Chapter-6
CHAPTER – 6

Summary, Conclusion and Recommendations

This Chapter summarizes the research, includes the conclusions, and provides the recommendations. Other issues such as Implication for policy and practices, limitations etc. have been discussed here.

6.1: Summary

As the process of globalization and the economic activities gathers momentum companies, especially the listed ones, will have increased pressure from the global community to enhance their corporate governance standards equivalent to that of international level in order to attract and retain investors. Acquiring capitals, deploying them in responsible investment in transparent way, will be the key objective of a nation. The enhancement of corporate governance standards has become a key issue.

The overall purpose of the research was to compare corporate governance practices of India and UK, keeping UK as benchmark, to find out the areas of significant deviations from that of UK corporate, and bring out suggestions for improvement of our system. Some key parameters of corporate governance, where UK place great emphases and place them in priority (figure-1.4, chapter-1) were identified and hypotheses were framed to test empirically for significant differences on these parameters of Indian top listed companies from that of UK top listed companies. Accordingly, the research Hypotheses were formulated on the matters of, Chairman being Executive or Non-Executive, Separation of roles of Chairman & CEO, Board Size, Six hypotheses on corporate Board structures: Strength of Independent Directors in the Boards, Strength of Non-Executive Directors (NI), Strength of Executive Directors, Board meeting frequencies, Strength of Total Non-Executive Directors, one hypotheses on presence of Nomination Committee, seven hypotheses on Remuneration Committee: Size of Remuneration Committee, Strength of Independent Directors in Remuneration Committee, Strength of NED (NI) in Remuneration Committee, Strength of Executive Directors in Remuneration
Committee, Frequencies of Remuneration Committee meeting, Presence of Remuneration Committee, Presence of Chairman in Remuneration Committee, Seven Hypotheses on Audit Committee: Size of Audit Committee, Strength of Independent Directors in Audit Committee, Strength of Non-Executive Directors (NI) in Audit Committee, Strength of Executive Directors in Audit Committee, Strength of Audit Committee Meeting, Chairman presence in Audit Committee, Presence of Audit Committee, Presence of Sr. Independent Director, companies provision for Induction and Professional Development, Two hypotheses on Strength of Female Independent Directors and Presence of Female NED (NI&I) , one number hypothesis each on companies Provision for Performance Evaluation & Presence of Promoter as Chairman in companies Board.

The study particularly focused on top listed non-financial corporate of India and UK and the comparative mean figures and their significant deviations based on means on the identified parameters were analyzed with the help of SPSS. In Indian case, the Govt. listed companies (PSUs) and financials companies had been excluded. AIM listed and smaller companies (below FTSE 350) and financials companies of UK case were also excluded from the current research purview. The sample for the study was drawn through systematic random sampling methods. In all 117 companies from UK and 186 companies from Indian corporate were the subjects of the study. The secondary data from Annual Reports for the financial year 2007-08, in case of India, and for the financial year 2008, in case of UK has been utilized for the empirical analysis. Out of the 29 hypotheses 24 were rejected and five were not rejected. The hypotheses which were rejected and which were not rejected have been furnished. The summary of results obtained from the empirical analysis is furnished below:

Table 7.1: List of Null Hypotheses which were not rejected

<table>
<thead>
<tr>
<th>List of Null Hypothesis</th>
<th>Statement: There is no significant difference between India and UK on the matter of........</th>
<th>Means</th>
<th>t-value (unequal variance)</th>
<th>p value (two tailed)</th>
<th>p value higher or lower than 0.05 (significance at 5% level)</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>India</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>UK</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

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Table 7.2: List of Null Hypotheses which were rejected

