Chapter-5
CHAPTER-5

Results and Discussions

5.1: Discussions for H-1 (Chairman Non-executive)

Statistical analysis resulted in significant difference between the population means of companies on the matter of Chairman being Non-Executive in the Indian and United Kingdom and the results is robust up to the significance level of 99% confidence interval. On the whole 62.16% of Indian companies were found to have Non-Executive Chairman whereas 87.93% of UK companies were found to have Non-Executive Chairman. Keeping in view the importance of outer perspective held by a non-executive chairman and better oversight role and independent perspectives held by a non-executive chairman over the management functions, the same is severely compromised in case of Indian Companies then their UK counterparts. The UK Boards may, therefore, be considered to have greater oversight functions over their CEO and the management functions over their Indian counterparts and UK Boards are better equipped to deliver their assigned functions. The need for non-executive chairman is emphasized by several researchers. Jensen and Fuller (2003) argue in USA context where the executive-chairman model prevails, “Academics and students of corporate governance have long debated the respective merits of executive and non-Executive chairman. Recent events will undoubtedly rekindle that debate and may decisively tip the balance in favor of the non-executive model. The attractiveness of that approach stems not only from the hope that non-executive chairman would have interdicted the cycles of managerial self-delusion, hubris and, in some cases, outright fraud that destroyed some prominent companies and undermined trusts in the capital markets, but also from pure workload considerations.” They go on further, “Admittedly, a more informed, independent perspective might have helped prevent some of the abuses. But as we look to the future, the logic for a non-executive chairman becomes compelling...”The role of chairman, which is the head of the board, should be held by a Non executive and most preferably by an Independent Non-executive director. An outside chairman not only brings outside perspective and orientation but also being aloof from the executive responsibility minimizes the risk
of concentration of powers in one individual and no single individual dominates the board proceedings (Combined Code). From the days of Cadbury’s, forbidding unfettered power and authority, to all the updated Combined Code till date like that of 1998, 2003, 2006 & 2008, UK forbids the combining the two post and posits, “A chief executive should not go on to be the chairman of the same company. If exceptionally a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report.” (A.2.2, The Combined Code, June 2006, UK). Reddy(2000), former secretary, Ministry of finance, Govt. of India and Dy. Governor, Reserve Bank of India, Mumbai, writes on the issue “The roles of the chairman and the chief executive officer (CEO) should be separated. The chairman should ideally be a non-executive director. The appointment of the CEO and other whole-time director should be left to the board of directors with the help of a nomination committee. A nomination committee comprising of directors (the majority of whom shall be non-executive directors) chaired by the chairman should have the responsibility of proposing to the board new appointments (both executive and non-executive directors).” Balasubramanian (1998) suggests, “Chairman should preferably be an outsider, a person of standing and reputation with broad based experience who can bring in an independent external perspective to board discussions”. Merson (2004) agrees on the issue of non-executive chairman, “.....many would counsel that the interests of all are best served if the chairman of the board is non-executive, thus ensuring that the board itself fulfills its responsibilities by separating board management from company management.”

5.2: Discussion for H-2 (Separation of roles i.e., Separate Chairman & CEO)

Statistical analysis finds that there exist significant differences between the population means on the matter of separation of roles. Whereas only 66.13% of Indian companies were found to have separate Chairman and CEO, the UK companies were found to have in much better conditions with 96.58% of their top listed companies having separate Chairman and CEO, to monitor the governance and management functions separately. The result suggests that there still exists about 34% of the Indian companies, where there is combined post of Chairman and CEO. When the result is
Fig. 5.1: Roles of separated, Chairman Independent Non-Executive, Balanced, Independent Directors System Enables Board: Need of the Hour

clipped with that of the result of H 1 (Non-Executive Chairman), where as much as 38% of the Indian Chairman are executives, the composite picture yields the picture that not only much greater percentage of Indian companies have Executive chairman, but that they also combine the functions of chairman and CEO, which severely jeopardizes the Indian board oversight role and leads to greater concentration of power in an individuals which greatly differs with UK principles and corporate governance structure. Unseparated system suffers from all the weaknesses of an
autocratic style of leadership like demotivation and demoralization of sincere workforce, promotions and incentives to back biters, out of turn promotions based on personal equations, leading to ultimate decline of the organization. Singh (2005) writes on the abuses of concentrated power resulting from combined role of chairman and CEO in his book, “During my two decades of corporate experience in different organizations, I myself saw patently wrong things happening in the organization with tacit consent and support from the Chairman-cum-CEO; the Board was taken for a ride and ultimately couple of active players in the scandals along with the Chairman had to be sacked; but only after colossal financial damage to the health and hitherto bright image of the institution had already been inflicted.” Carver & Oliver (2002) posits, “The purpose and nature of board authority require that governance and management be treated differently. They are different roles, producing different value addition, requiring different skills, and addressing different levels of work. Failing to delineate clearly between these roles severely hinders effective governance.” The authors further apprises us, through the result of an opinion survey in their book, “A McKinsey Investor Opinion Survey during the year 2000 found that investors see separation of the positions to be a key factor in board performance, ranking it as important as having a majority of outside directors.” Fuller & Jensen (2003) writes, “For all intents and purposes, the directors at most companies are employees of the CEO. The CEO does most of the recruiting for the board and extends the offer to join the board. And, except in unusual cases, board members serve at the pleasure of the CEO. Moreover, it is rare that the board meets outside of the CEO’s presence or without his explicit permission. Finally, virtually all information, board members receive from the company, originates from the CEO, except in highly controlled or unusual circumstances. A change in these practices will require a major change in the power relationship between the board and the CEO, perhaps going as far as a structural separation between the Chairman’s and CEO’s positions.”

There are two key tasks at the top of every public company – the running of the board and the executive responsibility for the running of the company’s business. There should be a clear division of responsibilities at the head of the company which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.
A study by Dahya et al. (1996) found in UK context that the stock market reacted favorably to the separation of the two posts and negatively if they were actually combined. In addition, companies that combined the two post and adopted duality performed worse in accounting performance terms, the year after the change. The UK Code of Best Practice (Cadbury Committee, 1992) recommends that the positions of chair and CEO be held by different individuals. Jensen (1993) points out that when the CEO also holds the position of the chairman of the board, internal system may fail, as the board cannot effectively perform its functions including those of evaluating and firing CEOs. Similarly, Fama and Jensen (1983) argue that effective separation of top-level management and control means that outside directors have incentives to carry out their tasks and do not collude with managers to expropriate residual claimants. Descender (2007) mentions in his article the works of Goyal and Park (2000), who points out that the sensitivity of top executive turnover to firm performance is significantly lower for firms that vest the title of CEO and chairman in the same individual.

Whereas Indian model has no reference on the issue, the UK model takes the following position:

"There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decisions" - The Combined Code 2006, A.2. The Code further states, "The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board". - A.2.1. The code being based on 'comply or explain' basis, a decision to combine the posts of chairman and chief executive officer in one person needs to be publicly justified. UK companies are thus required, not only to state the departure from the recommendation, but also to explain their choice of combining the two roles in their annual reports. Ghosh (2000) writes "Splitting up of the post of chairman and the Chief Executive Officer (CEO) is the fundamental principle of the Global Advisory Board, without doing so; it may be normally be very difficult for the board to perform its critical oversight functions". Shukla, H. J., (2009), observes, "A good corporate governance principle expects that
there should be a clear division of responsibilities at the helm of the company. Such a division of responsibility would ensure a balance of power and authority, such that no individual has unfettered power of decision. Hence, separating the posts of Chief Executive Officer (CEO) and the Chairman is always advisable to have effective monitoring of the executive management of the company besides ensuring proper corporate governance practices”. However the results of research on the effects of duality on company performance are mixed. Trojanowski and Renneboog (2003), through a sample of randomly drawn sample of UK firms, finds that in an insider-dominated underperforming firm, the probability of CEO replacement is merely 11.4% whereas it is as high as 21.3% for an outsider-dominated company indicating the adverse affect of the managerial entrenchment which becomes more violent when CEO also holds the position of chairman of the board”. The result also supports the theory that there should be division of roles for chairman and CEO. Reddy (1998) addresses the issue of the necessacity of separation of roles of Chairman and Chief Executive when he says, “The current thinking in the UK is that a single forceful personality, no matter how talented, is likely to be a bad choice to be both Chairman and executive”. Desender (2007) examines and reports in his paper that board independence alone does not induce enterprise risk management implementation. Only boards with a separation of CEO and Chairman, tend to favor more elaborated ERM. Firms with independent Board and separation of CEO and Chairman show the highest level of ERM. The possible explanation, as the author puts, is that CEOs do not favor ERM implementation and are able to withstand pressure from the board when they are occupying the seat of chairman.

