Chapter-3
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Research Methodology

Introduction

Corporate Governance issue has become centre stage, post liberalization and globalization. In order to attract ever growing need of capital and boost economic activities, each country is trying hard to improve their corporate governance practices, so as to bring an element of trust between investors and the companies. Associated with the trust is the inflow of valuable capital, both domestic and global, which is the lifeline of any business. The present study, therefore, derives its objectives against the above backdrop. United Kingdom corporate governance practices are considered benchmark globally and a study vis-à-vis with the country is of immense importance in improving the corporate governance of our country. The Statement of the problem reads as, “Corporate Governance Practices: A Comparative study of India and UK”. As all aspects of corporate governance cannot be covered in a single research, the research objective is expected to be fulfilled if major CG factors are identified and their level of compliance are assessed for both the countries and based on comparative study the strength and weaknesses are identified in our system and suggestions can be put forward for remedial measures. Accordingly the objective of the present research has been framed as below.

Research Objective

The overall objective of the present research is to carry out comparative study of corporate governance practices of India and United Kingdom corporate based on identified critical parameters of corporate governance and compare their level of compliance between the two countries so as to highlights areas of major differences and in the process identify weaknesses in our corporate governance practices and suggest improvement.

To accomplish the research objective the current research identifies a set of common parameters (29 in nos.) for their comparative analytical study and to assess current state of existence in Indian companies' vis-à-vis UK companies. These are the
priorities areas which appears in priorities areas in the Combined Code of Corporate Governance of UK. These are: Presence of Non-Executive Chairman, Separation of roles of chairman and Chief Executive Officer, Size of Board, Strength of Independent Directors in Boards, Strength of Non-Executive Directors (Non-Independent) in Boards, Strength of Executive Directors in Boards, Board Meeting, Presence of Nomination Committee in Boards, Size of Remuneration Committee, Strength of Independent Directors in Remuneration Committee, Strength of Non-Executive Directors (Non-Independent) in Remuneration Committee, Strength of Executive Directors in Remuneration Committee, Remuneration Committee Meetings, Presence of Remuneration Committee, Presence of Chairman in Remuneration Committee, Size of Audit Committee, Strength of Independent Directors in Audit Committee, Strength of Non-Executive Directors (Non-Independent) in Audit Committee, Strength of Executive Directors in Audit Committee, Audit Committee meetings, Presence of Chairman in Audit Committee, Presence of Lead Independent Director, Provision for Induction and Professional Development, Strength of Female Non-Executive Directors (Non Independent & Independent), Strength of Female Independent directors in Boards, Provision for Performance Evaluation, Presence of Audit Committee and Promoters Presence as Chairman.

Formulation of Hypotheses

The following hypotheses are being formulated for realizing the research objectives.

Null Hypotheses and Alternate Hypotheses for the research are listed below:

- **H₀₁**: There is no significant difference between India and United Kingdom on the matter of chairman being non-executive in their companies.

- **H₁₁**: There exists significant difference between India and United Kingdom on the matter of chairman being non-executive in their companies.

- **H₀₂**: There is no significant difference between India and United Kingdom on the matter of separation of roles of governance and management functions i.e., separate chairman and Chief Executive Officer.
$H_1^{2}$: There exists significant difference between India and United Kingdom on the matter of separation of roles of governance and management functions i.e., separate chairman and Chief Executive Officer.

$H_0^{3}$: There is no significant difference between India and United Kingdom on the matter of strength of board members in their companies.

$H_1^{3}$: There exists significant difference between India and United Kingdom on the matter of strength of board members in their companies.

$H_0^{4}$: There is no significant difference between India and United Kingdom on the matter of strength of Independent Directors in their corporate Boards.

$H_1^{4}$: There exists significant difference between India and United Kingdom on the matter of strength of Independent Directors in their corporate Boards.

$H_0^{5}$: There is no significant difference between India and United Kingdom on the matter of number of Non-Executive Directors (Non Independent) in their corporate Boards.