<table>
<thead>
<tr>
<th>List of Null Hypothesis</th>
<th>Statement: There is no significant difference between India and UK on the matter of...</th>
<th>Means</th>
<th>t-value (unequal variance)</th>
<th>p value (two tailed)</th>
<th>p value higher or lower than 0.05 (95% confidence level)</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₀₃</td>
<td>size of Board</td>
<td>9.4892</td>
<td>9.1795</td>
<td>1.052</td>
<td>0.294</td>
<td>≥0.05</td>
</tr>
<tr>
<td>H₀₄</td>
<td>strength of independent directors in their Board.</td>
<td>4.7838</td>
<td>4.6068</td>
<td>0.921</td>
<td>0.358</td>
<td>≥0.05</td>
</tr>
<tr>
<td>H₀₁₅</td>
<td>presence of chairman in their Remuneration Committee.</td>
<td>0.3087</td>
<td>0.3761</td>
<td>-1.144</td>
<td>0.254</td>
<td>≥0.05</td>
</tr>
<tr>
<td>H₀₁₆</td>
<td>strength of members in the Audit Committee</td>
<td>3.7189</td>
<td>3.6239</td>
<td>0.901</td>
<td>0.369</td>
<td>≥0.05</td>
</tr>
<tr>
<td>H₀₂₇</td>
<td>mean presence of Audit Committee</td>
<td>1.000</td>
<td>1.000</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>H₀₁</td>
<td>Chairman being Non-Executive.</td>
<td>0.6216</td>
<td>0.8793</td>
<td>-5.493</td>
<td>0.000</td>
<td>≤0.05</td>
</tr>
<tr>
<td>H₀₂</td>
<td>separation of roles, i.e., Chairman &amp; CEO separate.</td>
<td>0.6613</td>
<td>0.9658</td>
<td>-7.785</td>
<td>0.000</td>
<td>≤0.05</td>
</tr>
<tr>
<td>H₀₅</td>
<td>strength of Non Executive Directors (NI) in their companies Board.</td>
<td>2.2378</td>
<td>1.1880</td>
<td>6.861</td>
<td>0.000</td>
<td>≤0.05</td>
</tr>
<tr>
<td>H₀₆</td>
<td>strength of</td>
<td>2.4892</td>
<td>0.3879</td>
<td>18.115</td>
<td>0.000</td>
<td>≤0.05</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Ho7</th>
<th>Executive Directors in their Board.</th>
<th>6.3441</th>
<th>8.6897</th>
<th>-7.579</th>
<th>0.000</th>
<th>≤0.05</th>
<th>Null rejected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ho8</td>
<td>presence of Nomination Committee in their Board.</td>
<td>0.0645</td>
<td>0.9915</td>
<td>-46.388</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho9</td>
<td>size of the remuneration committee.</td>
<td>3.3716</td>
<td>3.9316</td>
<td>-5.088</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho10</td>
<td>strength of Independent Directors in the Remuneration Committee</td>
<td>2.6216</td>
<td>3.5043</td>
<td>-7.492</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho11</td>
<td>strength of Non-Executive Directors (NI) in Remuneration Committee</td>
<td>0.6216</td>
<td>0.4274</td>
<td>2.343</td>
<td>0.020</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho12</td>
<td>strength of Executive Directors in their Remuneration Committee</td>
<td>0.1342</td>
<td>0.0000</td>
<td>4.317</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho13</td>
<td>frequencies of Remuneration Committee Meetings</td>
<td>1.9007</td>
<td>4.4872</td>
<td>-12.157</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho14</td>
<td>presence of Remuneration Committee in their Corporate Boards.</td>
<td>0.8065</td>
<td>1.0000</td>
<td>-6.663</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho17</td>
<td>strength of independent directors in the audit committee</td>
<td>3.0595</td>
<td>3.5043</td>
<td>-4.027</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho18</td>
<td>strength of</td>
<td>0.1197</td>
<td>5.674</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null</td>
<td></td>
</tr>
<tr>
<td>Ho</td>
<td>Non-Executive Directors (NI) in Audit Committee.</td>
<td>0.4649</td>
<td></td>
<td></td>
<td>≤0.05</td>
<td>rejected</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
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<td>---</td>
<td></td>
</tr>
<tr>
<td>Ho19</td>
<td>...strength of Executive Directors in Audit Committees.</td>
<td>0.1935</td>
<td>0.0000</td>
<td>6.663</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho20</td>
<td>...frequencies of Audit Committee Meetings</td>
<td>4.8172</td>
<td>3.9402</td>
<td>6.700</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho21</td>
<td>.... presence of Chairman as member of Audit Committee.</td>
<td>0.2258</td>
<td>0.0769</td>
<td>3.773</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho22</td>
<td>....mean size of companies having Lead Independent Director in their Boards.</td>
<td>0.0269</td>
<td>0.9829</td>
<td>-56.507</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho23</td>
<td>....mean size of companies having provision for Induction and Professional Development</td>
<td>0.1075</td>
<td>0.9231</td>
<td>-24.252</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho24</td>
<td>...size of female non-executive directors (NI &amp; I) in their companies.</td>
<td>0.3065</td>
<td>0.8120</td>
<td>-5.571</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho25</td>
<td>...strength of Female Independent Directors in their company's Boards.</td>
<td>0.1183</td>
<td>0.6496</td>
<td>-7.490</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
<tr>
<td>Ho26</td>
<td>...companies having provisions for Performance</td>
<td>0.0860</td>
<td>0.9658</td>
<td>-33.027</td>
<td>0.000</td>
<td>≤0.05</td>
<td>Null rejected</td>
</tr>
</tbody>
</table>
On the matter of chairman belonging from non-executive, there exists a significant difference between India and UK. There were large and significant difference on the strength of Non-Executive Chairman between India and UK with UK Boards to be in much better condition with much greater number of non-executive chairman. UK Board may be considered to possess much better equipped with greater outer perspectives which a non-executive chairman brings in, apart from their role in board balance and better oversight functions over its CEO and management functions and other associated characteristics.

On the matter of separation of roles for governance and management i.e., separation of Chairman & CEO posts, the empirical test found large and significant differences between India and UK with United Kingdom in much better position with much larger numbers of companies having separate Chairman & CEO which provides an edge over India on the matter of board governance associated with separate post for governance and associated benefits of better monitoring of the management functions and better recognition of role of board as custodian of equity holder interests.