Cadbury (1992) Report on the Financial Aspects of the Corporate Governance first recommended on the issue on 4.9 of the Report “Given the importance and particular nature of the chairman’s role, it should in principle be separate from that of the chief executive. If the two roles are combined in one person, it represents a considerable concentration of power. We recommend, therefore, that there should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board.” Balasubramanian (1998)
writes, “the related question is whether the office of the chairman of the board and that of the chief executive should be separated to avoid too much concentration of power and unequivocally feels that the two offices must be separated for the good of each other and more importantly, of the organization. This ensures that the views and inputs from all directors are taken into account and a considered view in the larger interests of the company is evolved”. On the position of a combined chairman and Chief Executive role Garratt (1996) writes in his book, “The killer blow for an enterprise is often one person holding the very different jobs of chairman and chief executive, especially if this is for a sustained time, because there is no forum for criticism, constructive or otherwise.” Merson (2004) writes in his book, “The expectation is also nowadays that at the very least the role of chief executive and chairman will be split..... Thus ensuring that the board itself fulfills its responsibilities by separating board management from company management. .... This (splitting of roles) is a key strength of the UK corporate governance framework when contrasted with the UK approach.” Rao (2004) writes, “There are two theories to explain the leadership structure of a company: the agency theory and the organization theory. According to the Agency Theory the boards favor non-duality, because they feel that duality may lead to entrenchment by the CEO. The other theory is the organization theory, which argues that the managers expect clear lines of authority, and hence prefer CEO duality. This theory is based on the assumption that separate CEO will reduce the power of the chair of CEO and the company will not portray itself as the one having a strong leader. ..... Theoretically however it is said that separate CEO and Chairman will enhance the performance of the company because the abuse of the power by the CEO in this case will be lesser than when compared to dual CEO.” The author cites four empirical research findings where the results are mixed. The Indian boards on an average, therefore, suffer from many of the ills that plague because of lesser separation of roles and her boards are less capable of delivering the designated outputs as compared to United Kingdom.

5.3: Discussion for H-3 (Size of Board)

There exists no significant difference between the strength of board members of the two countries. The sampling statistics found the mean strength of Indian Boards as
The mean strength of board members in case of UK is 9.1795. Statistical analysis did not lead to rejection of the Null Hypothesis and, therefore, the difference between the two means is insignificant. The Indian and UK corporate boards may be considered on equal footing on this variable with the average Indian Board size slightly larger than the UK boards. In this connection research in the area has mostly found that larger boards are less likely to function effectively and are easier for the CEO to control. Jensen (1993). Even if board capacities for monitoring increase with the board size, the benefits are outweighed by such costs as slower decision making, less candid discussion of managerial performance, and biases against risk taking. Lipton & Lorsch (1992). He further recommends limiting the membership of boards to ten people with a preferred size of eight or nine. The UK board is somewhat nearer to the desired size of a board. The Indian position is however no worse with average board strength, only one above the UK, and can considered on equal footing with UK. The firm value depends on the quality of monitoring and decision-making by the board of directors, and the board size represents an important determinant of its performance. Jensen (1993) opines that large boards can be less effective than small boards. He says that when boards get beyond seven or eight people they are less likely to function effectively and are easier for the CEO to control. A similar view is advocated by Lipton and Lorsch (1992) who state that the norms of behavior in most boardrooms are dysfunctional because directors rarely criticize the policy of top managers or hold candid discussions about corporate performance and these problems increase with the number of directors and they recommended limiting the membership of boards to ten people, with a preferred size of eight or nine. The idea is that when boards get too big, agency problems increase and the board becomes more symbolic and less a part of the management process. Dalton et al. (1998) studied the relationship between the board size and accounting measures and indicators based on market returns, and found a non-zero positive relationship between sizes of the board’s and firm performance. They however note that larger boards leverage the advantage of board network, provide quality advice to the CEO, otherwise unavailable from corporate staff, address “power relationship”, allowing the board, for example, to form coalitions that may challenge CEOs, promote diversity in experience, education, attitudes, and background and bring exceptional local
information to the board and provide a training ground through high-ranking officers on the board. Board strength matters. While no limit has been fixed for the number of members in a board, The Combined Code (2008) of UK states in supporting principles (A.3), “The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board’s composition can be managed without undue disruption.” Colley, Doyle, Logan & Stettinius (2005) observes, “The typical corporate board is composed of 8 to 16 directors. Larger, more mature companies tend toward the higher end of the range, while smaller growing companies tend toward the lower end. The aim, however, is to have a breadth of expertise in order to deal effectively with the issues confronting the business. This reasoning would suggest that smaller, simpler companies would not require as many directors as larger, more complex ones. ….. Small boards are however, more easily controlled by a dominant personality or clique. As boards become larger, the talent pool becomes deeper, but it is more difficult to keep a larger number of people involved and working together efficiently as a team.” Mayur & Saravanan (2006) investigates the relationship between board size and performance of banks in Indian context. Based on data from 37 banks listed on BSE and NSE and selecting performance parameters as Tobin Q and Market-to-book ratio, the study finds correlation between board size and performance of banks as negative for both Tobin’s Q as well as for MB ratio. Regression co-efficient does not show any contribution on the performance of banks. Any board which has more than ten to twelve directors tends to become unwieldy and inefficient. (Prasanna Chandra, Corporate Governance: Realities and Reforms). Naresh Chandra committee report (2002) on the issue of minimum size of the board opines, “The minimum board size of all listed companies, as well as unlisted public limited companies with a paid-up share capital and free reserves of Rs 10 crore and above, or turnover of Rs 50 crore and above should be seven- of which at least four should be independent directors.”

5.4: Discussion for H-4 (Strength of Independent Directors)
The mean figure for Independent directors in case of Indian board is 4.7838 whereas the same is 4.6068 in case of UK. The statistical analysis does no lead to rejection of Null Hypothesis at 95% confidence interval. The result, therefore, shows that there
exist insignificant difference between India and UK on the matter of Board Independent Directors. But assuming both India and UK equal on the matter of strength of Board Independent directors’ strength will be misleading keeping in view the independence criteria, definition and implementation of independence in UK. In Indian Boards there exists sufficient number of Nominee directors nominated by lending banks or belonging to interest groups which are considered Independent, whereas the same are either very few and if they are present in UK boards they are not considered and counted as independent. Naresh Chandra Committee which has examined various definitions of independence has come to the conclusion that nominee directors should not be counted as independent directors but it has not come into vogue. The independence criteria for UK and the implementation through nomination committee and independent board are stricter than that of India. Thus in numerical terms though the Indian Boards seems to be more independent the reality is far from the truth and the reverse are truer. In this connection reference is invited from Balasubramanian(1998), “In the Indian situation, where members of government bureaucracy and controlling families are freely appointed to company boards, how does one ensure their independence to function as worthwhile or non-executive directors?.” Consequently it is hard to get reliable data on the real composition of company boards in terms of their independence. Colley, et al. (2003) writes in his book, “as we move on to the mechanics of director selection and recruiting, it bears repeating that in order to be truly independent and to act first and last in the interests of shareholders, a board must be composed of directors whose overriding loyalty is to the shareholders. If a board does not establish a genuinely objective selection process, it risks allowing a persuasive and personally dominant CEO to irresistibly wield an invisible hand over the nomination process. The outcome of such an occurrence would reveal an apparently independent majority that, in practice, takes its cue from senior management. The result is a board whose conduct is functionally that of insiders. Corporate governance thus may be cloaked in the appearance of independence, yet its substance is one of dependence, lying within the orbit of senior management.” In absence of Nomination committee the matter of selection of Independent Directors is highly questionable for above reasons. India and UK though
seems on equal footing, but UK companies’ board independence is in fact the most enviable one and is a world benchmark.

The Indian listed firms have the features of concentrated shareholding and promoter chairman holding the post of chairman-cum-managing director is common. The governance matters becomes one sided if the chairman is from among the promoter and more worse if he happens to be the chairman-cum-managing director, when he commands both the executive functions and also heads the governance functions of the boards. Presence of Independent directors in majority is, therefore, considered essential in such situation in order to maintain board balance. The UK code prescribes that half of the board minus the Chairman, irrespective of his being ED/NED/Promoter, should be independent directors. The UK has undoubtedly the governance model that places the greatest emphasis in independence. “In view of the fact that in the British governance model the chairman is also independent, the British Boards do certainly achieve the highest standards of independence of any governing bodies on either side of the Atlantic.”, Mendez (2004).

The Indian code (The Revised Clause 49) holds one third of its directors to be independent directors in case of chairman being Non-executive, and half if the chairman is an executive.