$H_1^{5}$: There exists significant difference between India and United Kingdom on the matter of number of Non-Executive Directors (Non Independent) in their corporate Boards.

$H_0^{6}$: There is no significant difference between India and United Kingdom on the matter of presence of Executive Directors in their corporate Boards.

$H_1^{6}$: There exists significant difference between India and United Kingdom on the matter of presence of Executive Directors in their corporate Boards.

$H_0^{7}$: There is no significant difference between India and United Kingdom on the matter of number of board meetings they conduct in a year.

$H_1^{7}$: There exists significant difference between India and United Kingdom on the matter of number of board meetings they conduct in a year.

$H_0^{8}$: There is no significant difference between India and United Kingdom on the matter of presence of Nomination Committee in their Boards.

$H_1^{8}$: There exists significant difference between India and United Kingdom on the matter of presence of Nomination Committee in their Boards.

$H_0^{9}$: There is no significant difference between India and United Kingdom on the matter of strength of members in Remuneration Committee.
$H_9$: There exists significant difference between India and United Kingdom on the matter of strength of members in Remuneration Committee.

$H_{10}$: There is no significant difference between India and United Kingdom on the matter of strength of Independent directors in the Remuneration Committee.

$H_{10}$: There exists significant difference between India and United Kingdom on the matter of strength of Independent directors in the Remuneration Committee.

$H_{11}$: There is no significant difference between India and United Kingdom on the matter of number of Non-Executive Director (Non Independent) in the Remuneration committee.

$H_{11}$: There exists significant difference between India and United Kingdom on the matter of number of Non Executive Director (Non Independent) in the Remuneration committee.

$H_{12}$: There is no significant difference between India and United Kingdom on the matter of number of Executive Directors in the Remuneration Committee.

$H_{12}$: There exists significant difference between India and United Kingdom on the matter of number of Executive Directors in the Remuneration Committee.

$H_{13}$: There is no significant difference between India and United Kingdom on the matter of number of Remuneration Committee Meetings they hold in a year.

$H_{13}$: There exists significant difference between India and United Kingdom on the matter of number of Remuneration Committee Meetings they hold in a year.

$H_{14}$: There is no significant difference between India and United Kingdom on the matter of presence of Remuneration Committee.

$H_{14}$: There exists significant difference between India and United Kingdom on the matter of presence of Remuneration Committee.

$H_{15}$: There is no significant difference between India and United Kingdom on the matter of chairman presence in their Remuneration Committee.

$H_{15}$: There exists significant difference between India and United Kingdom on the matter of chairman presence in their Remuneration Committee.

$H_{16}$: There is no significant difference between India and United Kingdom on the matter of strength of members in the Audit Committee.

$H_{16}$: There exists significant difference between India and United Kingdom on the matter of strength of members in the Audit Committee.
$H_0^{17}$: There is no significant difference between India and United Kingdom on the matter of strength of Independent directors in the Audit Committees.

$H_1^{17}$: There exists significant difference between India and United Kingdom on the matter of strength of Independent directors in the Audit Committees.

$H_0^{18}$: There is no significant difference between India and United Kingdom on the matter of number of Non-Executive Directors (Non Independent) in the Audit Committee.

$H_1^{18}$: There exists significant difference between India and United Kingdom on the matter of number of Non-Executive Directors (Non Independent) in the Audit Committee.

$H_0^{19}$: There is no significant difference between India and United Kingdom on the matter of number of Executive Directors in the Audit Committee.

$H_1^{19}$: There exists significant difference between India and United Kingdom on the matter of number of Executive Directors in the Audit Committee.

$H_0^{20}$: There is no significant difference between India and United Kingdom on the matter of number of Audit Committee Meetings they conduct in a year.

$H_1^{20}$: There exists significant difference between India and United Kingdom on the matter of number of Audit Committee Meetings they conduct in a year.

$H_0^{21}$: There is no significant difference between India and United Kingdom on the matter of chairman presence in the Audit Committee.

$H_1^{21}$: There exists significant difference between India and United Kingdom on the matter of chairman presence in the Audit Committee.