On the matter of strength of board members, empirical results found no significant difference between India and UK. Sampling statistic of Mean for Indian Board is 9.4892 and that of UK is 9.1795. Indian boards, however, appear to be slightly larger than their UK counterparts. Larger board brings in co-ordination problem and is easier for CEO to control.
On the question of strength of Independent Directors, the empirical analysis found no significant difference between India and UK. The mean figure for Independent directors in case of Indian board is 4.7838 whereas the corresponding figure in UK case is 4.6068. The numerical figures places the two countries on almost equal footings but board independence in spirit may, however, differ greatly between the two countries with India in suspect condition because of lack of nomination committee in most Indian corporate boards and without undergoing the strict and independent formal selection, recruitment and maintenance process for independent directors by the nomination committee, apart from other shortcomings like poor definition and implementation of independence, counting of large number of nominee director as independent etc.

On the question of strength of Non Executive Directors (Non-Independent) empirical analysis found large and significant differences between India and UK. The mean figure for India is 2.2378, whereas it is 1.1880 for UK. Thus Indian Boards, in general, have twice the number of non-executive directors (NI) than their UK counterparts. The presence of Non Executive Directors (NI) is not considered a desirable feature globally as these mostly constitutes interested and self seeking elements and the current thrust globally is to have widely held company and to have a board composed solely of independent directors other than the CEO. (Newquist & Russel, 2004). “There is a growing international trend towards independent non-executive boards” (Report of the Task Force on Corporate Excellence, Department of Company Affairs, p.23). “Elsewhere in the developed world, non-executive directors, largely, are by definition also independent but the Listing Agreements (KMB Report) make a distinction between independent and non-independent non-executive directors.” (The Report of Task Force on Corporate Excellence, p.23). The UK seems to be nearer to the above stated objectives whereas India is far behind on the matter.

On the issue of size of Executive Directors in Boards, the analysis revealed that there exists large and significant differences between India and UK. 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
Indian boards, as the result speaks, are manned almost five times more with executive directors than the UK boards.

On the matter of number of Board Meetings in a year, there exists significant difference between the two countries with UK much ahead in this statistics. The Mean, Median and Mode for board meetings in India are 6.34, 6 & 5. The corresponding figure in case of UK is 8.69, 8 & 8. Thus UK corporate boards, in general, conduct much more number of board meetings than India. The result is not surprising keeping in view the UK stress on formal mechanism of decision making in the board. Indian boards being dominated by controlling group feel lesser need of formal board meetings pointing towards lesser emphasis on formal decision making in a board and greater nos. of informal decisions behind the scene.

On the matter of presence of Nomination Committee, the empirical analysis findings revealed that there existed large and significant differences between India and UK. In fact India seems to be nowhere as 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 UK is much ahead with almost all companies having Nomination Committees and almost reverse is the case with India. The cause of extremely low compliance rate in respect of adoption of Nomination committee may be reasoned on two counts. First it is not a mandatory code in the listing agreement and the second is the average apathy of concentrated shareholders group to reserve the sensitive and important issue of nomination decision of CEO and directors close to their chest and under their discretion. Other reasons may be because of lesser cross listing with such stock exchange in LSE, NYSE where fulfillment of this requirement is a must.

On the issue of strength of directors in the Remuneration Committee there existed significant difference between India and UK however the difference is smaller in the Means. The mean value for the parameters in case of India is 3.3716 whereas the corresponding figure is 3.9316 for UK. Thus the average strength of directors in UK remuneration committees is slightly greater than that of Indian counterparts. The lesser
number of directors in case of India as compared with UK is not surprising given the least emphasis on the remuneration related decisions through formal decisions of the board.

On the question of strength of Independent Directors in the Remuneration Committee there exists significant difference between India and UK. The sampling statistics against this variable for Indian companies is 2.6216 whereas the same is 3.5043 in case of UK. Thus the presence of Independent members is significantly more in case of UK’s Remuneration Committee when compared with Indian corporate practice.

On the issue of number of Non-Executive Directors (Non Independent) in Remuneration Committee, there is significant difference between India and UK on the matter. The sampling statistics against this variable in Indian Companies is 0.6216 whereas for the UK companies it is 0.4274. The number of non-executive (NI) directors in case of Indian remuneration committees is more than that of the UK companies. In Indian condition NED (NI) generally forms the interest groups or friends, spouse or relatives of dominant controlling groups which are aligned more with the controlling group and management and helps preserve their interest.

On the matter of number of Executive Directors in Remuneration Committee there exists significant difference between India and United Kingdom. In fact as per the empirical result there exist no executive members on the Remuneration Committee in British companies. The result from empirical analysis is not surprising because of the dominating group influence and the ability of their implanted salaried executive directors, which can be influenced more easily in preserving their interests on sensitive issues like remuneration. When seen with earlier findings on increased number of Non-Executive Directors (Non-Independent) and lesser number of Independent Directors it is observed that while numbers of Independent directors are lesser, Executive Directors and NED (Non-Independent) are larger in numbers in Remuneration Committee in India which reinforces the above conclusions of dominance of concentrated shareholding groups in Indian Boards.
On the issue of number of Remuneration Committee Meetings, there exists large and significant difference between India and United Kingdom. The mean sampling statistics in case of India is 1.9007 whereas the same in case of UK is 4.4872. Thus UK top listed corporate holds almost more than double the number of remuneration committee meetings than their Indian counterparts. The result obtained in case of India is not unexpected given the least importance assigned to the Remuneration Committee and their meetings and their decisions which are generally taken not by the Remuneration Committees but by the dominant and controlling interest groups.