L.C. Gupta (1980), based on his experience and extensive study, enumerates eight attributes constituting the excellence of a board. The first and foremost and forming the crux, is the board independence. Other board attributes matters only when the criteria of independence are met both in form and in spirit. Independence means independence from the dominance of a person, family, or group. The author argues that advanced countries like UK and USA have since beginning, has endeavored to increase independent element on the board through the route of independent sub-committee of the board –nomination committee. He further elaborates, “from the lack of independence arise weaknesses of boards such as not being demanding at all about performance, not asking all the relevant information and not insisting on proper preparation and procedure for holding board meetings such as sending of advance notice and agenda papers and fair recording of minutes.” He further notes, “Other attributes, even if present, acquires a meaning only if independence is first ensured.”
CFA (Centre for Financial Market Integrity) Institute (2005), “A Board that is not predominantly Independent, or a committee that is not completely Independent, may be more likely to make decisions that unfairly or improperly benefits the interests of management and those who have influence over management. These decisions may also be detrimental to the long-term interests of the Shareowners.” John A. Thain (as cited in Coglianese, 2004), Chief Executive Officer, New York Stock Exchange, in his Keynote address delivered at Harvard says, “we have built a new corporate governance structure based on three core principles, independence, separation of key functions, and transparency. The first is independence. Without it, good governance is elusive, if not impossible.” Enriques & Volpin (2007) addresses in his paper the problem arising out of concentrated shareholding as in continental Europe (Indian case similar) and advises strengthening of Internal Governance mechanisms like Board of Directors and regulations mandating greater independence for directors. Indian has the concentrated share ownership structures with dominant shareholder. Dominant shareholder may be Govt., Multinational companies, Promoters or Families. The paper advises in such case to strengthen the internal governance mechanisms. The paper further writes, “The board of directors is the primary institution of corporate governance. Its main task is to hire and monitor top management on behalf of shareholders, and it is best placed to screen related-party transactions. Whether firms are widely held or family controlled, the danger is that boards, rather than representing the interests of faceless shareholders, will bond with management, whom they interact with regularity, or with the family, who has the ultimate power to select and remove them. Regulations mandating greater independence for directors and defining the board’s functions, powers, and internal workings....... may give the board of directors some power to challenge the dominant shareholder.”

5.5: Discussion for H 5 [Strength of Non Executive Directors (Non-Independent)]

The statistical analysis on this variable led to rejection of the Null Hypothesis which proves that there exist significant differences between the mean strength of non-independent non-executive directors of both the country. The result is robust up to 99% confidence level. The mean for India is 2.2378, whereas it is 1.1880 for UK. Thus the average numbers of non-executive directors in Indian Boards are almost
twice greater than that of UK. The reality also supports the Indian psyche where large number of relatives, friends, kiths and kins are given the board position by the concentrated shareholding promoter or dominant groups to gain controlling vote in case of need. Such urge in the UK case is very less because of dispersed shareholding, with no majority owners and the strong influence of Institutional shareholders who will not allow such entry into their boards. McKnight, Milonas, Travlos and Weir (2009) finds the existence of negative association between corporate performance and the proportion of non-executive directors, but a positive association between corporate performance and the square of the proportion of non-executive directors. This suggests a nonlinear association between these two variables. ‘Task Force on Corporate Excellence’ in Indian case observes the detailed circumstances under which non-Independent Non-Executive Directors came into the Indian scene years ago at the very start of Corporate Governance movement in India. The Committee observes that whereas there is growing international trend for the Board and committee structure to be in binary format i.e., Executive/Independent Directors format, the Clause 49 made a distinction between independent and non-independent non-executive directors to incorporate certain family and group aspiration and also to tide over the problem on unavailability of Independent directors in sufficient numbers. However no time frame was furnished, neither in KMB Report nor in the Listing Agreement, for improving the infrastructure for Independent Directors development to address the problems for binary forms transformation of Indian Boards. The Task Force further reveals, “Later on developments on the matter of creation of pool for independent directors remained a matter of question.”

5.6: Discussion for H 6 (Strength of Executive Directors in Boards)

The mean figure in Indian case was found to be 2.4892, whereas it is much less, i.e., only 0.3879 in case of UK. The statistical analysis leads to the rejection of the Null Hypothesis at 95% confidence interval. The result is even robust up to the level of 99% confidence interval. Thus there exist significant differences on the matter of mean strength of Executive Directors in the Boards of the two countries. The Indian boards, as the statistics speaks, are almost manned five times more than the UK boards. The results are in line with the general feelings and psyche and are on our
expectation level. The Indian Boards being run and influenced by major shareholding
groups, families or promoters group, having preference for executive members who
belong to salaried class depending on them for promotion and prosperity in return.
Such influence groups are absent in UK case and therefore the number of executive
directors are considerably less. Whatever Executive Directors are present in case of
UK is for the sake of board balance of powers, give expert input and for training
purpose for future leadership. The dominating presence of promoter-shareholder
groups in India context has been summed up by Gupta (1989), “Typically, an Indian
company, whether large or small, has a ‘controlling interest’, which is usually the
promoter-shareholder group. This group almost completely dominates board
appointments and provides top executive management.” Satheesh (2008) observes,
“Too many insiders on the board (either from the promoters or as executive directors)
are an indication that the promoters are apathetic to independent views. …… These
insiders are unlikely to challenge the CEO or the Chairman since that might cost
him/her his job….. Too many insiders will also result in diminished opportunities for
getting outside expertise. And too many insiders means less debate and hence less
opportunities to be critical of the current way of doing things. Since management has
the control over the information, too many insiders can collude and withhold
information from others or pass on filtered information”.

Board should have balance of Executive and Non-executive directors so that no
individual or group dominates the decision making process.

On the issue of number of inside (U.S usage) or Executive (U.K.usage) directors,
Carver& Oliver (2002) narrates, “To fulfill its governance role, the board has no need
to fill its seats with members of management…. In particular, one has to ask what
gives them enough of these qualities to outweigh their obvious conflict of roles.
……Further, in as much as board agendas and information are largely management-
generated in traditional governance, the influence of managers over the board is
already significant without their being on the board as well. There must be a powerful
influence keeping such a practice in place.”

On the maximum numbers of Executive Directors in a Boards Salmon (2000) advises
it to be either two or three and to include CEO, COO and CFO. He adds, “As the
current leaders of the corporation, the CEO and COO are there to communicate, explain, and justify strategic direction to the outside directors. Because the CFO shares fiduciary responsibilities with the directors for both the quality of the numbers and the financial conduct of the corporation, he or she should also have a seat. In smaller companies, however, the CFO might attend board meetings and provide information without voting.” He further suggests limiting the size of the boards and increasing the number of outside directors on them.

Tricker (1998) throws lights on the conflicting goals of an Executive Directors, “a potential problem of a board which is dominated by its executive directors is that they are, in effect, monitoring and supervising their own performance. ..Executive Directors have to wear two hats, one as the manager of a part of the business, the others as a director responsible for the governance of the company. The important thing is not to be wearing the manager’s hat in the boardroom.”

5.7: Discussion for H-7 (Number of board meetings in a year)

The Mean, Median and Mode for board meetings in India are 6.3441, 6 & 5. The corresponding figure in case of UK is 8.6897, 8 & 8. Thus there is a significant difference in the sample statistics of the two countries with UK is much ahead in this variable. Simply put UK conducts much more number of board meetings than India. The statistical analysis for the variable leads to the rejection of the Null Hypothesis at 95% confidence interval. The result holds true even at the 99% confidence interval. The average number of Board meeting in case of India is 6.3441, whereas it is 8.6897 for UK. The United Kingdom companies, therefore, holds larger number of board meetings than Indian companies. The importance and authority of the board seems to be lesser in case of India than that of UK. The reason for lesser number of board meetings in case of India points toward critical decisions of the board being taken in informal manner and more by the influence groups outside rather than within the board and hence lesser requirement of formal meeting. The large number of board meeting in case of UK is also a pointer of Board Importance and authority in UK context and stronger presence of Institutional shareholders and average common shareholders who will rarely allow such situation to prevail. Actual amount of time spent on each meeting can be quite informative but the figures are not available either
in India or UK Annual Reports. It can be further recommended to increase the disclosure standards by revealing the actual hrs spent in each board meeting. India can take a lead in this direction. Mukherjee (2003) writes, “If boards are functioning as effective decision-making bodies (and not merely rubber-stamping decisions that have already been made), this activity is likely to be reflected in the organization of board meetings. One area where this might be indicated is in the frequency of board meetings.”

