Chapter III

Methodology

3.1 Introduction

Research design is a plan of action to be carried out in connection with a proposed research work. “Decisions about what, where, when, how much, by what means, relating to a research study, represent a research design.”¹ According to P.V Young, the design results from collecting general scientific model into varied research problem.

Research design and methodology predict out the significance, principle, and justification of research undertaken. Research design gives the true picture of what is being planned and what is being achieved. Research design provides the blue print according to which research would be conducted. This designing provides clear cut picture of the work before starting the work. Research methodology is a way to systematically solve the research problem. It is the specification of methods and procedures for acquiring the information needed in order to solve the problem.

 Burns and Grove define a research design as “a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings”.

Parahoo describes a research design as “a plan that depicts how, when and where data has to be collected and analysed”.²
Thus any scientific inquiry requires a clear statement of purpose and objectives of the research undertaken. Research is basically concerned with a good idea that needs to be tested and this form the keystone of research. Data has its importance but the collected data must have some purpose or something to prove.

According to Fred Luthans, “The research design is at the very heart of scientific methodology; it can be used to answer practical questions or to test theoretical proposition/hypotheses. The three designs most often used in research today are the experiment, the case study and the survey. All three have played important roles in the development of meaningful knowledge. The experiment design is borrowed target from psychology, where it is used extensively; the case and survey designs have traditionally played a bigger role in sociology. All three designs can be used effectively for researching”.

3.2 Review of Literature

“The process of reading, analyzing, evaluating, and summarizing scholarly materials about a specific topic is termed as review of literature.”3 It is a critical summary and an assessment of the current state of knowledge or current state of the art in a particular field.

Following are the functions of Review of literature:

- To justify choice of research question, theoretical or conceptual framework.
- To ascertain the importance of the topic.
- To give backdrop information required to comprehend the study.
Methodology

- To show readers the familiarity with significant or up-to-date research relevant to the topic.
- To establish study as one link in a chain of research that is developing knowledge in that field.

Purpose of a Literature Review

There are several purposes to writing a literature review.

- To provide the reader with an up to date account and discussion of the research findings in a particular topic.
- Helps to detect conflicting points of view expressed by authors. The conflicting points given might be the indicators of diverging theories within the same topic.
- To analyze relevant research carried out on the same topic.

The most relevant literature from field of Corporate Governance has been cited.

“Pei Sai Fan in his article “Review of literature & Empirical Research on Corporate Governance” asserted that Corporate Governance is about putting in place the structure, processes and mechanisms by which business and affairs of the corporate are directed and managed for enhancing long term shareholder value by accountability of managers and enhancing firms performance. It also means processes and mechanisms, which help handling the agency problem and the separation of ownership (by shareholders) and control (by managers) which gives rise to conflict of interests within a firm may be addressed such that the interest of the managers are more aligned with that of shareholders. Recently the corporate scandals, involving high incidence of improper activities of managers exploiting the resources
of a firm at the ultimate expense of shareholders prompt the intense reexamination and scrutiny of some of the existing Corporate Governance practices and also considerable interest in empirical research on the effectiveness of various corporate governance institutions and mechanisms.\textsuperscript{4}

Hart Oliver in his article “Corporate Governance, Some Theory and Applications” opined that Corporate Governance issues arise in an organisation whenever two conditions are present. Firstly, if there lies an agency problem i.e. conflict of interest of different stakeholders of the organisation these might be owners, managers, workers or consumers. Secondly, if the transaction costs are such, that the agency problem cannot be dealt with by the help of a contract.\textsuperscript{5}

Mathiesen in his research paper “Corporate Governance and Economics” investigated how to secure efficient management of Corporations by the use of incentive mechanisms such as contracts and organizational designs. This has been very often restricted to question of enhancing financial performance for the corporate owners.\textsuperscript{6}

Mr. Jaime Caruana, chairman of Basel Committee and Governor of the Bank of Spain, noted that “Sound Corporate Governance is an important aspect for bank’s safety and soundness and the stability of the overall financial framework. This paper has been framed by the Basel Committee to foster more effective risk management and greater transparency on the part of the banking organizations.”\textsuperscript{7}

Garvey and Swan in their article “The Economics of Corporate Governance: Beyond the Marshallian Firm” asserted that governance determines how the firm’s top decision makers (executives) actually administer contracts. They also observe that governance only matters
when such contracts are incomplete, and that a consequence is that executives no longer resemble the Marshallian entrepreneur.”