On the matter of presence of Remuneration Committee there exists large and significant difference between India and UK. The research finds that 20% of the Indian Companies do not have Remuneration Committees at all whereas all top listed UK corporate have Remuneration Committee. The poor compliance rate in respect of Remuneration Committee may be because of its provision being non-mandatory in nature in The Revised Clause-49 and the average apathy of the dominant controlling groups to retain control over such decision within them.

On the issue of chairman presence in Remuneration Committee there exist no significant difference between India and United Kingdom. The presence of Chairman in the Remuneration Committee is more or less the same in both India and United Kingdom. In case of United Kingdom, however, large presence of non-executive independent chairman means that the remuneration related decisions is not controlled by management group and the decisions taken are independent, whereas in Indian case, executive chairman who mostly belongs from executive, are non-independent and are larger in numbers. Thus Chairman presence increases the independence of UK Remuneration Committee; in case of India the reverse is true.

On the question of strength of Audit Committee there exists no significant difference between India and UK. The sampling statistics in case of Indian corporate is 3.7189 whereas the same is 3.6239 in case of United Kingdom. Thus average strength of members in the Indian Audit Committee is on higher side as compared to UK Audit Committee.
committee. Indian Audit Committee, as the statistical results speaks, has an edge over British Board on this variable, so far as the numerical figure is concerned.

On the issue of strength of Independent Directors in Audit Committee, there exist significant differences between the two countries. The mean figure in case of India is 3.0595 whereas the same is 3.5043 in case of UK. The UK audit committee on an average, therefore, has more independent members than their Indian counterparts and thus it can be assumed that the UK Audit Committees are slightly more independent than that of Indian Corporate. The conclusion so derived need to be taken with caution because though in numerical terms there is little difference, on actual counts and taken in true spirit of independence, the Indian Audit Committee may differ widely from United Kingdom audit committee, when other parameters are taken into consideration.

On the issue of number of Non-Executive Directors (NI) in Audit Committee there exists significant difference. The sampling statistic of means against the variable is 0.4649 in case of India and 0.1197 in case of UK. Thus the Indian corporate have on an average four times greater number of Non-Executive (non-independent) directors in their Audit Committees as compared to that of UK. The result reinforces the dominant influence of controlling groups in such important board committees as Audit Committee. These non-executive directors generally forms friends, relatives, spouse and other interested groups and mostly are not independent from management or controlling interests.

On the question of strength of Executive Directors in Audit Committees there exist significant difference between India and UK. The mean sampling statistic in case of India is 0.1935 and 0.0000 in case of UK. Thus it can be observed that there is virtually no executive member in the Audit committee of any company of UK under study. Whereas Indian companies Audit Committee have the presence of Executive members which impairs independent functioning of the Audit Committee in Indian condition. UK Audit Committee can be considered a benchmark on this aspect.

On the matter of Audit Committee Meetings held in a year, there exist significant difference between India and UK. 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 feature and goes in favor of India. Thus Indian corporate may be considered to have an edge over their UK counterparts on the issue of number of Audit Committee held in a year. The disclosure on length and time of Audit Committee is required which is not observed in either country Annual Reports. The same is suggested to be incorporate. India can take the lead in this regard.

On the issue of chairman being the member of Audit Committee, there exist significant difference between India and UK. 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 member. Whereas the corresponding figures in case of UK is 7.69%. Given that Indian companies have larger number of promoter chairman as well as combined post of CEO and Chairman (Executive chairman), the chairman presence in India Audit Committee may help unbalance the Audit Committee and the decision of Audit Committees might goes in favor of dominant and controlling group. Reverse is the case with UK corporate where not only 7.69% of the companies have chairman in audit committees but the post of chairman and CEO is separate, is mostly non-executive and independent at the time of joining and nominated through independent nomination committee selection process.

On the issue of presence of Lead Independent Director, there exist large and significant difference between India and UK. In fact India can be compared to be nowhere against United Kingdom on this important parameters of corporate governance. Whereas almost all the UK boards have the presence of Lead Independent Director (also called Sr. Independent Director), in India companies it is virtually non-existant.

On the issue of provision for Induction and Professional Development there exist very large and significant differences between the two countries. Sampling statistics reveal only 10.75% of the Indian companies have kept provisions for Induction and Professional development for their directors. In comparison 92.31% of UK corporate has been found to keep such provisions for board improvements. The UK boards have, therefore,
considerable edge over the Indian boards on this score. The Indian board satisfies itself by appointing well known, reputed and celebrity professionals, who rely more on their past laurels rather than the immediate business needs as a company director.

On the matter of size of Female Non-Executive Directors (NI & I), the empirical research finds significant difference between India and UK. The mean sampling statistics for the presence of female non-executive Directors (both independent and non-independent) is 0.3065 in Indian corporate and 0.8120 in case of UK. Thus UK has more number of female directors compared to India.