$H_0^{22}$: There is no significant difference between India and United Kingdom on the matter of presence of Lead Independent Director in their corporate Board.

$H_1^{22}$: There exists significant difference between India and United Kingdom on the matter of presence of Lead Independent Director in their corporate Board.

$H_0^{23}$: There is no significant difference between India and United Kingdom on the matter of mean strength of companies having provisions for Induction and Professional Development for their Directors.

$H_1^{23}$: There exists significant difference between India and United Kingdom on the matter of mean strength of companies having provisions for Induction and Professional Development for their Directors.
H_{24}: There is no significant difference between India and United Kingdom on the matter of number of total female Non-Executive Directors (Non Independent \& Independent) in their companies.

H_{24}: There exists significant difference between India and United Kingdom on the matter of number of total female Non-Executive Directors in their companies.

H_{25}: There is no significant difference between India and United Kingdom on the matter of strength of female Independent Directors in their companies.

H_{25}: There exists significant difference between India and United Kingdom on the matter of strength of female Independent Directors in their companies.

H_{26}: There is no significant difference between India and United Kingdom on the matter of keeping provisions for performance evaluation for their directors in their companies.

H_{26}: There exists significant difference between India and United Kingdom on the matter of keeping provisions for performance evaluation for their directors in their companies.

H_{27}: There is no significant difference between India and United Kingdom on the matter of average presence of Audit Committee.

H_{27}: There exists significant difference between India and United Kingdom on the matter of average presence of Audit Committee.

H_{28}: There is no significant difference between India and United Kingdom on the matter of average presence of promoter as Chairman.

H_{28}: There exists significant difference between India and United Kingdom on the matter of average presence of promoter as chairman.

H_{29}: There is no significant difference between India and United Kingdom on the matter of total strength of Non-Executive Directors (Non Independent \& Independent) in their corporate Boards.

H_{29}: There exists significant difference between India and United Kingdom on the matter of total strength of Non-Executive Directors (Non Independent \& Independent) in their corporate Boards.
Research Design

Descriptive research design was resorted to. In the initial stage the research carried out was that of exploratory in nature as the nature of the problem required identifying and formulating of the working hypothesis for more precise investigation. The major study in the initial stage was on the discovery of ideas and insights. As such it required flexibility to provide enough opportunity for considering different aspects of the problem so as to necessitate change in research procedure for gathering relevant data. Malhotra (2008) writes, “The primary objective of exploratory research is to provide insights into, and an understanding of, the problem confronting the researcher. Exploratory research is used in cases when you must define the problem more precisely, identify relevant course of action, or gain additional insights before an approach can be developed. The information needed is only loosely defined at this stage, and the research process that is adopted is flexible and unstructured”.

In later part of the research once the formulation of Hypotheses was over with the population well defined, the descriptive research design was resorted to complete the research within the leftover extended limited time. Saravanavel(1989) writes, “Descriptive research aims (i) to portray accurately the characteristics of a particular individual situation, or group (with or without specific initial hypothesis about the nature of these characteristics) and (ii) to determine the frequency with which something occurs or with which it is associated with something else (usually, but not always, with a specific initial hypothesis). Malhotra (2008) writes, “Descriptive research is characterized by the prior formulation of specific hypotheses. Thus, the information needed is clearly defined. As a result, descriptive research is preplanned and structured. A descriptive design requires a clear specification of the who, what, when, where, why, and way (the six Ws).”

Research Scope

The importance of corporate governance is pervasive for all types of companies but for obvious reasons it is not possible to cover the entire gamut of companies functioning in both the country. Consequently, the scope of the study has to be delimited and demarcated and confined to business forms having more relevance in
terms of investors' protection. Consequently "Joint stock exchange listed companies" of the two countries is the focus of attention as their shares are purchased and sold by large investing public and their profit are shared by wider public and any problem in corporate governance affects large population along with consequential problems throughout the country.