**5.8: Discussion for H-8 (Presence of Nomination Committee)**

Statistical evidence shows that there exist large and significant differences between the population means of presence of Nomination Committee between the two countries. The Null Hypothesis gets rejected even at the 99% confidence interval. The sampling statistics shows only 6.45% of the Indian companies having Nomination Committee in their boards as against 99.15% in case of UK companies. Thus almost all top listed companies have this governance features which ensures timely selection of independent and other members of the boards, the verification from time to time of independence of members both in and continuance of independence, requirement of experience gap and the timely intervention for the selection of right candidates for the boards etc. Since the majority of members of the Nomination Committee are independent members, such decisions are taken in very transparent and impartial manner, which strengthen the board strong oversight role over the management. UK Combined Code also specifies three important pillars of good governance: Nomination Committee, Remuneration Committee and Audit Committee. The Indian Clause 49 mentions nothing about the nomination committee, neither in the mandatory nor in the non-mandatory clause, and there exists a strong weakness on the part of Indian Boards on this critical governance feature which has time and again been criticized by several quarters. Colley, et al. (2003) writes, “As we move on to the mechanics of director selection and recruiting, it bears repeating that in order to be truly independent and to act first and last in the interests of shareholders, a board must be composed of directors whose overriding loyalty is to the shareholders. If a board does not establish a genuinely objective selection process, it risks allowing a persuasive and personally dominant CEO to irresistibly wield an invisible hand over
the nomination process. The outcome of such an occurrence would reveal an apparently independent majority that, in practice, takes its cue from senior management. The result is a board whose conduct is functionally that of insiders. Corporate governance thus may be cloaked in the appearance of independence, yet its substance is one of dependence, lying within the orbit of senior management. Consequently, the establishment of a genuinely objective selection process is critical for corporate boards. The nominating committee carries out the largest part of the selection process for most boards. Ideally, every board should have a nominating committee, the majority of which is composed of outside directors". Owen, G. et al. (2006) reports, "it is now an accepted practice to have at least three board sub-committees focusing on audit, remuneration and appointments. Additional committees are added depending on the individual needs of the firm" Tricker (1998) throws lights on the resistance faced even in UK on the formation of a Nomination Committee. He mentions in his pocket book, "A Nomination Committee is a subcommittee of the main board, made up wholly, or mainly, of independent outside directors, to make recommendations on new appointment to the board. This is a check and balance mechanism designed to reduce the possibility of a dominant director, such as the chairman or CEO, pushing through their own candidates. In the UK, although most of the proposals of the Cadbury Report were followed by the listed companies, the requirement to have a nominating committee has met with the greatest resistance." Bain, Neville & Band, David (1996) writes, "There is no doubt that the nominating committee has been one of the most significant developments in corporate governance in recent times. It is now widely acknowledged as the critical board committee and the key to sound corporate governance." Wallace, Peter & Zinkin, John (2005) strongly advocates the need of a Nomination Committee when they write, ".... more attention is now being paid to the appointment, and re-election, of suitable talent to run companies; hence the need for Nominating Committee. Such a committee's primary function is to make informed and objective recommendations on Board appointments and re-elections- including the appointment of Directors to the various Board committees. Members also review the individual contribution of each director and the board as a whole, and ensure that the board's independent directors are indeed independent. Putting in place such a committee helps to maintain a formal transparent
process for directorial appointments. Good corporate governance would also dictate that all Directors should submit themselves to their nominating committees for re-nomination and re-election at regular intervals of at most three years”. Further at another place Wallace & Zinkin (2005) posits, “Again, it is with objectivity in mind that it has been recommended that a Nominating Committee should comprise of at least three Directors, a majority of whom, including the chair, should be independent, or at least Non-executive. Pandey, N.(2009), in his investigative cover page articles on Indian Management by AIMA, New Delhi on the eve of Satyam Scandals quotes Gopalakrishnan (2009), the Infosys Chief executive and managing director speaking vociferously, “the definition of “independent director” in Clause 49 is broad enough. A more urgent need is to introduce the concept of a board nomination committee to the Indian corporate governance model.” Gopalakrishnan points out that “globally there is a requirement to have a board nomination committee of the board, which is vested with the responsibility of selecting and nominating new board members-both independent and executive directors. These committees have to follow a process and lay down clear criteria for selecting board members. We need to have a nominating committee in India too.” Further at another points the article echoes the views of Richard Rekhy, KPMG India Chief Operating officer which concurs Gopalakrishnan’s views about companies establishing a nomination committee comprising independent directors. This committee, Rekhy adds, could scan the market and identify potential candidates with the help of executive search agencies, investor bodies and minority shareholders. Deloitte India senior director, Abhay A Gupta, also recommends that a nomination committee chaired by an independent director, should normally hire independent directors and should not only hire independent candidates for the board but also be made responsible to ensure “real independence” of the proposed appointment. UK position on the matter is quite clearly mentioned in the Combined Code 2008: “There should be a formal and transparent procedure for the appointment of new directors to the board. ...A nomination committee should be established to make recommendations to the board on all new board appointments. A majority of the members of this committee should be non-executive directors. ...The nomination committee should independently identify suitable candidates for membership on the board and its committee, and further prevent selection of new
members pursuing the board’s interest”. Diedrich Von Soosten (2002) posits, “The process used in selecting and nominating directors is critical to providing assurances of obtaining qualified as well as independent directors. The committee for selection should be comprised only of independent directors.”

5.9: Discussion for H-9 (Strength of members in the Remuneration Committee)

The t-test for means of the two countries rejects the Null Hypothesis at 95% confidence interval. The result holds true even at the 99% rejection level. Thus there exists significant difference between the mean strength of the total number of directors on the Remuneration Committee. The sampling statistics measures the mean value of 3.3716 for India and 3.9316 in case of UK. Thus the average number of directors in UK remuneration committee is greater than that of Indian companies. The greater number of director presence in the Remuneration committee in the UK case reflects the importance assigned to the remuneration related decisions by UK companies.

5.10: Discussion for H-10 (Strength of Independent Directors in the Remuneration Committee)

The statistical analysis against this variable rejects the Null Hypothesis at 95% confidence level. The result is robust up to the level of 99% confidence interval. Thus there exists significant difference between the population means of average numbers of Independent Directors which is present in the Remuneration Committee. The sampling statistics against this variable for Indian companies is 2.6216 and in UK case it is 3.5043.

Thus the presence of Independent members is more in case of UK. The lower presence of Independent Directors in Indian companies may be because of the wish to keep control of remuneration related decisions by lower presence of Independent Directors and increased presence of Non-executive Directors (NI) which generally happens to belong from dominant group of the board. Such groups are practically absent in UK companies boards. The present research finds that there is an elaborate and exhaustive arrangement for remuneration decisions taken by UK boards who though largely independent often take the help of outside consultants and experts for
taking into considerations market situations, expertise requirement for the job, labour market variables etc. The right remuneration levels bring more talent and right candidate for the job requirement which brings efficiencies in the company operation and governance. The Indian code of corporate governance itself assigns little importance on remuneration related decisions and has put the provision of a Remuneration committee under the non-mandatory clause. This speaks of the sorry state of affairs in such vital and critical governance factors in Indian case. A remuneration committee should consist of independent members to have independent decisions about the pay and other emoluments based on performance. (Colley, Doyle, Logan & Stettinius, 2005). The committee takes the decision after taking into account several factors and the independent member can only take objective and neutral decision regarding pay packets. CFA (2005) in their manual for investors observes, “The existence of the committee and its independence from executive management bias help to ensure that the rewards and incentives offered to management are consistent with the best long-term interests of Shareowners. Committees that lack Independence could be overly pressured by management to award compensation that is excessive when compared with other comparably situated companies, or to provide incentives for actions that boost short-term share prices at the expense of long-term profitability and value.”

Following the Greenbury recommendations, the Combined Code strongly suggested the constitution of a remuneration committee entirely made of independent non-executive directors, in order to offer a fair compensation and in line with the market. Greenbury recommendations on the remuneration committee reads, “To avoid potential conflicts of interest, Boards of Directors should set up remuneration committees of Non-Executive Directors to determine on their behalf, and on behalf of the shareholders, within agreed terms of reference, the company’s policy on executive remuneration and specific remuneration package for each of the Executive Directors, including pensions rights and any compensation payments (paragraphs 4.3- 4.7)”.
5.11: Discussion for H-11 (Number of Non-Executive Directors (NI) in Remuneration Committee)

The statistical analysis against the variable rejects the Null Hypothesis at 95% confidence level. The results holds true even at the level of 99% confidence interval. Thus there is significant difference in mean strength of non-executive members (NI) in the Remuneration Committee of the board of the two countries. The sampling statistics against this variable in Indian Companies is 0.6216 whereas for the UK companies it is 0.4274. The non-executive (NI) in the case of Indian companies remuneration committees are, therefore, more than the UK companies. The result is expected keeping in view the average hold of dominant shareholding group in the corporate groups. The non-executive (NI) members mostly belong to the persons associated with the dominant shareholding promoter groups, dominant individuals and other interest groups etc and naturally the results shows greater number of these members in the Indian environment. As the shareholding is widely dispersed in UK and there is no controlling groups or individuals the number of these non-executive non-independent members are lesser than that of India.