Padmini Srinivasan and Vasanthi Srinivasan in their paper titled “Status of Corporate Governance Research on India: an Exploratory Study” examined the status of Corporate Governance research in the Indian and International journals between the periods 2000-2010. They attempt to understand the nature of global research on Corporate Governance in top tiered international journals. Their analysis of the papers in International and Indian journals indicates that there has been a steady and growing interest in the field of Corporate Governance in India.”

Dr. R. Srinivasan in his article “Role of Audit Committee on Corporate Governance” discussed about objectives and importance of Corporate Governance. He insists that corporate sector needs resource persons to act as independent director on whose shoulder lies the responsibility to take the company in the right path. The Auditors should act as the monitor to the whole system to ensure adherence to ethical value, which is an essential aspect of the corporate governance. The audit committee shall conduct periodic review and ensure that financial statements are correct and reliable.”

Monika Mahajan in her paper “Corporate governance in banking and financial institutions” opined that Corporate Governance is a social institution, including a corporate entity which derives its legitimacy from its ability and desire to fulfill social needs. Applicability of corporate governance in banking industry has been focused in this paper. The Banks consider themselves as trustee of its shareholders and
should acknowledge its responsibility towards them for creation and safeguarding shareholders wealth. Banks' philosophy for Corporate Governance should lay emphasis on the basic values of 'fairness', 'transparency' and 'accountability', as quoted by World Bank, for improving performance, enhancing the shareholders' value and protecting the interest of the stakeholders.  

Dr. Gomathi Viswanathan in her article “Corporate Governance in Indian Banks” discussed about various concepts like: need for corporate governance in banks and recommendations by various committees like: Birla Committee, Basel Committee. Keeping transparency in operations is must to survive and succeed in increasing competition globally. According to them the customer has finally come to hold the centre stage and all banking products are tailor-made to suit his tastes and preferences.

C.S. Cheema and Monika Aggarwal in their paper titled “Corporate governance in Banks” attempted to analyse the status of Corporate Governance in Indian banking sector.

Suveera Gill in her research paper “Rethinking the primacy of board efficacy for governance: evidence from India” traced the origin of shareholder activism by referring to formation of the Securities and Exchange Commission in USA.

Puneet k. Abrol and Rakesh Kumar Gupta in their research paper “Corporate Governance-a tool to bring back the confidence of the stakeholders” analysed the need of Corporate Governance through separate laws so as to build up the confidence of domestic as well as international community.
Jensen and Meckling in their paper “Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure” opined over the partition of wealth generated by a company. A degree of consensus exists regarding an acknowledgement that such Corporate Governance problem cannot be satisfactorily resolved by complete contracting because of considerable ambiguity, information asymmetries and contracting costs in the relationship between capital providers and insiders.\textsuperscript{15}

Jorge Farinha in his paper “Corporate Governance: a survey of literature” reviewed the theoretical and empirical literature on the nature and consequences of the corporate governance issue, providing direction on the key points of consensus and dissent among researchers on this issue. Also discusses effectiveness of a set of external and internal disciplining mechanisms in providing a solution for the Corporate Governance issue. Apart from this, particular emphases are given to the special conflicts arising from the relationship between managers and shareholders in companies with large ownership diffusion, the issue of managerial entrenchment and the link between firm value and Corporate Governance.\textsuperscript{16}

Mc Colgan in his paper “Agency theory and corporate governance: A review of the literature from a UK perspective” gave very broader view of agency theory and Corporate Governance. The major interest of his research covered the area where the interests of managers diverge from those of the interests of shareholders. He keeps in view the agency relationship and the agency cost which arise from these relationships.\textsuperscript{17}

Okeahalam and Akinboade in their paper “Review of Corporate Governance in Africa: Literature, Issues and Challenges” stated that
the organization systems, practices, process and rules of governing institutions are concerned closely with the Corporate Governance so there is a need to find those relationships that regulate, create or determine the nature of relationship through those relationships. Corporate Governance implies that companies should balance between the interests of shareholders with stakeholders at all levels of organization.\[^{18}\]

Hema Latha in her article “Corporate Governance in India” stated that true meaning of Corporate Governance is to satisfy the aspirations of all stakeholders, customers, suppliers, leaders, employees the shareholders and the expectations of the society.

