CHAPTER-3

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3.1 INTRODUCTION

Research methodology is a systematic way to solve a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researchers go about their work of describing, explaining & predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained. Its aim is to give work plan of research. Here, the researcher has considered Objectives, Scope, Nature, Period, Hypothesis, Sample Design, Method & Sources of Data Collection, Testing of Hypothesis, Level of Significance, Chapter Planning & Utility, Significance & Limitations of the Study as various components for carrying out research. Following is the detail of the points covered.

3.2 OBJECTIVES OF THE STUDY

The objectives for which the study has been conducted are as under:

1. To study the Financial Risk Management Disclosures (i.e. market, credit & operational risks) by selected I.T. companies.
2. To examine the Financial Risk Management Practices (i.e. market, credit & operational risks) followed by selected I.T. companies.
4. To suggest measures to improve the Financial Risk Management Disclosures by selected I.T. companies in Annual Reports.
3.3 SCOPE OF THE STUDY
The purpose of this research is to make an in-depth study of financial risk management practices followed & reported by selected 20 I.T. Companies in India. For this purpose, the period considered is of consecutive five years starting from 2006-07 to 2010-11.

This research work focuses on how selected I. T. companies in India manage their financial risk, who has the authority to establish financial risk management in selected I. T. companies, the ways adopted to support financial risk management policy, preference given to the approaches for dealing with risk, types of financial risks managed, model preferred for measuring credit risk, market risk & operational risk, types of derivative instruments used & resultant impact of financial risk management practices on the overall value & net profit of selected large scale I. T. companies.

Moreover, to study the financial risk management disclosure of selected companies, the researcher has used criteria such as Medium of Disclosure, No. of Pages, Disclosure of risk management framework / structure, key roles & responsibilities level-wise, risk category-wise & risk mitigation steps in their annual reports. Further, to measure the performance of reporting practices of selected I.T. companies, the researcher has designed a measuring and scoring tool in which points are allotted to above stated criteria for evaluating financial risk management disclosure practices for overall grading purpose.

3.4 NATURE OF THE RESEARCH WORK
The said research work is “Descriptive” in nature.
3.5 PERIOD OF STUDY
A study of the Financial Risk Management Practices of the selected I.T. companies is for a period of consecutive five years initiating from 2006-07 to 2010-11.

3.6 SAMPLE DESIGN
Population of this study comprises of total 90 companies those are engaged in software making business & are listed in Bombay Stock Exchange & National Stock Exchange. The researcher has collected such information from - Dalal Street, 11/9/2011, Vol. XXVI, No. 19.
Out of 66, 20 companies are selected using purposive sampling method having market capitalization of more than 1,000 crores. The list of the same is given below:

Table 3.1: List of selected I.T. Companies in India

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Infosys</td>
</tr>
<tr>
<td>2</td>
<td>Wipro Ltd.</td>
</tr>
<tr>
<td>3</td>
<td>HCL Technologies</td>
</tr>
<tr>
<td>4</td>
<td>Oracle Financial Ser.</td>
</tr>
<tr>
<td>5</td>
<td>Tech. Mahindra Ltd.</td>
</tr>
<tr>
<td>6</td>
<td>Vakrangee Limited</td>
</tr>
<tr>
<td>7</td>
<td>Tata Consultancy Services</td>
</tr>
<tr>
<td>8</td>
<td>Patni Computer Sys.</td>
</tr>
</tbody>
</table>
3.7 HYPOTHESIS OF THE STUDY

Following is the hypothesis of the study:

\[ H_{01} = \text{There is no significant difference in the mean score of Disclosure Practices of Selected I.T. companies.} \]

\[ H_{02} = \text{There is no significant relation between Disclosure Score & Net Profit Ratio of Selected I.T. companies.} \]

\[ H_{03} = \text{There is no significant relation between Disclosure Score & Return on Capital Employed of Selected I.T. companies.} \]

To test the above mentioned hypothesis, ANOVA & Spearman's rho correlation tests are used.
3.8 METHOD AND SOURCES OF DATA COLLECTION

The present study is based on both primary & secondary data. The primary data is collected through Questionnaire, intended to know about risk management practices of selected I.T. companies of India. Questionnaires were sent to the person who is responsible for the risk management in the companies. The Questionnaires were sent to all the selected 20 I.T. companies, but after continuous & rigorous follow-up, the researcher got filled Questionnaires back from 16 companies so the data analysis based on primary data are based on 16 companies. The secondary data relating to this study is collected through following sources:

- Published Annual Reports of selected I.T. companies.
- Websites of the selected I.T. companies.
- Magazines like Dalal Street & Capital Market

3.9 LEVEL OF SIGNIFICANCE

The level of significance is as usual i.e., of 0.05 (5%) for testing the hypothesis formulated.

3.10 CHAPTER PLANNING

The entire study has been divided into mainly six chapters. The content of each such chapter is discussed in the following manner:

First Chapter deals with the theoretical aspects of the Financial Risk Management.

Second Chapter focuses on Review of Literature.
Third Chapter sketches detailed Research Methodology used to carry out the study.

Fourth Chapter narrates the brief Profile of the selected I.T. companies of India.


Sixth Chapter contains Findings, Suggestions & Conclusions of the study.

3.11 UTILITY AND SIGNIFICANCE OF THE STUDY

Financial Risk Management is inevitable for all business entities that have foreign exposure because finance is said to be life-blood & lubricant of the business & any sort of mismanagement in can lead to the company failure.

It is observed that much research work has been carried out on identification, measurement & management of financial risks but the research on reporting practices of financial risks is lacking. Moreover, research on the said topic for I.T. Companies is also not done though they get major part of their revenue in foreign currency. The internal party of the companies might be aware of their financial risk management practices but reporting of the same is very crucial for the external parties like Investors so that they can take investment decision in the light of this information as risk management strongly affects profit & value of any organization. So, the researcher has made an attempt to study financial risk management practices of selected I.T. Companies in India.
Here, attempt has been made to measure various tools and techniques employed by selected I.T. companies for managing their financial risks & its impact on profitability & overall value of their companies.

In this study, attempt is also made to bring uniform & standard Financial Risk Management reporting practices in the annual reports of the companies which would in turn be of a great help to the academicians, researchers, the industry itself and the society, at large.

### 3.12 LIMITATIONS OF THE STUDY

The following are the limitations of the study:

1. The time period of the study is limited to only five years starting from 2006-07 to 2010-11.

2. Only top capitalization companies have been selected as samples.

3. The study is confined to only twenty selected I.T. companies.

### 3.13 FURTHER SCOPE OF THE STUDY

1. The study is based on only 20 selected I.T. companies. More sample companies can be considered to get better results.

2. Researcher has considered only large capitalization I.T. Companies, leaving scope of further study on medium cap & small scale companies in I.T. sector.
3. Period of only five years has been considered in the study. Period can be extended above five years to get clear picture of Financial Risk Management Practices.

4. Only I.T. companies have been taken as sample. Researcher can go for other industries also. Moreover, a comparative study industry-wise is also possible.
REFERENCES