5.12: Discussion for H-12 (Strength of Executive Directors in Remuneration Committee)

The statistical analysis against the variable rejects the Null Hypothesis at 95% confidence interval. The result is true even to the 99% confidence interval. Thus there exists significant difference of the population means on the matter of number of executive directors in the Indian and UK remuneration committees. In fact as per the analysis there exist no executive members on the Remuneration Committee in case of UK. The result is not unexpected given the status of non-mandatory requirement of a remuneration committee and no exhaustive ruling or recommendations for the composition of the sub-committee in Indian revised Clause 49 as compared to UK and the influence of dominant promoter and family groups. The UK combined code recommends at least three independent directors for large listed companies for their remuneration committee but does not rule out executive director in such committee but no executive members are present in any sampling companies of UK. The presence of executive members severely affects the functioning and independence of
decisions on sensitive remuneration matters in case of India which also does not seem to link rewards to performances. Ram Mohan (2002) quotes NYSE which approved the proposal that mandate that the majority of the directors on a board must be independent. Further, it laid down that the nomination and compensation committee must consist entirely of independent directors. McKnight, Milonas, Travlos and Weir (2009) find the presence of a key executive director in the audit and/or remuneration committee as negatively associated with corporate performance.

5.13: Discussion for H-13 (Number of Remuneration Committee Meetings in a year)

There exists significant difference between the means of remuneration committee meetings of Indian and UK companies. The statistical analysis against the variable rejects the Null Hypothesis at 95% confidence interval. The result even holds true at 99% confidence interval. The sampling statistics for the variable in case of India is 1.9007 whereas the same in case of UK is 4.4872. Thus UK Remuneration Committee holds almost more than double number of remuneration meetings than the Indian corporate. The result found is not unexpected given the least importance assigned to the Remuneration Committee and their meetings and their decisions which are generally taken outside the Remuneration Committee. The UK companies assign maximum importance for the Remuneration Committee structure, independence and their decisions. This is also reflected in the Combined Code of UK which is the guideline for listed companies. In Revised Clause the provision for Remuneration Committee is non-mandatory in nature and there are no rulings or guidelines on the nature, size or meetings of the committee.

5.14: Discussion for H-14 (Presence of Remuneration Committee)

The statistical analysis against the variable rejects the Null Hypothesis at the chosen 95% confidence interval. The result holds true and robust even up to the 99% confidence interval. The sampling statistics yields mean score of 0.8065 in case of India and 1.00 for UK companies. Thus there exists significant difference over the population means of presence of Remuneration Committee between India and UK. As per the result it can be observed that only 80.65% of the Indian companies have
Remuneration Committee in their boards against all the companies (100%) in case of United Kingdom. Thus almost 20% of the Indian Companies do not have Remuneration Committees at all. The situation in case of Indian companies where there exists Remuneration Committee also do not reveal an organised framework and controlled operation because of lack of guidelines for such committees. Analysis of the earlier hypothesis when taken together shows that wherever it exists they have lesser independence, more executive members, less frequencies of meetings. The researcher does not find any arranged structure and functioning on the Remuneration committees in case of India. UK position on the issue in the Combined Code is, “Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No directors should be involved in deciding his or her own remuneration. The Remuneration committee should consist exclusively of independent non-executive. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose.” The success of the organization in achieving good performance and good governing practice depends on its ability to attract quality individuals as executive and independent Directors and remuneration plays very important factors. The Committee determines the remuneration packages of the Chairman, Executive Directors and certain other senior executives and therefore its presence in a board is considered essential. In Indian Code the requirement has been put under non-mandatory requirements. CFA, through their work of its Global Corporate Governance Task Force, has prepared manual for investors indicating the best practices in corporate governance and observes, “Investors should determine whether the Company has a committee of Independent Board Members charged with setting executive remuneration/compensation.” It further enlightens the investors, “The Remuneration Committee is responsible for ensuring that compensation and other awards encourage executive management to act in ways that enhance the Company’s long-term profitability and value. It also responsible for ensuring that the remuneration package offered to management is commensurate with the level of responsibilities of the executive, and appropriate in light of the Company’s performance.”
5.15: Discussion for H-15 (Chairman Presence in Remuneration Committee)

The statistical analysis against the variable do not rejects the Null Hypothesis at 95% confidence Interval. The sampling statistics shows the mean value of 0.3087 in case of India and 0.3761 in case of UK. Thus there do not exist significant difference over the presence of Chairman in the Remuneration Committee of both the countries. The presence of Chairman on the Remuneration Committee is more or less the same in both India and United Kingdom. The situation however is not encouraging given the chairman status itself of both the countries. In case of UK non-executive independent chairman mans the boards. In Indian case executive chairman who are non-independent are larger in numbers. Thus Chairman presence increases the independence of UK Remuneration Committee; in case of India the reverse is true.

5.16: Discussion for H-16 (Strength of Audit Committee)

The statistical analysis against the variable does not lead to rejection of the Null Hypothesis. Thus the Alternate Hypothesis is accepted which assumes that there exists no significant differences of population means for the variable number of members in the Audit Committee of the Board of the two countries. The sampling statistics in case of Indian corporate is 3.7189 whereas the same is 3.6239 in case of United Kingdom. The number of members in the Indian Audit Committee is thus somewhat is on higher side as compared to UK Audit committee which can be assumed as having an edge over that of UK so far as number is concerned.

5.17: Discussion for H-17 (Strength of Independent Directors in Audit Committee)

The statistical analysis against the variable leads to rejection of the Null Hypothesis at 95% confidence interval. As the p value is 0.000 the result holds true and robust upto 99% confidence interval. The sampling statistics for the number of Independent Directors in the Audit Committee is 3.0595 for Indian companies and is 3.5043 for United Kingdom companies. Thus there exist significant differences over the number of Independent Directors in the Audit Committee of the two countries. The UK audit committee on an average has more independent members than their Indian counterparts and thus it can be assumed that the UK Audit Committees are more
independent than that of Indian Corporate. Thus although total strength of Audit Committee members are more compared to UK, more needs to be done so that Indian Audit Committees becomes more independent from the management as the Audit Committee functioning are critical to the transparency requirements and a lot of sensitive decisions like remuneration of External Audit, selection of Auditing companies, internal control decisions are taken in the Audit Committee and the independent requirement is critical one. “The primary values of an Audit Committee are in independence and objectivity in relation to management. Non-executive directors are the most suitable members of the Audit Committee because they are not involved in the day-to day operations of the business. Nowadays sentiment is moving toward the expectation that Audit Committee members are also independent as well as Non-executive. Blue Ribbon commission had the express requirement that Audit committees of larger listed companies be comprised solely of independent directors”.

Wallace & Zinkin (2006), “Audit Committee should be a minimum of three members, all of whom should be non-executive and independent of the company”. (Cadbury, 1992). In the Indian context the Ganguly Committee Report on Banks and Finance (2002), recommends, “The international best practice in this regard is to constitute Audit Committee with only independent/non-executive directors. The Basel Committee has suggested that in order to ensure its independence, the Audit Committee of the board should be constituted with external board members who have banking or financial expertise.”

5.18: Discussion for H-18 (Numbers of Non-Executive Directors (NI) in Audit Committee)

There exists significant difference between India and UK on the matter of number of Non-Executive Directors (NI) in the Audit Committee. The statistical analysis against the variable rejects the Null Hypothesis at 95% confidence interval. The result holds true even at the level of 99% confidence interval. The sampling statistic of means against the variable is 0.4649 in case of India and 0.1197 in case of UK. In physical terms the Indian corporate have on an average four times higher number of Non-Executive (non-independent) directors in their Audit Committees as compared to that of UK. The UK Audit Committee, as the result suggests, have much lesser number of
Non-Executive Directors (NI) in their Audit Committee. Good corporate governance requirement is that the majority of directors should be independent and should contain lesser number of non-executive especially the non-independent ones. As discussed earlier these non-executive (Non-independent) members especially belong to the promoters’ family and friends and different interest groups. The greater presence of these non-independent non-executives in the Audit committee of the board greatly jeopardizes the independence of this important sub-committee of the board in case of India. Prof. Ashish K. Bhattacharyya (1998) posits, “In a situation where the independence of external auditors is suspect because of increasing closeness with the management, the chances of impairment of independence of those members who are in employment are quite high. This problem is addressed by forming audit committees which can act independently, objectively and with integrity. It is desirable that an audit committee should be formed only with non-executive directors of the Board.”