Factors influencing corporate governance are:

- The ownership Structure
- The Structure of Company’s Board
- External Environment

Future of Corporate Governance in India:

Corporate Governance will become more relevant and more acceptable in years to come. Various factors that will lead to better corporate governance are:

- Institutionalization
- Globalization
- Tax-reforms
- Deregulation\[^{19}\]
Kumar, Subramanayam and Dasaraju in their paper “Emergence of Corporate Governance in India” opined the principles which help to adhere to code of Corporate Governance in developing economies like India. According to them attempt have been made to reorganize the economic system of the country after liberalization. As India is a developing economy and one of the attractive destinations for multinationals, Corporate Governance has been undergoing a process of change with a move towards more market based governance.20

Sunanda Chavan in her article “Corporate Governance in Indian Banks” opined that Corporate Governance is indispensable part of every banking organization. According to her importance of Corporate Governance for banks can be seen through following points:

- Banks are growth drivers in developing economies like: India
- Significant source of finance for industries
- Channels through which the country’s savings are collected and used for investments.
- Recently liberalized banking system through privatization, disinvestments has resulted in giving greater autonomy and freedom to managers.

The OECD (Organization for Economic corporation and Development) has issued a set of corporate governance standards and guidelines to help governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance.21
Monks and Minow in their book titled “Corporate Governance” defined Corporate Governance as “It is the relationship among various participants in determining the direction and performance of corporations. Analysis of the financial crisis; the reasons for the global scale of the recession; the failure of international risk management. An overview of corporate governance guidelines and codes of practice; new cases.”

Sir Adrian Cadbury, in Reflections on Corporate Governance, opined that “to do with Power and Accountability: who exercises power, on behalf of whom, how the exercise of power is controlled.” Corporate Governance involves a set of relationship between a company main constituent namely: Shareholders, Board of Directors, Management and other Stakeholders- Customers, Suppliers, Creditors, Employees, Regulators and Society at large. Companies with good Corporate Governance have systems in place which allow sufficient freedom to the Boards and Management to take financial decisions towards the progress of the companies and to innovate, while remaining within a framework of effective accountability.

Principles of Corporate Governance in commonwealth suggested that “Corporate Governance is essentially about leadership:

- Leadership for efficiency;
- Leadership for probity;
- Leadership with responsibility; and
- Leadership which is transparent and which is accountable.”
James D. Wolfensohn, President of the World Bank claimed that “The proper governance of companies will become as crucial to the world economy as the proper governing of countries. Corporate Governance is about promoting corporate fairness, transparency and accountability.”²⁵

Professor Bob Tricker in his book “Principles, Policies and Practices” differentiated between Management and Governance. “Although management processes have been extensively explored, comparatively little attention has been paid to the processes by which firms are directed. If management is about running businesses, governance is about seeing that it is run properly. All organizations need governing as well as managing.”²⁶

Chrisostomos in his research paper “Managerial Ownership and Performance” found strong evidence that managerial ownership and managerial compensation work as substitute mechanisms in mitigating agency problems and, therefore, generating good performance.²⁷

Haniffa and Hudaib in their paper “Corporate Governance and size of Board” opined that board size and top five substantial shareholdings have to be significantly associated with both market and accounting performance measures. In addition, they conclude a significant relationship of role duality and managerial shareholdings with accounting performance. The result is robust with respect to controls for gearing, company size, and industry membership and growth opportunities.²⁸

Gang in his paper “Corporate Governance in china” argued that “reforms in China will not be successful without sound Corporate
Governance structures. However, there is a long road for China to travel in its Corporate Governance of listed companies.”

Balasubramanian in his paper “The relation between firm level-Corporate Governance and Market Value” asserted a positive and statistically significant association between CG index and firm market value in India. This is consistent with prior research in other countries and in cross-country studies. The association is more significant for more profitable firms and firms with higher growth opportunities.

Preamble to the OECD Principles of Corporate Governance “Corporate Governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”

3.3 Justification and Relevance of the Study

Corporate Governance is gaining importance in practical sense and coming out of halls of academia. Its attributes are being applied to all the financial institutions as per government regulations but still the institutions are not working in accordance with them.

According to principles of Corporate Governance institutions must prioritize the interest of all the stakeholders namely employees, suppliers, Customers as these are the ones who in turn would provide the strengthening affect to the firm from within. But in reality institutions fail to prove themselves on this part. This creates a need to study the prevailing way of Corporate Governance in banks and assess how far the improvements made in past have made it credible in eyes of the stakeholders. The present study is concerned with evaluating the
performance of two banks representing the Public and Private Sector namely SBI & ICICI Bank in terms of their code of conduct and applicability in Corporate Governance. SBI and ICICI Bank are the largest in terms of their customer base and number of branches in their respective sectors.