On the issue of strength of Female Independent Directors, there exist significant differences between the two countries. The presence of Female Independent Directors is even more contrasting than the female NED (Dependent and Independent combined) in Indian Condition. 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 which confirms that not only UK has greater numbers of female NED (NI & I) but larger number of it constitutes independent directors which helps board balance and independence. 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 greater number of female in Indian boards comprising non-executive directors (NI) who belongs to the non-independent group and constitutes promoter or higher management wives, daughters, mothers or other female relatives implanted to keep control over the company. The same is a matter of further research in Indian condition.

On the matter of keeping provision for Performance Evaluation, the finding shows significant difference between India and United Kingdom. The sampling statistics of mean of companies having provision for performance evaluation system is 0.086 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. As against this, only 8.60 % of the Indian companies have such provisions.
On the issue of presence of Audit Committee there exist no difference and all companies of both countries have Audit Committee in their boards. The equal footing of Indian companies with that of UK on Audit Committee may be because of the mandatory nature of requirements for such committee in The Revised Clause 49. The phenomenon of 100% compliance in respect of Audit Committee stresses the importance of mandatory provisions for better compliance rate for any provision. The compliance with Remuneration Committee and Nomination Committee can be bettered by putting these provisions against mandatory side of compliance. However this also holds true for other compliances.

On the matter of presence of chairman from promoter group, there exists significant difference between India and UK. In physical terms only 1.72% of the UK companies have chairman as its promoters whereas the corresponding figure in India case is 52.97%. The result shows the large presence and influence of promoters on company management and governance in case of India, which is not considered desirable, and do not serve the purpose of reducing the phenomenon of what Sir Adrian Cadbury of United Kingdom has termed “unfettered power and authority” by a single person or group.

On the matter of total strength of Non-Executive Directors (NI&I) there exists large and significant difference between India and UK with Indian statistics on the higher side than United Kingdom. The result is on the part of increased presence of Non-Independent portion of non-executive directors who has increased presence because of the influence of dominant and controlling shareholding groups in the board.

6.2: Findings

The study finds India far behind UK on the matter of board governance, both in practice and theory. On the whole it has no policy and rulings on Remuneration committee, Nomination Committee, which are the two most important committee out of the three (last being Audit Committee), Lead Independent Director, Meeting without management, Induction and continuing Professional Development, Performance Evaluation, Appointment to the Board, The Indian governance code is not specific on the parameters
of ‘Independent Director System Enabling Models’ the current research evolves, to stress on the otherwise neglected but important enabling parameters for Independent Directors. The broad findings are as follows:

**Board balance**: There is large and significant difference between India and United Kingdom on the matters of presence of non-executive chairman and separation of roles for chairman and chief executive officer. India is far behind on these matters when compared with benchmark practice of United Kingdom.

**Board Structure**: Board size of India is comparatively a bit larger than UK, but no significant difference is observed in the statistical results with mean figures of 9.4892 in case of India and 9.1795 in case of UK. The Indian board has larger number of NED (Non-Independent) and Executive Directors than UK which might help board unbalance. There is no significant difference between number of Independent members in Indian and British Boards. The mean strength of Independent Directors in case of India is 4.7838 and 4.6068 in case of UK. Thus Indian boards on an average have more number of Independent Directors compared to UK so far as the numerical strength of Independent Directors is concerned. The reality may however differ on the matter of compliance of independence in terms of spirit. The frequency of board meeting in Indian corporate is lesser than its British counterparts.

**Bio-Diversity**: There is less presence of female members as corporate directors and even lesser with female Independent Directors in Indian case, which also point towards greater presence of female kith and kins of controlling groups in Indian corporate compared to United Kingdom.

**Audit Committee**: The total strength of Audit Committee in case of India is greater compared to United Kingdom. However larger numbers of directors in Indian Audit Committee constitutes non-independent Non-Executive Directors which is almost four times than that of UK and increased presence Executive Directors. UK corporate does not accommodate any Executive members in its Audit Committee. The strength of Independent Directors in Indian Audit Committee was found to be lesser than UK. There
were equal presences of Audit Committees in both the countries with all corporate of the two countries having Audit Committees. However Indian Corporate were found to hold increased number of Audit Committee Meetings compared to UK. Chairman presence in Audit Committee was found to be considerably more in Indian Audit Committee. Given the larger presence of promoter chairman, increased presence of Executive chairman and lesser separation of roles, the influence of controlling groups and management over the functioning of such critical committee of boards as Audit Committee seems to be considerably more compared to United Kingdom.

**Remuneration Committee:** The presence of Remuneration Committee in Indian case is significantly lower than UK. Whereas all UK corporate have Remuneration Committees, approximately 20% of Indian corporate was not found to have Remuneration Committee. The results find lesser strength of members in Remuneration Committees, greater presence of NED(NI), greater presence of Executive Directors (In UK case it is Nil) and lesser presence of Independent Directors in Indian Remuneration Committee compared to United Kingdom. The frequencies of meetings of Remuneration Committee was found to be lesser compared to United Kingdom. On the question of Chairman Presence in Remuneration Committee there were no significant difference and chairman presence in the committee were found to be almost equal. The overall picture reveals greater presence and influence of management and controlling or promoter group and lesser independence of Remuneration Committees and according lesser importance of Remuneration Committee in case of India.