5.19: Discussion for H-19 (Numbers of Executive Directors in Audit Committees)

The statistical analysis for this variable rejects the Null Hypothesis at 95% confidence interval. The Null Hypothesis even gets rejected at 99% confidence interval. Thus there exists significant difference of mean presence of executive directors in Audit Committee for the two countries. The sampling mean statistic is 0.1935 in case of India and 0.0000 in case of UK. Thus it can be observed that there remain no executive members in the Audit committee of any company of UK under study. Whereas Indian companies Audit Committee have the presence of Executive members. As per the UK standards the Executive members’ presence in Audit Committee are not desirable features for good corporate governance as they can hampers the independent decision making process. Biased decisions may creep into as a result of ED presence. In this connection a reference is made from Sir Robert Smith, Audit Committees, Combined Code Guidance, January 2003, “While all directors have a duty to act in the interest of the company, the Audit Committee has a particular role, acting independently from the Executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control”. McKnight, Milonas, Travlos and Weir (2009) find the presence of a key
executive director in the audit and/or remuneration committee negatively associated with corporate performance.

5.20: Discussion for H-20 (No. of Audit Committee Meetings in a year)

The statistical analysis against the variable leads to rejection of the Null Hypothesis at predetermined 95% confidence interval. In fact the rejection holds true even to the 99% confidence interval. There exist significant difference between India and UK on the matter of number of Audit Committee Meetings their companies conducts in a year. The sampling statistic of mean is 4.8172 in case of Indian companies and 3.9402 in case of UK companies. Thus average number of Audit Committee meeting in case of India is higher than that of UK which is a good sign of governance in Indian corporate and is an indicator for UK corporate to improve for. The variables are among the few other which can be considered as strength of Indian corporate governance when compared to UK company practices. However given the higher presence of Executives, Non-executives (non-independent) and lesser Independent members the decision taken by the Indian Audit committee is worth questionable and the edge over the UK corporate over the variables of number of Audit Committee meetings gets neutralized over the better audit committee composition like no executive members, higher presence of independent members, better selection of independent members through nomination committee, lesser presence of non-executive members which neutralizes the effect of lesser number of Audit Committee meetings of UK in comparison to India.

5.21: Discussion for H-21 (Chairman Member of Audit Committee)

The statistical analysis against the variable leads to rejection of the hypothesis with 95% confidence interval. The result is robust even up to 99% confidence interval. The sampling statistics obtained for Indian corporate is 0.2258 as against 0.07692 in case of United Kingdom. On an average 22.58% of the Indian companies have chairman present in the Audit Committee as members. Whereas the corresponding figures in case of UK is only 7.69%. Thus there exists significant difference over the matter of presence of Chairman in the Audit Committee of the two countries. The fact that most UK chairman position are held by non-executives and Independent directors and
Indian companies chairman are held mostly by promoters and executives, the relatively stronger presence of chairman in the Indian Audit committee may be a cause of concern in comparison to UK where their chairman presence may lead to better independence and transparency of decisions.

5.22: Discussion for H-22 (Presence of Lead Independent Director)

Null Hypothesis against the variable has been rejected based on statistical analysis at 95% significance level. The rejection holds true even at the 99% confidence level. The result, therefore, is that there is significant difference between the population means of Lead Independent Director presence between the Indian and Corporate boards. The sampling statistics reflects very poor reflection on this count in case of India. The presence of Lead Independent Director is a very good governance features which strengthen the Independent elements inside the board. Almost all the UK boards have the presence of Lead Independent Director (also called Sr. Independent Director). The Sr. Independent Director position not only binds the Independent Directors as a coherent group but also acts as a substitute mechanism for expressing any unresolved grievance redressal by raising voice through him in the board when the same is failed through the chairman and CEO. In Indian system the other duty of a Lead Independent Directors can be on such matters as: consultation by the board chairman on matters such as selection of members of different board committees, agenda of meetings, and adequacy of information provided to directors etc.etc. In Indian case only few companies like Tata Group and Reliance Group or Infosys Technologies have Sr. Independent Director in their board with explicit roles and defined responsibilities.

The senior independent Director, also called Lead Independent Director, provides an alternative to the Chairman as a Board-level contact for shareholders. The presence of a nominated Sr. Independent Director from among the Independent Directors is good governance features which requires neither extra independent directors nor extra cost but it immensely binds the independent elements into one coherent unit and provides extra teeth and muscle to the independent element of the boards and helps board balance which is essentially required in Indian boards because of the concentrated shareholders dominance and influence. In UK the Sr. Independent Director's
responsibilities include the provision of an additional channel of communication between the chairman and the Non-executive Director. He also provides another point of contact for shareholders if they have concerns which communication through the normal channels of chairman, Chief Executive or Chief Financial Officer has failed to resolve, or where these contacts are inappropriate. The combined Code of UK recommends, “The board should appoint one of the independent non-executive directors to be the senior independent director. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or finance director has failed to resolve or for which such contact is inappropriate”. The Indian Code (Clause 49) is silent on the issue but UK Combined Code explicitly prescribes the nomination of one Sr. Independent Director from among the Independent Directors present in the board.

UK position on the need for a Sr. Independent Director can be summarized as ,”Whether the posts (Chairman and CEO) are held by different people or by the same person, there should be a strong and independent non-executive element on the board, with a recognized senior member other than the chairman to whom concerns can be conveyed”.

The concept of introduction of a formally appointed senior non-executive director was one of the new recommendations of the Hampel Committee. Hampel strongly emphasized the necessity of an active dialogue with shareholders. In first instance, shareholders should convey their concerns about any aspects of the company to the chairman. However, if this channel of communication fails, shareholders should contact not a general senior member of the board, but a specific appointed one. Wallace and Zinkin (2005) writes,” In cases where companies elect to keep the roles of Chair and CEO in the hands of one person, “leading practice” recommends that there should be a Lead Independent Director who is responsible for the CG process. Some codes expect the appointment of a Lead Independent Director, even if the roles of CEO and Chair are kept separate. Indeed, it is a recommendation of the Higgs Report that such a Lead Director be appointed. The authors further continue, “As a matter of course, the Lead Director is expected to attend meetings with shareholders, as well as the chair, and to report back to the Non-Executive Directors on the
concerns and priorities of investors. In emergencies, when the combined Chair-CEO is failing to perform, it is the role of the Lead Director to act on behalf of the shareholders to ensure that the Non-Executives are agreed that there is a problem, take action by persuading the Chair-CEO to resign and find a replacement. In other words, a Lead Independent Director is expected to act like an independent and separate chair in dealing with a problem. In addition, the Lead Director is expected to chair meetings between non-executive directors in the absence of the independent chair. He or she would also be available to shareholders, if they are concerned that contact through the normal channels of Chair or CEO is not working effectively."

Satheesh Kumar T N (2008) observes on the role and responsibilities of a Sr. Independent director, "A recent innovation in the board related matters is to have a lead director from among the independent directors who is expected to chair the meetings of independent directors if they want to meet separately. It is also seen as a way to balance a domineering CEO (Shultz, 2001). While the lead director's relevance and role may be limited in a company, where CEO and Chair posts are split and the Chair belongs to independent category, one should look at the lead director as a role rather than a position (Lorsch, 1989). Having a lead director can help in presiding over independent directors' meetings, ensuring that there is an adequate and timely flow of information to independent directors, liaising between Chairman and CEO, the top management and the independent directors; presiding over meetings of the board and shareholders when the Chair is not present or where the Chairman is an interested party, helping the Chairman draw meeting agendas and meeting schedules, etc." Shukla (2009) observes, "As per the international standard of corporate governance, it is a good governance practice that irrespective of whether the posts of Chairman and CEO are held by different persons or by the same individuals, there should be a strong and independent non-executive element on the board as lead independent director, to whom the concerns can be conveyed. It is the responsibility of the lead independent director to act as a spokesperson for the independent directors as a group, work closely with the Chairman/CEO, and take a lead role in the board evaluation process, apart from other important board functions. A lead independent director should be identified in the annual report."
5.23: Discussion for H-23 (Induction and Professional development)

The statistical analysis against the variables leads to rejection of the hypothesis at predetermined 95% confidence interval. Since the p-value is 0.000 the hypothesis gets rejected even at 99% confidence interval. The sampling statistics of mean presence for provision for induction and professional development obtained in the sampled companies are 0.1075 for India and 0.9231 for UK. Thus there exists a very large and significant difference of means for the provision of Induction and Professional development in companies for the two countries. In physical terms only 10.75% of the Indian companies have kept provisions for Induction and Professional development for their directors. In comparison to Indian practices over the matter, the UK corporate has kept such provisions in 92.31% of their companies. Very poor statistics in Indian case is worth attention as there is strong need to strengthen the directors’ skills level in contemporary governance which till date has been considered as the person of reserve categories like retired bureaucrats, military officers, and person of eminence or having respectable position in societies. The researcher noticed several remarks in the annual reports where the statements like, “since the present directors belong to respected person from the society, and having considerable experience, there is no need of training as such…” On the question of Induction and training, Bansal (1989) had pointed out thirty years ago, “The absence of training arrangements for directors is serious lacunae in our corporate governance practice. We can learn from the British experience in this regard. ….. For securing better contribution from directors, they must be allowed to have direct access to the management subordinates, unhindered by formal chain of command restraints. In addition directors should be given the facility of visiting plants and offices of the company in order to develop a better acquaintance with the functioning of the company.” Whereas the British system have improved on the points and strengthened it further, the Indian system has lagged behind by at least thirty years from UK in this area.