Sampling Framework

After taking into consideration several options and issues like Annual Reports availability, the research objectives, similar stock Index unavailability between the two countries, difficulty in obtaining Annual Reports and data for smaller listed companies, lesser significance of smaller and tiny companies in terms of investors protection, the limited time availability and the cost etc, it was considered appropriate to confine the sampling domain within the largest operating countries from both countries. Accordingly top 500 companies from both countries have been chosen as the sampling domain from which required samples has been taken for further analysis. The top 500 listed companies for each country were arranged based on market capitalization and alternate companies, 250 in numbers, for each country, were selected for their further detailed studies of corporate governance practices. Arrangement based on mkt. cap and alternate selection based on systematic random sampling ensured that one out of the two companies of same class entered into our samples and the sampling bias minimized. The type of sampling utilized, therefore, is systematic sampling. An element of randomness is introduced into this kind of sampling by using random numbers to pick up the unit with which to start. Although a systematic sample is not a random sample in the strict sense of the term, but it is often considered reasonable to treat systematic sample as a random sample. Systematic sampling has the extra plus point that it is an improvement over a simple random sample as the systematic sample is spread more evenly over the entire population.

On investigation of the annual reports of 250 companies each, of both countries, it was found that companies so chosen after systematic sampling included such companies as Banks, Insurance, Govt. companies, Trusts, Mutual Funds, AIM listed companies, smaller listed companies as per UK standards (i.e., cos. below FTSE 350), Equity and Non-equity investment instruments. These companies belonged to
different class of companies so far as their governance practices were concerned and they were also required to comply their respective statutes in addition to the codes of corporate governance. In case of UK companies below FTSE 350 were regarded as smaller companies having less stringent standards. Mutual Fund companies of India and AIM listed companies of UK were exempt from compliance of their respective corporate governance codes. Govt. listed companies, in case of India, though listed, are dictated more by government rules and regulation and respective ministries then their board of directors. All such companies were excluded from the current research purview.

**Sampling in case of UK**

In UK case a detailed list of companies from the stock exchange has been available for the year 2008-09 and the same have been utilized. Delimitation has been done according to the plan as mentioned above to come to the sample population. Total number of listing on LSE as on 27 February 2009 is 3760 which includes UK and non UK listings. After excluding non-UK listings the number of UK listings stands as 2741. Few companies have more than one listing on the same exchange. After excluding more than one listing the final number of UK companies stands as 2170. Top 500 companies from the list arranged on market capitalization is selected from which 250 alternate samples are obtained. The sample so obtained contains biggest companies and includes financials/non-financials like Banks, Insurance and Equity Investment Instruments etc.

From the list of above financials and non financials companies, the financials companies have been excluded as these are different class than non-financials companies and their compliance standards are in addition to the UK compliance combined code. Further companies belonging to Alternative Investment Market (AIM) and smaller companies (below FTSE 350 companies) of United Kingdom have been excluded as there is relaxed standard for smaller companies in UK Combined Code. AIM companies, meant for small and growing companies, are exempt for compliance of any Corporate Governance standards. Few companies’ annual reports could not be received because of server and other problems. Total number of UK
companies for final analysis stands as 117. Sketch depicting the arrival of final sample of companies for analytical study is attached at the end of the chapter.

**Sampling in case of India**

Like UK, no current list based on market capitalization is available for the year 2008-09 though extensive search for the same has been carried out for the same. A list for the year 2007-08, for Bombay Stock Exchange, the largest stock exchange is however available. Through the available list for the year 2007-08 and current BSE 500 index list for the year 2008-09 a list is prepared so as to ensure that no significant top Companies are left out and from the prepared list top 500 companies have been chosen. A sketch is attached herewith depicting the scheme and arrangement for arrival of sample size. Alternate companies from the top 500 list are chosen for downloading of Annual Reports. From the chosen 250 companies further delimitation has been done to exclude listed PSU and financials and mutual fund companies. The final number of Indian companies for the analysis stands as 186.

**Sampling taken together India and UK**

Final sample size of UK companies for detailed analysis: 117
Final sample of Indian companies for detailed analysis: 186.
Total number of companies for detailed analysis: 117+186= 303 nos.