3.4 Statement of the Problem

The Research Problem formulated is “Corporate Governance in Public and Private Sector Banks: A Comparative Study of SBI and ICICI Bank”.

The idea has been developed only after review of related literature and discussions with experts. The study aimed at understanding prevailing levels of Corporate Governance in public and private sector banks. Two banks i.e. SBI representing the public sector & ICICI Bank representing the private sector have been taken in the study to assess the changes brought down in their governing pattern after emergence of Corporate Governance.

3.5 Scope of the Study

The research study is Descriptive and Exploratory in nature. And it has been undertaken to assess applicability of Corporate Governance specifically in banking sector. This research aimed at studying and analysing the level of Corporate Governance in the banks and suggesting the ways of improvements in their code of conduct, if needed. As it embraces comparison of two banks, it is a comparative study which is also evaluative in nature. The research has used both primary and secondary data.
A descriptive research is carried out with specific objective and result is the outcome in the form of a definite conclusion. This research tries to the characteristics of respondents in relation to a particular product or practice of importance.

The exploratory study is particularly helpful in breaking broad, vague problem statements into smaller, more precise sub problem statements. It is used when one is having insights into the general nature of the problem, the possible decision alternatives, and relevant variables that need to be considered. Such study is generally based on the secondary data that are readily available. It does not have a rigid and formal design as a lot of flexibility is essential in order to make the study meaningful. This kind of research is helpful to illuminate the concepts in a better manner. Exploratory study has been used in the present research to study the way of handling Corporate Governance issues in different sector banks. Descriptive research has been used to describe various attributes of Corporate Governance followed in both the banks. Banks taken into consideration are SBI representing Public sector and ICICI representing Private sector. All the aspects related to Corporate Governance, like Role of Board of Directors, Auditors and also the recommendations from committees like Basel, Birla has been touched upon as per relevance to main focus area.

3.6 Objectives of the Study

Every research study is conducted with some explicit intend. The intention of present research study is to ascertain answers to the questions through the application of technical procedures and methods. The main objectives of the research are:
• To assess the positive implications of Corporate Governance in banks.
• To analyze the current status of Corporate Governance in SBI and ICICI bank.
• To assess the responsibilities of the Board of Directors in banks with respect to Corporate Governance.
• To consider the level of disclosure and transparency in banks.
• To check whether all the sub-committees formed by the bank are playing their respective roles promptly or not.
• To study whether introduction of Corporate Governance has curbed malpractices and frauds in bank
• To identify the relationship between compliance of Corporate Governance by banks and protection of stakeholders interests.
• To investigate the impact of implementation of Corporate Governance in improving the public trust and acceptability of a bank.
• To study the role of audit committee in compliance of Corporate Governance in banks.
• To find out possible areas for improvement.

3.7 Hypotheses

Identification of research problem and development of hypotheses lays down foundation for conduction of any research. Hypotheses are the tentative statement or assumption about any research study. For the purpose of this research the following hypotheses have been formulated.
**Methodology**

**Hypotheses to be Tested**

H₀: There is no significant difference between Corporate Governance effectiveness in public and private sector banks.

H₁: There is significant difference between Corporate Governance effectiveness in public and private sector banks.

For analyzing the effectiveness of Corporate Governance in Public and Private sector banks, sub-hypotheses related to key parameters of Corporate Governance have been framed and tested.

**Sub Hypotheses**

Hₐ₁: There is significant difference between level of disclosure and transparency in Public Sector and Private Sector Banks.

Hₐ₂: There is significant difference between customer’s trust on Public Sector and Private Sector Banks.

Hₐ₃: There is significant difference between Sub Committees constituted in Public Sector and Private Sector Banks.

Hₐ₄: There is significant difference between presence of strong and independent Board of Directors in a Public Sector and Private Sector Banks.

**Tools for Hypotheses Testing**

The test of hypothesis is a process of testing of significance regarding parameter of the population on the basis of sample. A statistic is computed from the sample drawn from a population and on the basis of this it is seen whether the sample so drawn belongs to the parent population with certain specified characteristics. The computed value of the statistic may differ from the hypothetical value of the parameter due to sampling fluctuations. If the difference is small, it is considered
that difference has arisen due to sampling fluctuations. Hence the
difference is accepted. But if the difference is considerable, it is not
accepted. The hypotheses have been tested from different stakeholder’s
perspective (namely Managers, Employees, and Customers of both the
banks). For this purpose questionnaires for different stakeholders have
been framed and analysed.