The Company should have a policy and programme for induction and continuing professional development, which should be reviewed annually. On appointment, each director should take part in a comprehensive induction programme where they receive information about the Group in the form of presentations by executives from
all parts of the business and on the regulatory environment; meet representatives of
the Company’s key advisers, such as the Company’s auditors, brokers and solicitors;
receive information about the role of the Board and the matters reserved for its
decision, the terms of reference and membership of board committees and the powers
delegated to those committees; receive information about the Company’s corporate
governance practices and procedures and the latest financial information about the
group, duties and obligations as a director of a listed company. The above should be
supplemented by visits to key locations, including regional sites, and meetings with
key senior executives and with major shareholders where appropriate (Higgs
suggestions for Good practice). The above is more important in case of India because
of presence of majority groups in Indian Boards and the need for strengthening the
independent elements to avoid misappropriation of shareholders money. 6th
International conference on Corporate Governance declaration held by WCFG says,
“The most important ingredients for improving the quality of boards and corporate
governance decision making process is a strong commitment to continual education
and training. This should not be restricted to just board members but also made
available for investors and other stakeholders. There needs to be proper education and
study of financial statements and identification of frauds before they occur.” Satheesh
(2006) emphasizes on the need for director induction and training when he says, “The
one major area where we have a lot of ground to cover and which needs immediate
attention is director development activity. While making it mandatory may not be in
the best interest of the process, the companies and institution shall form a body to
continuously impart training and development programme to improve the quality of
directors and the board processes and practice.” It is worth noting that while Indian
corporate complain of shortage of right quality independent directors, very little
initiatives has been taken in this regard by them to encourage and train independent
directors. They become satisfied while selecting select few famous personalities
which can better be called “trophy directors” in order to appease certain section or
groups or family friends for certain evil design as has been observed in Satyam case
in India recently. UK companies not only has well documented Induction process for
a new directors but that there is system of continuing development later on with
trainings, visits etc. Indian companies, and most of them, note their remarks on the
need for training and development “these directors comes from important position having considerable experience in their fields, from respectable societal position and having respectable status and hence trainings are not required”. “The essential point is that directors must be given the right ‘equipment’ and get the right preparation to do their jobs and discharge their duties. For all directors, the right equipment includes accurate, timely and clear information.” Webster (2006). Bansal (1989) highlighted almost twenty years ago, “In spite of Indian companies Act being modeled on the British pattern, our corporate sector has lagged behind its British counterpart by at least 25 to 30 years in so far as adoption of certain progressive measures (training to directors) are concerned. … In the longer run, it would add to the governance skills and competence and ultimately to still higher level of success.” Balasubramanian (1998), “How do companies ensure proper training, development and rewarding of their directors? There is a general agreement among the participants that the directors, both internal and external, need a continuing programme of training and development. … The key, of course, is to help the person to continue to be effective and not just rest on his past laurels.” On the question of training needs for directors, especially the Independent Directors, Garratt (1996), writes in his book, “Most Independent Directors say the same. They see themselves brought into the board because of the different experience and outside connections they can bring with them. Again, they feel constrained, as any human being does, not to ask probing questions in case they should look rude, inexperienced, foolish or naïve. This is understandable but not forgivable in a director. A director needs to use ‘intelligent naivety’ as a key tool of the job. It is the chairman’s role to see that proper induction, inclusion and training to competence is carried out for the board ‘as an effective working group’, and for each director in it. In India, the Ganguly Committee Report (2002), RBI, on Banks and Financial Institutions has also recommended training for directors in Banks and states, “The Group is of the view that the directors could be made more responsible to their organization by exposing them to need-based training programme/seminars/workshops to acquaint them with the emerging developments/challenges facing the banking sector. The directors could be exposed to the latest management techniques, technological developments, innovation in financial markets, risk management and other area of interest to the organization to discharge their duties to the best of their
abilities. The Group is of the view that such investment would be of great value to the financial system”. The same reasoning as above also holds true in the corporate non-financial sectors. Bansal (1989) writes in his book, “it is surprising that there has been a singular lack of awareness regarding the need for special training for directors. England has however taken a lead in this regard by opening an ‘Institute of Directors’ concerned with conducting various types of training programmes for directors. Public speaking, language programme, refresher courses in accounting and finance, public relations etc. are some of the various training courses run for incumbent directors.”

**5.24: Discussion for H-24 (Strength of Female Non-Executive Directors)**

The statistical analysis against the variable rejects the hypothesis at 95% confidence interval. As the p value is 0.000 the hypothesis gets rejected even at 99% confidence interval. The mean sampling statistics for the strength of female non-executive Directors (NI&I) comes to 0.3065 in Indian corporate and 0.8120 in case of UK. Thus there exists significant difference over the strength of Female non-executive directors between India and UK. The presence of female directors are more in case of United Kingdom as expected, given the society perceptions and skill and knowledge level among the UK females. The female non-executive director strength however does not yield us the picture of how many females belong to independent category and how many belong to non-independent category. In Indian case female non-independent directors are mostly expected from the promoter's relatives and kith and kins. The female NED (both dependent and independent) percentage in terms of total board members comes to 3.23% in case of India whereas the corresponding figure in UK case is 8.84%. Mehra (2005) encloses ‘The London Declaration’ at 6th International conference on corporate governance on 12-13 May 2005, in his compilation ‘Making Corporate Governance work for the poor’ which declares among others, “Diversity in the composition of the board is imperative not only to give representation to different constituencies but is vital to improve quality of decision making. It was Darwin who said in 1859 that variety improves crops. It has been recognized that inclusion of diverse groups, minorities, women and young people in the board will help boards become more performance oriented, competitive and innovative.” Institute Of Directors, IOD (2005) apprises us on the Australian opinion on the board diversity
which says “A well constituted board should reflect diversity through a broad matrix of gender, skills, age and experience.... The challenge is to find the right balance between diversity and collegiality so as to maximize the performance of the board.” The Tyson Report (2003) on the Recruitment and Development of Non-Executive Directors notes, “Diversity in the background, skills, and experiences of NEDs enhances board effectiveness by bringing a wider range of perspectives and knowledge to bear on issues of company performance, strategy and risk. Board diversity can also send a positive and motivating signal to customers, shareholders and employees, and can contribute to a better understanding by the company’s leadership of the diverse constituency that affects its success”.

5.25: Discussion for H-25 (Strength of Female Independent Directors)

As discussed above another hypothesis has been formed to assess what percentage of female non-executive directors actually belong to independent members from among the total female non-executives. The statistical analysis against the variable of total strength of female ID rejects the Null hypothesis at 95% level of confidence. Since the p value is 0.000 the Null hypothesis gets rejected even at 99% confidence interval. The sampling statistics for mean presence of female independent directors in case of India is 0.1183 whereas it is 0.6496 in case of UK. Thus there exists significant difference over the mean strength of female Independent Directors between the two countries. The percentage figure of presence of ID Female is even more contrasting than the female NED (Dependent and Independent combined). Whereas the female NED(both dependent and independent) percentage in the Indian board comes to 3.23% and the corresponding figures in UK case is 8.84%, the female ID figures in case of India is 1.2% and 7.07% in case of UK. This confirms that not only UK has greater numbers of female NED but among its female NED larger number constitutes ID. The comparative result from the above two hypothesis indicates that the proportion of Independent female members in the Indian corporate is lesser than that of UK signifying the greater number of female in Indian boards comprise non-executive directors and these increased non-independent group of female constitutes wives, daughters, mothers etc of dominant group implanted to remain in majority and keep control over the company. Bansal (1989) observation in this regard in Indian
boards is worth noting, “Female representation on the boards of corporate leaders has been found to be almost negligible. There were only 7 females amongst a total of 688 directors, constituting about 1% of the total directorial strength of the Corporate Leaders. Almost all of them have ascended to these posts by virtue of their relationship with the traditional business families.” Increased female presence is desirable because of the special quality of honesty, less prone to corruption, good listening capacity and a good motivator also, India needs a greater pool of women Independent directors from which larger number can be inducted into boards as in case of UK. (Kesho Prasad, 2006).

