance with 10 degree of freedom, it is found that t value is higher than the table value .Thus, reject null hypothesis and accept alternative hypothesis.

19 Market Capitalization = Current share price × total shares outstanding

20 $t = r\sqrt{n-2} \div 1 - r^2$ with (n-2) degrees of freedom 'r' being coefficient of simple correlation between X and Y.

OPERATING PERFORMANCE (REVENUE AND PROFIT AFTER TAX)

The operating performance is the measure of profitability in relation to sales revenue, this ratio determines the net income earned on the sales revenue generated. Improving the performance is related with profitability, which in turn is return of brand image. Therefore, the brand is the practical reason for improving the governance. Improved governance also protects the viability of business by regaining the customer confidence and market trust. This section of the study attempts to determine the impact of transparency and disclosure on Operating Performance (Revenue and Profit after Tax) of NMDC Ltd for the years 2002-2008.

Table 5 shows the Disclosure Score, Turnover and PAT of NMDC Ltd.

Years	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Disclosure score	89%	74%	74%	63%	63%	63%
Turnover (in Rs.Cr)	6412.01	4534.04	3915.27	2331.52	1532.70	1293.43
Profit after tax (in Rs.Cr)	3250.98	2320.21	1827.80	755.44	432.63	312.20

Source: Annual Reports of National Mineral Development Corporation Limited (2002-2008)

DISCLOSURE SCORE AND TURNOVER

Revenue is the amount generated from sale of goods or services, or any other use of capital or assets, associated with the main operations of firm before any costs or expenses are deducted. Revenue is shown usually as the top item in an income (profit and loss) statement from which all charges, costs, and expenses are subtracted to arrive at the net income of the firm. Also called sales, or (in the UK) turnover.

The result of correlation between revenue and disclosure score is +0.97.The regression equation for Income (Y) dependent on Corporate governance score(X) i.e. Yon X is Y= -154.88 + 2.910X. Here, the coefficient of determination between the disclosure score and Income is: $R^2 = 0.94$.

After computation the value of t = 12.62 when compared with the table value 3.169 at 1% level of significance with 10 degree of freedom, it is found that 't' value is much more higher than the table value .Thus null hypothesis is rejected and alternative hypothesis is accepted.

DISCLOSURE SCORE AND PROFIT AFTER TAX

Profit is often a better predictor of a company's future performance. Security analysts do use company profits as a key measure of performance, usually in the form of earnings per share (EPS) which (in its most straightforward form) is PAT divided by the number of ordinary shares in issue.

The result of correlation between profit after tax and disclosure score is +0.96. The regression equation for Profit after tax (Y) dependent on disclosure score(X) i.e. Yon X is Y= -195.55 + 3.39 X. Here, the coefficient of determination between the disclosure score and Profit after tax is:

$R^2 = 0.94$

After calculation, t = 10.84 when compared with the table value 3.169 at 1% level of significance with 10 degree of freedom, it is found that t- value is much more higher than the table value .Thus it is clear that the null hypothesis is rejected and alternative hypothesis is accepted.

In case of National Mineral Development Corporation Ltd., it can be observed from the table 5 that in the years from 2002-05 the disclosure score of the company is constant, but in the year 2005-06, the score has increased by 11% due to which there was a major increase in profit after tax of the company. In 2007-08, the disclosure score has increased by further 15% which again had a significant impact on the profit after tax of the company.

RESULT OF THE STUDY

In this study, it is found through a comprehensive analysis, a high positive relationship between level of Disclosure and market valuations of the company which indicates that increase in transparency and disclosure results in better valuations. Companies with high governance rankings enjoy superior market premiums. The analysis indicates that investors pay a significant premium for well-governed firm in India, benefiting firms that improve their governance mechanisms by increasing disclosures such as all relevant transactions being placed before Audit Committee, treatment different from that prescribed in an Accounting Standard, if any, being reported, Consolidated financial statements being prepared as prescribed accounting standards, Segmentwise

21 Dividend payout ratio = Dividend per share ÷ Earnings per share × 100

profit and loss statement as per prescribed accounting standard being prepared and published, Proper risk assessment and risk minimization and internal risk management procedures laid down, Disclosures regarding pecuniary relationship/transactions of part-time Directors and remuneration of directors being made in annual report , Management Discussion and Analysis report part of annual report , Senior management making necessary disclosures to Board, if required. The study indicates that better disclosure is associated with higher operating performance and higher valuations. Firms can improve investors' wealth and protection rights by increasing disclosure, selecting well-functioning and independent boards, imposing disciplinary mechanisms. Thus, the results of the study reveal that increase in disclosure and transparency is associated to improve performance.

CONCLUSION

It can be concluded that there is a strong link between disclosure and transparency of a firm with profitability and investment performance measures of a firm. The accounting policies and standards adopted by the firm is the backbone of the entire framework; for a scrutiny of financial affairs of the corporate entity, it is the auditors' report that shareholders rely on for greater transparency and disclosures.

The impact of disclosure and transparency on firm's market value can be concluded with the help of the following points:

1. Empirical evidence indicates that high standards of transparency and disclosure can have a material impact on the cost of capital.
2. Reliable and timely information increases confidence among decision-makers within the organization and enables them to make good business decisions directly affecting growth and profitability.
3. Information also affects decision makers outside the entity--shareholders, investors and lenders-- who must decide where and at what risk to place their money.
4. The information a company provides should show decision-makers and outside interests whether and to what extent corporations meet legal requirements.
5. Disclosure helps public understanding of a company's activities, policies and performance with regard to environmental and ethical standards, as well as its relationship with the communities where the company operates.
6. Disclosure and transparency, as well as proper auditing, serve as a deterrent to fraud and corruption, allowing firms to compete on the basis of their best offerings and to differentiate themselves from firms who do not practice good governance.

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