**Nomination Committee:** On the question of Nomination Committee presence there were huge and significant differences between India and UK. Whereas almost British corporate was found to have Nomination Committee, in India case only 6.45% of them was found to have Nomination Committee. The research does not found any rulings on the matters of Nomination Committee in The revised Clause-49, either in mandatory or non-mandatory sections. In The Combined Code of UK there is elaborate discussion and guidance over formation, functioning and maintenance of the Remuneration Committee. The findings again show considerable influence of controlling and interested groups
whose interests seem to be best served in maintain the status quo in terms of such critical committee as Nomination Committee.

**Board enabling parameters:** On the question of provision for 'Induction and Professional development' and 'Performance Evaluation System' there were huge difference between India and UK, with India lagging far behind UK over these board enabling parameters.

6.3: Conclusions

Numerically India as a whole seems to be ahead with UK on such matters as strength of members in audit committee, frequency of Audit Committee Meeting in a year, Board Size and numerical strength of its Independent Directors in her Boards.

India is at par with United Kingdom on such matters as: Chairman Presence in Audit Committee, presence of Audit Committees in their Boards.

India is lagging far behind United Kingdom on the matters of chairman being non-executive, separation of roles of governance and management, excessive presence of executive directors in boards, number of Board Meetings in a year, Remuneration Committee strength, strength of independent members in remuneration committee, excessive nos. of non-executive directors in remuneration committee, excessive presence of executive directors in remuneration committee, lesser number of remuneration committee meetings, lesser presence of remuneration committees, lesser strength of Independent Directors in Audit committees, excessive number of non-Independent non-executive directors in Audit Committees, excessive number of executive directors in Audit committees, higher executive and promoter chairman presence in Audit committee, less female NED(NI&I) and even lesser female Independent Directors, greater presence of promoters as chairman. Improvement in these areas is suggested in line with UK corporate practices.

India position is no where when compared on the matters of presence of Nomination Committee, Lead independent director, Meeting without management, Induction and
professional development, Performance Evaluation. These require immediate attention. Most of these factors constitute important enabling and empowering factors for Independent directors, the lack of which render independent director ineffective to a considerable extent. (Figure-7.1 & 7.2).

The overall findings reveal large and significant difference between India and UK on the researched parameters leading to poor corporate governance practices compared to United Kingdom and points towards stronger presence and dominance of controlling block holders and other dominant interest groups in India which have considerable influence over constituting board and their committee and also over their functioning.

6.4: Suggestions

1. **Nomination Committee**: Almost all codes have Nomination Committee including UK, which deals with the selection and other vital function on behalf of the board. It is strongly recommended that the requirement of a Nomination Committee be introduced in the Indian Model as early as possible in the mandatory category. The nomination committee should evaluate balance of skills, knowledge, and experience on the board and utilize this when preparing a candidate profile for new appointments. The nomination committee should throw their net as wide as possible in the search of suitable candidate. Selection of right and functional directors is the need of the hour as the current study with that of UK system suggests. A recent from Kaushik (2009) on the Satyam scandals are very important in this regard which highlights the absence of independent nomination committee in India case, “The Satyam episode is not an aberration, but an accurate reflection of what routinely and pervasively passes for corporate governance in India. Individuals who are either cronies or have ornamental value are invited to join a company’s board to lend stature, creditability, respectability and marketability to the management and also satisfy statutory directives on corporate governance. These individuals have neither the time nor the inclination to get deeply engaged with the company whose stewardship is entrusted with them. Their preeminence and fungible value to a promoter resides in the success they have achieved in their chosen field.” The Report on Corporate Excellence in its recommendations relating to corporate governance
matters furnishes on sl. No. (BP) (17), p.17, part IV, “Every listed Company shall constitute a Nomination Committee consisting wholly of at least three independent non-executive directors, charged with the responsibility of scanning on a regular basis for potential candidates to be appointed to the Board, both in executive and non-executive positions, should an opportunity arise for additions or replacements on the Board.”

2. Remuneration Committee: Currently the provision for Remuneration committee exists in non-mandatory category of The Revised Clause 49. Keeping in view the vital functions of the Remuneration Committee its provision should be made in the mandatory and not in non-mandatory category.

3. Lead Independent Director: Keeping in view the role and importance of the Lead Independent and for the sake of unity and better information flow among the board of directors, especially the Independent Directors, the concept of Lead Independent Director should be introduced at the earliest in the Indian Model which will also bind the independent group cohesively and improve the level of governance. In absence of Sr. Independent Director the entire group of Independent Director looks like headless heard whose voice can be deferred.

4. Induction and Professional development: India is way behind on these parameters compared to UK. The requirement of Induction and Professional Development should be introduced in the Indian Model for each board members especially Independent Directors and rigorously followed. The provision should be in the mandatory section instead of non-mandatory.