London Declaration 2005 taken at 6th International Conference on Corporate Governance held on 12-13 May 2005 at London and attended by 33 countries including India includes among its 10 step action plan, “Diversity in the composition of the board is imperative not only to give representation to different constituencies but is vital to improve quality of decision making.... The inclusion of diverse groups, minorities, women and young people in the board will help boards become more performance oriented, competitive and innovative.” As Prasad (2006) discusses in his book, corporate governance, ‘Recent research shows that women tend to have more values which contribute to good governance. Women in business are not prone to pay bribes, since they are ethical by nature. A higher proportion of females as compared to males believe that a corrupt act cannot be justified. They are good listeners and motivators. (Source; Economic Times, Calcutta edition dtd. 21.01.03: Gender for Governance).”

5.26: Discussion for H-26 (Performance Evaluation)

UK corporate governance practices give much importance for keeping provisions for performance evaluation system. The performance evaluation system encompasses not only independent and non-executive directors but also for executive and the chairman. The statistical analysis against the variable rejects the Null hypothesis at 95% confidence interval. The result is even more robust and the Null hypothesis gets rejected at 99% confidence interval. Thus there exists significant difference between India and UK on the matter of provision for Performance evaluation. The sampling statistics of mean of companies having provision for performance evaluation system
is 0.08602 for Indian companies and that of 0.9658 for UK companies. Thus on an average 96.58% of UK companies have provisions for performance evaluation system for their board members. Whereas only 8.60% of the Indian companies have such provision.

There is a need to install the system of performance evaluation. Bain, N & Band, D (1996) says in this regard, “There is no denying that performance evaluation is a difficult process to install into board practice. Nor is it easy to establish and maintain its objectivity and effectiveness. However, it is vital to the long-term successful performance of a board of directors—especially in today’s business climate, characterized by increasingly rapid change and ever closer scrutiny”.

The board is responsible for its own evaluation as well as individual directors from time to time. “The board should disclose whether it has a performance evaluation process in place, either for the board as a whole or for individual members. Disclosure should be made of how the board has evaluated its performance and how the results of the appraisals are being used”, United Nations (2006).

The performance evaluation process looks at how individual directors and the Board's committees have performed. Boards should have performance evaluation system not only for its NED but also the chairman, committee, ED and others and should take it as the basis for continuous improvement. The establishment of such system improves the board functioning and efficiencies of independent decision taking. UK code lays emphasis on the performance evaluation system of all the board member. Ghosh (2000) writes, “Boardroom self evaluation schemes under which the competence of the directors is reviewed annually by fellow board members are making rapid headway in the US. There should be a process of self-evaluation by the board and the establishment of standards of performance”. On the matter of conducting board performance evaluation Demb and Neubauer writes, “The key is to create a process that allows board members to explicitly discuss board effectiveness and to implement whatever changes are deemed necessary.” (Demb and Neubauer). Bain & Band (1996), writes, “Performance evaluation is a flexible, dynamic process that includes the act of setting goals and standards of performance. These goals need to be measurable and achievable. After this is completed, a system that allows regular
evaluation of these criteria for each director and the board as a whole should be
developed and implemented.” At another points in the book (p-60) they stress, “When
evaluating, it is not just the board that needs to be considered. There are several
elements in addition to the full board that require attention: individual directors, the
chairman and the CEO. Bain and David (1996) further sums up his chapters, on page
67, by highlighting, “There is no denying that performance evaluation is a difficult
process to install into board practice. Nor it is easy to establish and maintain its
objectivity and effectiveness. However, it is vital to the long-term successful
performance of a board of directors—especially in today’s business climate,
characterized by increasingly rapid change and ever closer scrutiny. ..... Evaluation ...
... is useful for ensuring a feedback cycle that aids continuous improvement of
should be delegated the additional responsibility of evaluating the performance of
individual directors. This evaluation should include the basics, such as attendance at
both board and committee meetings. It should also include a more substantive
evaluation of performance as well. The more substantive evaluation criteria might
include among other things, an assessment of the director’s knowledge of the issues,
Independence of thought, communication and negotiating skills as well as his or her
perceived dedication to the interests of the corporation and its shareholders”. The
Business Roundtable (2002) holds the view, “The board should have an effective
mechanism for evaluating performance on a continuing basis”. ICSI (2006) mentions
the stipulations of Calpers and NYSE on board performance evaluation: CalPERS, the
largest US pension fund in the world, felt that an important part of core principles and
guidelines on corporate governance would be an effective means of evaluating
individual director performance. With this view, CalPERS recommended that each
Board should establish performance criteria not only for self but also for individual
directors. NYSE in its listing agreement stipulates that the Board should conduct a
self-evaluation at least annually, determining whether it and its committees are
functioning effectively. Conger et al. (2000) on the issue of performance evaluation
cautions, “No one can evaluate a board but the board itself. Nevertheless, self-
evaluation need not be self-serving evaluations”. The author further notes on the
issue, “The knowledge and experience of the board members absolutely must match the strategic demands facing the company.”

5.27: Discussion for H-27 (Presence of Audit Committee)

The sampling statistic of mean size of companies having presence of Audit committee in Indian and UK corporate yields 1.00 for each country. The statistical test yields no result because of any deviation. Thus there exist no difference of mean and all the companies of both the country have Audit Committee in their boards. Owen, Kirchmaier and Grant (2005) make a reference about the importance of the audit sub-committee when they write, “It is now an accepted policy to have at least three board sub-committees focusing on audit, remuneration and appointment. Additional committees are added depending upon the individual needs of the firm. Of particular importance is the audit committee. This committee comprises of outside directors, and is charged with hiring of auditors. Auditing is the essential input factors for effective governance, as it provides the information on which market participants base their decisions”. CIFA (Centre for Financial Market Integrity) Institute, in their instruction manual to investors, remarks, “Investors should determine whether the Board has established a committee of independent Board Members, including those with recent and relevant experience of financing and accounting, to oversee the audit of the Company’s financial reports.” CIFA further puts, “the audit committee’s primary objective is to ensure that the financial information reported by the Company to Shareowners is complete, accurate, reliable, relevant and timely.”

5.28: Discussion for H-28 (Promoter holding the post of Chairman)

The statistical analysis against the variable rejects the Null Hypothesis at 95% confidence interval. Since the p value comes to 0.000 the Null hypothesis gets rejected at 99% confidence interval. The sampling statistics for mean of number of companies in which chairman is Promoter comes to 0.5297 in case of India and only 0.01724 in case of UK. Thus there exists significant difference over the mean number of companies having chairman as promoter. In physical terms only 1.7245 of the UK companies have chairman as its promoters whereas the corresponding promoter as chairman India case is as high as 52.97%. The result shows the large scale dominating
effect of promoters on company management and governance. The result also shows practically no presence of promoters on company governance or management in case of UK. Large scale presence of Chairman from promoter's side in case of India may severely unbalance the board which presses the need for still larger percentage than the existing maximum provision of 50% of independent Directors in Clause 49 and ensurance of strong presence of components of Independent Directors Enabling Model as prescribed by the researcher at chapter 7 of the thesis. In this connection Khan (2005) observes in the Indian context, "The promoter becoming dominant shareholders may indulge themselves in election of board members packing the board with their kith and kin in order to ensure their support and prove their point".

5.29: Discussion for H-29 (Strength of Total Non-Executive Directors (NI & I))

The statistical analysis finds that there is a large and significant difference between India and UK on the matter of total strength of Non-Executive Directors (NI&I) present in their board. The results further reveal that the average size of Indian board has larger number of Non-Executive Directors than that of UK as the statistics for mean, median and mode in case of India is 7.0216, 7 & 6 and that of UK is 5.7949, 6 & 5. The result is robust up to 99% significance level as the p value for t-test comes to 0.000. NED has two categories, Independent directors and non-Independent Directors. The previous non-rejection of the hypotheses on Independent Directors (Ho4) signified no significant difference on the strength of independent directors between India and UK. The present result of rejection of null hypothesis on Non-Executive Directors (NI & I) therefore goes on the part of increased presence of non-
Figure-5.2: Dominant stockholder (India) and Diffuse Ownership (UK), *Source: Mark J, Roe*
independent non-executive directors in Indian boards. The result is thus in agreement with the previous findings of Hypothesis-5. The result obtained is in agreement with the general attitudes and feelings and psyche of dominant shareholding group influence in company governance structure. Merson (2004) emphasizing on the role and importance of a Non-Executive Directors writes, “Directors (executive) ….., far from paying insufficient attention to their responsibility to shareholders, often fail to separate shareholder issue from operational issues and allow the former to get in the way of the latter. An experienced non-executive will help an inexperienced management team ensure that shareholder issues and operational issues are discussed separately, using separate process.”
References


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