After giving interpretations of the data, hypotheses have been tested
through the use of One-way ANOVA, Likert scaling, application of t-
test and Chi-Square.

3.8 Sources and Methods of Data Collection

Once the research problem has been defined and research design is
decided, collection of data is done by the researcher. Data can be
categorized in two parts either primary or secondary. The primary
data is collected for the first time and are hence original in character.
The secondary data are those which have already been collected by
someone else or by some agency, institution, company and have passed
through statistical tests. In this research study information has been
collected by selected respondents. A survey has been conducted in
which primary data is collected through structured questionnaires from
the selected Managers, Employees and Customers of both the banks.
For customer preferences and employees views, primary data has been
collected through questionnaires, personal interviews, observation etc.

For the purpose of analysis of current status in Corporate Governance
of public and private sector banks, secondary data is has also been
analysed. The sources of such data are: websites, bulletins, magazines
and other published records of banks like annual reports, newsletters of
SBI and ICICI banks. The data is qualitative as well as quantitative in nature.

3.9 Sample Design

The universe of the study is the Banking Industry of India including both public and private sector banks. Sampling frame for the study is Jaipur district.

As the study is concerned with comparing the governing pattern in public and private sector banks, therefore SBI representing public and ICICI representing private sector bank have been taken. Convenience Sampling has been used to collect information from the respondents.

Sample size is 300.

Tabular Representation of Sample Design

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers of ICICI</td>
<td>100</td>
</tr>
<tr>
<td>Customers of SBI</td>
<td>100</td>
</tr>
<tr>
<td>Employees of ICICI</td>
<td>40</td>
</tr>
<tr>
<td>Employees of SBI</td>
<td>40</td>
</tr>
<tr>
<td>Members representing Management of ICICI</td>
<td>10</td>
</tr>
<tr>
<td>Members representing Management of SBI</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>300</td>
</tr>
</tbody>
</table>

3.10 Respondents

The respondents are:

- Employees of SBI Bank
- Employees of ICICI Bank
- Customers of SBI Bank
• Customers of ICICI Bank
• Managers of SBI Bank
• Managers of ICICI Bank

3.11 Variables and Parameters

Variables and parameters are the final forms on which study is conducted. On the basis of the hypotheses mentioned, various parameters have been defined. A variable is a quantity that varies in the course of the research work or that have different values for different samples in the study.

Parameters considered are:

• Level of Disclosure
• Level of Transparency
• Customer’s trust
• Perception of the following stakeholders
  • Customers
  • Employees
  • Managers

3.12 Survey Instrument

Questionnaires are designed to gather the information from managers, employees and customers of both the banks. The sample questionnaires are given in Appendices. The questionnaires are self-explanatory.
3.13 Data Analysis and Data Interpretation

After collection of raw data, the next step is to edit or scrutinize the collected data. Firstly Coding of data is done. It means categorising the data and assigning it categories. Data has been analysed after tabulating and coding the primary data collected through Questionnaires and Interviews. Graphical representation of the analysed data has also been done. Main and sub hypotheses framed have been tested using various tools like Chi-Square test, Anova, T-test. Data analysed is interpreted in this research in the form of conclusions and findings. And lastly required recommendations have been made. The chapter, that follows, give the detail purview of the analysis of data collected in the present research study.

3.14 Limitations of the Study

The study to be conducted has certain limitations which have to be taken into consideration along with the contributions of the study.

Firstly, the population taken for the study is Indian Banking industry i.e. vastly scattered sector therefore it’s a challenging task to get exact results. Although the banks taken for study are true representative of their respective sectors still as far as generalizations of the results is concerned it also brings limitations. But by understanding about this particular case, conclusions might be drawn about the sectors in general.

Second limitation is that while collecting information from the respondents, it proved to be a difficult task as concept of Corporate Governance is still unheard for many.
Thirdly, sometimes it has been felt while collecting the information that some employees are reluctant to provide information, as they themselves are part of that team.
References

1. Retrieved from http://www.slideshare.net/priyansakthi/research-design


7. Banks for international Settlements, (Feb, 2006), ” Guidelines for Corporate Governance in Banking Organizations”


9. Srinivasan Padmini and Srinivasan Vasanthi (December 2011) in their paper titled “Status of Corporate Governance Research on India: an Exploratory Study”


11. Monika Mahajan, (Jan, 2011) ”Corporate governance in banking and financial institution.” Political Economy Journal of India”.


14. books.google.co.in/books?isbn=8176294713


21. Sunanda Chavan, Sep2010, “Corporate Governance in Indian Banks”