5. Performance evaluation: The concepts need to be introduced and maintained in our model of corporate governance at the earliest: mandatory or non-mandatory.

6. Meeting without Management: All the Independent Directors should meet on regular basis and at least once a year only among themselves without the presence of their executive colleagues and it is strongly recommended that a provision in the Indian Model should be introduced at the earliest. The concept is rationally related to the Independence,
as how independent directors can functions independently if they could not meet separately from the main board.

7. **Nominee Directors** should not be counted as Independent Directors as in United Kingdom and as recommended by Naresh Chandra Report. There is a gradual trend toward more independence of the board. The strength of the independent members should be increased to 60% for all cases, be the Chairman Non Executive Director or Executive Director.

8. **Disclosure on length or time of Board and Committee Meeting**: Disclosure should be made regarding the Length (or duration) and time of each board and committee meeting. This is a potential important indicator of responsible and effective decision making. If board is functioning as effective decision makers and not as a rubber stamp (decisions already taken in advance) this variable reflects the state of healthiness of the boards. Current disclosure is limited to the number of board and committee meetings held in a year which do not portray the actual hours devoted in governance matter deliberations. UK Company’s annual report also does not divulge this detail. India can take lead in this regard.

9. **Set-up of self regulatory bodies like ‘The Institute of Directors’**: On the pattern of United Kingdom such institution is required to be set up in Indian context to nurture, promote and regulate the profession of independent directors.

10. **Different layers for Corporate Governance**: Institute Of Directors, UK (2005) specifies, “While the major principles of good governance are of relevance to all companies, it would be a mistake to believe that every aspect of the detail of what is promulgated for large listed companies is relevant across the corporate spectrum. In order to achieve acceptance and eventually enthusiasm for corporate governance, the principles must be relevant to the size, structure and nature of business entity.” The present Indian corporate governance standards for compliance are uniform for all type and sizes of companies whether it is large listed, smaller listed, growing companies or tiny listed companies. Whereas UK code provision are at different levels: the strictest for largest
companies, relaxed standards for smaller companies (companies below FTSE 350) and exempt for Alternative Investment Market (AIM) companies which is meant for growing companies in UK. The system provides the highest benchmark standards for top listed ones for other lower placed to know and emulate over time. This type of arrangement in scales and scope can be resorted to, i.e., highest standards for largest listed companies, relaxed for smaller companies and so on. The top listed companies may mandatorily be complied with all the stringent standards comparable to that of UK with committee including Nomination and Remuneration Committee with highest standards for Independence and for others to act as guiding factors. This arrangement will lead to faster improvement of corporate governance standards in India. The Report of Task Force on Corporate Excellence (2000), constituted by DCA, GOI recommends, Part IV, General, 4.6 (E), p.14 “Make the most rigorous governance standards applicable to Listed and large unlisted companies, apply less rigorous but basic minimum governance standards to smaller Listed and Unlisted public limited companies.”

12. **Two layered Directors models for Indian Boards:** UK corporate is constituted mainly on two types of directors: the executive directors and the Independent Directors. The Indian boards, on the other hands are constituted on three types of directors: the executive directors, independent non-executive directors (called Independent directors) and non-independent non-executive directors. The literature reviews shows that the non-independent directors was inducted at the time of induction of clause 49 to overcome the shortage of independent directors as well as to accommodate the interest of promoters and families at that time, but with the hope and expectation that the same will be done away with over time. The three directors model persist even today whereas there is increased global trends of dual type directors’ models with no non-independent non-executive directors, lesser number of executive directors and increased presence of independent directors. The UK is now a role model in this regard as the current analytical studies over the parameters have shown that there is very less presence of executive directors, increased presence of independent directors and its chairmen are not only non-executive but meets the criteria of independence at the very time of appointment. Thus UK’s boards sometimes are even up to 60-70% independent directors’ strength. There
should be dual layered director's constituents (binary format) in Indian boards to get increased faith in our system throughout the world, increased FDI inflow, and economic boost post liberalization and globalization.

6.5: Limitations

1. Remuneration aspect has not been taken into consideration in the current study.

2. The present research gives a broad comparative picture of corporate governance practices and system prevailing in India and United Kingdom. More specific research on any particular area is further required to come to any definite conclusions.

3. The findings are based on the data of large listed companies and do not consider financials and smaller listed corporate of the two countries along with PSU in Indian condition and AIM companies in UK context.

4. The analytical study, comparisons and findings are limited to common data availability in the annual reports of the two countries.

5. Data for one year has been taken for study.

6. Secondary data handpicked from Annual Reports has been used for the analytical purpose. Some data may have the chance of not being picked up.

7. The current study takes into consideration the corporate governance practices of Stock Exchange largest Listed companies and do not include smaller companies as well as other business forms. Corporate governance is all pervasive and is equally important in Govt. Sector, Financial companies, and other business forms including non-profit sectors.