**Process of data collection**

Data set used for the current study has been compiled by hand-collecting information from the relevant corporate governance section of the annual reports and hence secondary data has been utilized for the study. Data used are from Annual Reports of companies for the financial year 2008 in case of UK companies which is the most recent data available has been used for their analysis purpose. In case of India the data used are from the Annual reports for the year 2007-08. Annual reports of companies, which are the widely accepted document for a company, are considered appropriate for collection of wide range of data. There are two major advantages in scrutinizing companies’ annual reports for the data. First, annual accounts and reports are accredited documents that proclaim a company’s financial situation and corporate
information. The data gathered from annual reports is, therefore, supposed to be authoritative and credible as compared to single-respondent survey data. The second advantage of relying on the annual reports is that all public companies are required to file these reports. By going to the annual reports instead of using a survey methodology we generate a sample with far more response and one that is far more representative. "Examination of annual reports, rather than relying on retrospective single-respondent survey data allows us to improve both the quality and quantity of data available for analysis. (Rayton & Cheng, 2004). Moreover the utilization of annual reports of data is more economic with lesser involvement of time which is a desirable feature in any research design as research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance with economy.

Data Analysis

The data gathered from the annual reports of Indian and United Kingdom companies has been entered into a computer database and then analyzed using the statistical package for the Social Science (SPSS) and MS Excel. The data analysis consists of Descriptive statistics and t-test of means for two independent samples for comparing means, which is the most widely used statistical test. "The t-test assesses whether the means of two groups are statically different from each other. It is simple, straightforward, easy to use, and adaptable to a broad range of situations. This analysis is appropriate whenever one want to compare the means of two groups." Lowry (1999). Since the two samples for the two countries are independent of each other and different in numbers (186 nos. in case of India and 117 nos. in case of UK) the t-test for means for two independent samples has been utilized for analysis. “Two sample t-tests for a difference in means can be either unpaired or paired. The unpaired, or “independent samples” t-test is used when two separate independent and identically distributed samples are obtained, one from each of the two populations being compared. (Wikipedia). The established significance level for rejecting all Null Hypothesis is 0.05.
Operational Definition

Corporate Governance can be defined as the arrangement of system, structure and process through which a company is run efficiently keeping the interest of its average stakeholders while protecting the interest and wishes of its equity owners at its foremost.

Limitations

The study is restricted to top listed non-financial (manufacturing and service) firms and excludes financials companies of both the countries, PSUs in case of India and AIM listed companies and Smaller Companies (below FTSE 350) of United Kingdom. Only few critical parameters of good governance have been selected for comparison and the selection of these parameters are based on data and reference availability in each of the sampled company's annual reports. Annual reports of some companies were not available for downloads and these companies have not been considered in the analysis. Further the comparative study is based on the forms rather than the substance. Data for one year has been taken for comparative studies.
Figure 3.1: Arrival of Sample Size in case of UK
SAMPLE SIZE OF INDIAN COMPANIES FOR EMPIRICAL STUDY

186

Banks, Insurance, Mutual, PSU, Cos whose A.R. not available, excluded

250 (ODD NUMBERED)

ALTERNATE EVEN NUMBERED COMPANIES EXCLUDED (250)

TOP 500 BSE COMPANY SELECTED ON MKT CAP.

COMPANIES [501 TO REST] EXCLUDED (1222-501=721)

UPDATED BSE COMPANIES (1222)

NEW CONSTITUENTS FROM BSE 500 INDEX 08-09 (TOTAL 16 IN NUMBERS)

Companies more than 100 Market Cap. (1206)

COMPANY BELOW 100 Cr. AND NOT TRADED EXCLUDED (4813-1206=3607)

All BSE Listed Companies (4813) BSE 07-08

Figure 3.2: Arrival of Sample Size in case of India
References


Wikipedia- the free encyclopedia, Student's t-test, sourced from www, Date of retrieve- 8/15/2009, 11:59 AM., 1-11, p. 3.