8. The present findings on corporate governance are based on the structural aspects of boards and sub-committees. The actual compliance in spirit may however differ widely from what is seen from the compliance in letter, and what the figures suggests, especially in matters like independence of board and sub committees.
6.6: Direction for Future Research

1. Current shareholding in the Indian scenario is concentrated though there is attempt to disperse the same. The future research is required in this direction as to whether and to what extent the shareholding had dispersed in the Indian corporate.

2. Comparative study on remuneration aspects has not been considered. Keeping in view the difference components mix of remuneration like cash compensation, share options, pensionary benefits, deferred schemes etc. this requires a separate study. Future comparative research can be conducted in this direction.

3. Non-Executive Directors (Non-Independent) generally forms the interested and other implanted groups in Indian Boards which impairs the independent functioning of the boards and committees and are required to be kept to the minimum in strength on this parameters. The present research finds them in greater numbers in boards and sub-committees vis-à-vis that of United Kingdom. Future research may be conducted on the issue of numbers, nature, composition and trends in Non Executive Director (Non-Independent) in Indian Boards.

4. Future research can be undertaken on other parameters like disclosure pattern, appointment of new directors on the board, succession planning of the board, role and efficiency of company secretary which is considered a key position in UK with lots of responsibility towards transmittal of timely information and the like. In UK removal of Company’s Secretary is a matter of Board as a whole.

5. Future research can be undertaken on Family Managed Corporations and Govt. owned business, as these form significant proportion of corporate business. Non-listed corporations can also be researched upon, as matter of good governance is also applicable to them.

6. Whereas the CG codes needs to be updated on regular basis and the same is observed in case of UK, the revision in case of Clause 49 is few and far between and is irregular in nature. The Combined Code of UK which came into picture in the year 1998 and
incorporates major guidelines of corporate governance in United Kingdom has been revised three times at regular interval, in the year 2003, 2006 and the current 2009. The routine and regular nature of revisions in case of UK Combined Code can be gauged from the fact that the Combined Code mentions the duration up to which it will remain applicable and the next schedule of revision month and year wise on its very initial pages. The Revised Clause 49 which has been updated from the previous Clause 49 includes no such reference like period of its operation and the date from the next revision will be carried out and its next implementation afterwards. We can derive a cue from the UK system on the matter. The probable influencing factors in maintaining the status quo, if any, in this direction can be researched upon in Indian Case on the line of UK study by Jones & Pollitt(2001), “Who Influences debates in Business ethics? An investigation into the development of Corporate Governance in the UK since 1990.”

7. Independent Directors in required quantity and qualities are often cited as the impediments towards manning the board position and for better governance and exactly this is the reason for bringing in the concept of non-independent non-executive directors. Future research can be undertaken to find out the efforts undertaken on the matter of development of Independent director system, infrastructure developed and institutions formed toward betterment of Independent Director System. The factors to be considered may be the composite mix of factors as visualized in the Model provided for enhancement of the system in the next chapter:”Independent Directors Enabling Model.” (Figure-7.2).

8. Independent directors are required to take the thrust and load to keep board balanced and independent functioning of the board against considerable influence from entrenched controlling groups but least seems to have been done toward arming them with such enabling system like accurate and timely receipt of information, proper induction and continuous development, performance evaluation system, lead independent directors, insurance protection against legal suites, meeting without management etc as portrayed in the “independent director enabling system model' furnished in the dissertation(figure-7.1

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& 7.2). The extent and effectiveness may be researched vis-à-vis UK or other advanced nations.

9. In case of UK, AIM listed companies are exempt from corporate governance compliance standards, as these markets have been formed for small and growing companies. However the present research finds that there are sufficient numbers of UK companies, in the top 500 list by market capitalization, and the same cannot be termed as smaller companies by any standards. Research can be undertaken in respect of compliance standards of these AIM listed companies vis-à-vis larger companies of United Kingdom or with other countries.

10. Corporate governance compliance in spirit rather than substance matters most. Most of the corporate governance research including the present one is based on compliance on paper and in figures and not against spirit of compliance. Research can be undertaken as how and to what extent the same has been complied with the actual spirit of good corporate governance. However this is a difficult job.

11. Provision for internal control is much talked and discussed issue in UK or USA. 'Sarbanes-Oxley Act' on the matter of Corporate Governance in USA emphasizes the matters most. The matter finds its place in UK annual reports. The same seems to be a matter of least importance and finds almost no mention in Indian annual reports. The extent of presence of Internal control system and related issue and their comparative study against advanced nation like UK or USA can be undertaken. Disclosure on this on the scale and scope of UK companies are suggested and be subject to further research.

6.7: Implication for policy and practices

Broad findings of the comparative research, with the benchmark practices of UK top companies, provided useful direction and brought out several shortcomings on major aspects of corporate governance of our system which requires immediate attention of policy makers, Department of Company affairs, GOI, SEBI and other regulatory agencies for further specific detailed studies and incorporation into our system based on specific recommendations. The study provides broad guidance to decision makers on the factors
of critical issues of corporate governance and the areas of significant variations with corporate practices of United Kingdom. The current research also identifies several other good features like 'meeting without management' and others which has hitherto been unknown and the advanced countries like UK has been practicing for a long time, and calls upon the agencies of interest and business associations, including GOI to have a considered look.
Reference:


