

CORPORATE GOVERNANCE: INVESTORS' PERSPECTIVE

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Request for Publication

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Abstract

In this study, an attempt has been made to elicit the responses of investors with regard to corporate governance practices in India. The analysis is based on primary source of data collection i.e. survey. The questionnaire consisted of queries related to their perception about four parameters namely 'regulatory framework', 'behaviour of stock market intermediaries', 'corporate practices' and the functioning of stock markets. In-depth interviews of brokers, professionals working in stock exchanges, experts in the field of capital market and pilot survey's responses have been the base of structured questionnaire. Finally the responses of 247 common investors were included and analysed. The results of the study show that the regulatory authorities are not able to provide the effective regulatory environment for ensuring good corporate governance, however, respondents are satisfied with the behaviour of stock market intermediaries. Moreover, respondents are of the view that corporate practices are not investor-friendly. Dissatisfaction of respondents is more pronounced with regard to allotment of shares at abnormally high price and the involvement of companies in the insider trading. Respondents are also of the view that stock exchanges do not work in the interests of small investors in general. The important reason for this is that the stock exchange straightway delist companies on non compliance of listing agreement codes/terms or the voluntary delisting. Investors are of the opinion, to ensure effective regulatory environment, stock exchanges should take disciplinary action against management and senior compliance officers of the companies rather than delisting of companies.

Key Terms: Corporate Governance, Investors, Traders, Stock Market Intermediaries, Regulatory Framework.

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J.P. Sharma (born 1951) is a Professor of Law & Corporate Governance in the Department of Commerce, Faculty of Commerce & Business, Delhi School of Economics, University of Delhi. His areas of research include corporate governance, corporate & labour laws and HRD. He is Post Graduate in Commerce (M.Com) & Ph.D. from Department of Commerce of Delhi School of Economics. He obtained his Graduation Degree (B.Com (Hons)) from Hindu College and Law Degree (LL.B) from the Faculty of Law, University of Delhi. He did Company Secretaryship (FCS) from the Institute of Company Secretaries of India and Post-Graduate Diploma in Training & Development from the Indian Society for Training and Development (ISTD), New Delhi. He has been the visiting faculty at the Institute of Company Secretaries of India, the Indian Law Institute and number of other management institutes. He has been rated as an excellent teacher by the students of M.Com in the Student Feedback/Student Evaluation of Teachers Report 2002-2003, 2003-2004 and 2008-2009 both at the Delhi School of Economics and University of Delhi South Campus by giving an average score of 6.36 (out of 6.45) and 6.17 (out of 6.79), respectively.

In the last over 38 years of his academic career, Professor Sharma has held several academic and administrative positions. He is the former Joint Dean of Student's Welfare (JDSW) of the University of Delhi. He is a keen researcher and well-known author. He has supervised successfully eight Ph.D. students and the research work of another eight Ph.D students is at various stages of submission. Over a dozen M.Phil dissertations and over three dozen projects have been completed under his supervision. He has authored nine books and over 60 research papers/articles published in several national and international journals of repute.

Professor Sharma is Visitor's (President of India) Nominee on the selection committee for teaching posts in the subject of commerce in Banaras Hindu University (BHU) and Chancellor's (Governor) Nominee on the selection committee for the teaching posts in the subject of commerce in state universities. He is Visitor's/Central Government Nominee on the First

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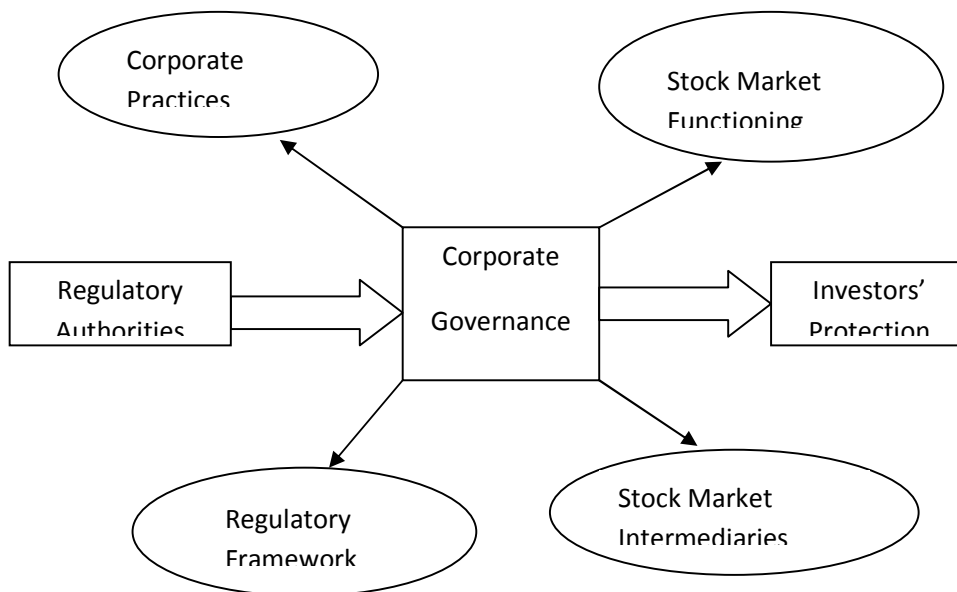
He has widely traveled many countries including UK particularly to Oxford and Cambridge, Ireland, Austria, Czechoslovakia, Italy, France, Switzerland, Germany, Holland, Belgium, Denmark, Norway, Sweden, China, Thailand, Malaysia, Singapore, Sri Lanka. He has also visited Hungary under the Indo-Hungarian Cultural Exchange Programme (1991).

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Introduction

Corporate governance is primarily concerned with protecting the interests of shareholders in particular, and other stakeholders in general. Among other things, the level of governance of any company can be measured on the basis of how it can achieve the interests of those who have stake in the company. In the present study, the parameters involved to measure the governance include corporate practices, stock market functioning, regulatory framework and behaviour of stock market intermediariesⁱ.



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Regulatory framework is the foundation for ensuring good corporate governance in the country. It is the regulatory environment which provides the norms for the functioning of stock market, behaviour of stock market intermediaries, corporate practices vis-à-vis corporate governance. Therefore, it has been included as one of the parameters to measure the effectiveness of corporate governance practices in India.

Brokers represent an important link between various market players. Among other things, investors feel protected when brokers are behaving in an investor-friendly manner. The effectiveness of capital market also depends upon the fair deal of brokers which is prerequisite for ensuring the best interests of investors. It is the brokers through which investors may be directly cheated. Moreover, the whole process of governance will have no meaning unless stringent rules are developed to control the practices of brokers.

Good corporate governance must manifest through good corporate practices vis-à-vis stakeholders. The companies must appreciate the fact that investors have entrusted their hard-earned money with them. As such, it is critical that the companies conduct themselves in investor-friendly manner. It is the responsibility of the regulatory authority to ensure that the companies work in the best interests of shareholders in particular and other stakeholders in general.

Effective functioning of stock market is also very significant to ensure good corporate governance. Therefore, stock exchanges must ensure transaction integrity to the transacting parties. To determine whether stock exchanges are ensuring transaction integrity and functioning in the investors' responsive way, this parameter has also been included in this study

Purpose of the Study and Hypothesis

The purpose of this study is to analyse the responses of the investors with special reference to study of corporate governance practices in India. The study tries to bridge the research gap by providing a direct empirical test of the hypotheses. The researchers hypothesize that

1. Regulatory framework is not in consonance with the objective of ensuring corporate governance in India.
2. Behaviour of stock market intermediaries is inconsistent with ensuring corporate governance in India.
3. Corporate practices are not investor-friendly and thereby not ensuring corporate governance in India.
4. Stock market functioning is not investors' responsive and thus do not ensure corporate governance in India.

Moreover, data have also been analysed to see whether there is perceptible difference in the responses of investors across the typologyⁱⁱ developed in the study.

II Theoretical Background

Corporate governance is an issue of concern not only in India but also of elsewhere in the world. The basic reason for this is the unethical conduct on the part of the management of the companies. The financial crisis and fraudulent behaviour on the part of management of different companies have shaken the confidence of common investors and other stakeholders. This phenomenon is observed not just in India but in different parts of the world too. Instances of the fraudulent behaviour may include Maxwell Communication, BCCI, Enron, WorldCom, Arthur

Andersen, etc in the global context and Securities Scam, UTI scam of 1990s and collapse of Satyam in 2009 in the Indian context. The fraudulent behavior, on the part of the US based Multinational Corporation's Indian affiliates Zerox ModiCorp, was the improper payments made over a period of years in connection with sales to government customers. In the year 2000, an amount varying between \$600,000 and \$700,000 had been improperly paid. Dishonorable activity on the part of Enron was concerned with bribery, manipulation of accounting records and personal enrichments at the expense of the company. Deceptive conduct on the part of WorldCom was the accounting manipulations whereby the management of the companies had inflated profits by \$ 3.8 billion between January 2001 and March 2002 to keep in line with Wall Street expectations. Arthur Andersen accepted the offer of Enron to be both its auditors and consultants and conveniently overlooked the overstatement of earnings and understatement of liabilities.

The Satyam fraud in India has shattered the dreams of different categories of investors, shocked the government and regulators alike and led to questioning the accounting practices of statutory auditors and corporate governance norms in India. Severe corporate governance problems emerge out of the above-mentioned corporate wreckage. Unethical business conduct and behavior; promoters and senior management involved into cooking of books, accounts and insider trading; unwarranted acquisitions; failure of external audit; questionable role audit committee and rating agencies; laxity on the part of board; unconvinced role of independent directors; false disclosures; promoter's pledging of shares; flawed ownership model; etc, are the major governance problems/flaws noticed in the collapse of Satyam. Many of these governance problems were noticed in several other such corporate failures in USA, UK and Europe. These

countries reacted strongly to the corporate failures and codes & standards on corporate governance came to the centre stage. Corporate scandals especially in the United States triggered reforms in corporate governance, accounting practices and disclosures the world over. Number of corporate scandals involving large US companies, which led to the collapse of the Andersen, set in motion the corporate governance reform process and resulted in the passing of the Public Accounting Reform and Investor Protection Act, 2002 in USA (known as Sarbanes-Oxley Act, 2002). The main objective of the Oxley Act is to repose investor's confidence by preventing corporate frauds and ensuring transparency and disclosures. Similar kinds of corporate governance reforms are needed in India too. There is need to reform corporate governance in India by taking harsh policy measures. Even though corporate governance mechanisms cannot prevent unethical activity by top management completely, but they can at least act as a means of detecting such activity before it is too late. According to Jim Solomon and Aris Solomon (2004), when an apple is rotten there is no cure, but at least the rotten apple can be removed before the infection spreads and infects the whole basket. This is really what effective governance is about.ⁱⁱⁱ

III Data Sources and Methodology

The study is primarily based on the perceptual responses of investors^{iv} with reference to corporate governance in India collected through structured questionnaire^v. For the purpose of collecting primary data, the questionnaire was initially administered through post and web hosting. However, due to inadequate response, it was decided to conduct field interviews. Administering the questionnaires personally eliminated the possibility of getting invalid and incomplete response^{vi}.

In case of questionnaire survey, it was decided to cover nearly 400 respondents who had invested in equity share market. However, a total of 252 questionnaires have been personally administered by the researchers. Data on 42 questionnaires could not be included in the final sample due to the inadequacy of the information provided by the respondents. Attempts were made to source this data by mailing request and telephonic call, but no response was received. Hence these could not be analysed further. Response through mailing questionnaire was not very encouraging. (Out of 200 questionnaires mailed, only 72 were received with 35 of them being invalid and incomplete).

Finally, responses of 247 respondents were included in the study. Five point measurement scales have been developed with a view to gaining insights, on the governance issues. However, in some cases three point scales was also used for getting responses from investors. Factor analysis^{vii} for data reduction technique has also been used in the present study.

Based on key issues identified, a draft questionnaire was designed and was pilot tested in the city of Delhi with a sample size of 29 investors. During pilot testing, the questionnaires were also sent to a few academicians and experts on corporate governance issues in general and problems of investors in particular. Based on the pilot testing and suggestions received, the questionnaires were suitably modified before the field survey.

Essentially, the data collected pertain to the different variables mentioned in the study regarding four parameters namely, corporate practices, stock market functioning, regulatory framework and behaviour of stock market intermediaries. However, the variables covered under these parameters have been summarised into underlying factors to analyse the overall perception of

household investors. Moreover, responses have also been analysed across the typology to see whether there is perceptible difference among them.

IV Findings of the Study

In the present section, the findings of the study have been presented on the basis of hypotheses framed in the study.

Perceptual Responses about Regulatory Framework

The capital market^{viii} of a country can exert considerable influence on a firm by imposing certain rules and regulations relating to its governance practices. With a view to protect the interests of common investors, capital reforms were undertaken in the recent past. By appointing their nominees in the board of companies, banking & financial institutions; by putting their terms and conditions over the companies and employees; by entering into agreement with the companies for their compensation, Institutional investors can affect the companies. However, for the protection of the interests of common investors in corporate form of organisation, regulatory authorities are supposed to play an active role. The regulators have not only to ensure that appropriate laws have been enacted but also enforced. Although various laws^{ix} have been enacted in India for protecting the interests of common investors, their enforceability is the great question. So, it is imperative to know what respondents think about the effectiveness of regulatory framework i.e. whether it is working in the interests of investors or not.

The researchers have attempted to map respondents' perception with reference to issues of corporate governance in India. In the present study, 'controlling of price manipulation, 'curbing the practices of insider trading', 'penalizing errant market players' and 'ensuring the redress of investors' grievances'

have been considered as the proxy variables with reference to the issues of corporate governance. The results of the factor analysis^x carried out on the data on four aforesaid items pertaining to the effectiveness of regulatory authorities to provide an investor-friendly atmosphere in the country shows that all these items are reducible to underlying major concern i.e. Role of Regulatory Authorities in ensuring corporate governance.

Factor 1, named as “Role of Regulatory Authorities in Ensuring Corporate Governance”, is able to explain more than 68 percent of variation in the responses of the investors. The researchers have taken this factor as the basis of examining the hypothesis framed in the study. Among other things, investors’ confidence depends upon the extent of controlling price manipulation by regulatory authority and the extent of redressing investors’ problem. As a result, these variables have been considered as components of the underlying factor.

Table 1

Role of Regulatory Authorities in Ensuring Corporate Governance

Variable	Lower Agreeability ^{xi}		Higher Agreeability	
	No. of Respondents	%age of Respondents	No. of Respondents	%age of Respondents
Control of price manipulation	198	80.16	49	19.84
Redressal of investors’ grievances.	150	61.73	93	38.27
Aggregate view based on average	181	73.58	65	26.42

Source: Derived from factor analysis

Nearly 3/4th of the respondents are of the view that the regulatory authorities are not able to provide the effective regulatory environment for ensuring corporate governance. While their discontent is more pronounced with regard to the ineffectiveness of the regulatory authorities in controlling price manipulation, they are somewhat less critical of their ineffectiveness in handling the grievances of investors. It may be contended that regulatory authorities do not normally pro act; however if a grievance is raised, they may be tempted to action. In fact one of the respondents noted that stock exchanges, the way auditors are, like watchdogs- it is only when some wrong is brought to their notice then they act. In view of the above evidence, the hypothesis mentioned above is categorically accepted.

Moreover, investors have also suffered a great loss because of the price manipulations and involvement of certain professionals in insider trading. This highlights the need for having stringent penalty actions for those involved in price manipulation and insider trading. In the developed countries, there is a provision for criminal proceedings for insider trading. Although the monetary penalty is imposed on the people involved in insider trading in India, the initiative is still required on the part of regulatory authorities to install criminal proceedings against culprits.

Although it is clear from the acceptance of above mentioned null hypothesis that the respondents are dissatisfied with the role of regulatory authorities in ensuring corporate governance practices. However, data shows that dissatisfaction is more pronounced in case

of less experienced respondents, traders, small investors and high income investors regarding effectiveness of regulatory authorities in implementing regulatory intent through controlling price manipulation. On the other hand, in case of redress of investors' grievances, dissatisfaction is more explicit among experienced respondents, investors, large investors and high income investors.

Perceptual Responses about Behaviour of Stock Market Intermediaries

Brokers represent an important link between various market players. Whether their behaviour is investor-friendly depends upon the effectiveness of stock exchanges governance in laying down the norms of investor services. From the governance point of view, reliability of information provided by the brokers, transparency in their dealing, promptness in the settlement of account, courtesy of service, observance of good faith, reasonableness of brokerage charged by brokers on behalf of investors and attractiveness of the price at which the deal is struck are the important issues. Initially, these issues have been chosen as the alternate variables to analyse the investors' perception about behaviour of stock market intermediaries i.e. brokers.

It would be appropriate to explore this hypothesis by summarizing the variables into specifically identifiable factors. Towards this end, factor analysis was resorted to and the output is provided in appendix. The results of the factor analysis, carried out on the data on questionnaire items related to role of stock exchanges in ensuring corporate governance in India with regard to behaviour of stock market intermediaries, shows that all these items are reducible to underlying major

concerns i.e. transaction integrity and information sharing. Moreover, it is clear that these two factors (components) 1 & 2 are able to explain more than 69 percent of variation in the responses of the respondents. The researchers have taken these factors as the basis of testing the hypothesis framed in the study and named as transaction integrity and information sharing.

Table 2
Overall Perception About Stock Market Intermediaries

Factor	Variables	Lower Agreeability		Higher Agreeability	
		No. of Respondents	%age of Respondents	No. of Respondents	%age of Respondents
Transaction Integrity	Transparency in Dealing	54	22.22	189	77.78
	Promptness in Settlement of Account	48	19.75	195	80.25
Information Sharing	Reliability of Information	151	65.36	80	34.64
Aggregate View based on Average		84	35.15	155	64.85

Source: Derived from factor analysis

More than 3/5th of the respondents are satisfied with the behaviour of stock market intermediaries. Whereas their contentment is more prominent with regard to the efficiency of brokers in prompt settlement of account, they are somewhat less stable regarding transparency in dealing. However, their gratification is least in the case of information provided by the brokers regarding the reliability of investment decision in equity share market. In view of the above evidence, the

aforesaid hypothesis is categorically rejected. Favourable behaviour of stock market intermediaries regarding promptness in settlement of account and transparency in dealing is because of technological advancements introduced in transaction processing.

Although it is amply clear from the rejection of null hypothesis that respondents are satisfied regarding the behaviour of stock market intermediaries, data have been analysed across the typology to see the significant difference. The results show that satisfaction is more evident in case of experienced respondents, investors, large investors and low income investors regarding transparency in the dealings of brokers. However, with regard to promptness in settlement of account, experienced respondents, traders, large investors and low income investors are more satisfied. Moreover, investors, large investors and high income investors seem to be more satisfied with reference to reliability of information provided by the brokers.

Perceptual Responses about Corporate Practices

Since corporate form of organisation is characterized by the separation of ownership from management, it is the responsibility on the part of management of the company to take care of the interests of stakeholders in general and shareholders in particular. As such it is vital that companies conduct themselves in investor-friendly ways. The researchers have attempted to plan respondents' perception on the study of corporate governance in India with reference to corporate practices. For this purpose, researchers have considered variables such as 'allotment of shares by companies at abnormally high prices', 'promptness in attending queries of investors', 'investment

of funds by companies in societal projects’, ‘reliability of audited financial results published’, ‘transparency in financial information’, ‘method of disclosing information through popular newspaper’, ‘ensuring the interests of investors via dividend payment & bonus issue’, ‘greedy behaviour of management’, ‘involvement of companies in insider trading’ and ‘allotment of shares at just and fair basis’.

It would be appropriate to explore the hypothesis framed with regard to corporate practices by summarizing the variables into specifically identifiable factors^{xii}. The results of the factor analysis, carried out on the data on questionnaire items related to the corporate practices in ensuring corporate governance in India, shows that, in fact, all these items are reducible to underlying major concerns i.e. ‘communication with investors’, ‘social responsiveness’, ‘business ethics’ and ‘aligning management interests with investors interests’. Moreover, it is clear that these four factors (components) are able to explain more than 65 percent of variation in the responses of the respondents. The researchers have taken these factors as the basis of testing the hypothesis framed in the study.

Table 3

Corporate Governance vis-à-vis Corporate Practices

Factors	Variables	Lower Agreeability		Higher Agreeability	
		No. of Respondents	% age of Respondents	No. of Respondents	% age of Respondents
Communication With Investors	Reliability of Audited Financial	99	64.29	55	35.71

	Results of the Companies				
	Promptness in attending investors' Queries	125	78.12	35	21.88
Social Responsiveness	Investment in Societal Projects	179	72.47	68	27.53
	Ensuring the interests of investors via dividend payment and bonus issue	118	47.78	129	52.22
Business Ethics	Allotment of shares at Reasonable Price	209	84.62	38	15.38
	Involvement in Insider trading	83	34.87	155	65.13
Aligning Management Interests with Investors' Interest	Management Greed	116	46.96	131	53.04
Aggregate View based on Average		125	62.86	91	37.14

Source: Derived from factor analysis

From the analysis it has been found that more than 3/5th of the respondents are of the view that corporate practices are not investor-friendly. Whereas their dissatisfaction is more evident with regard to allotment of shares at abnormally high price, they are somewhat less critical of their ineffectiveness of attending investors' queries.

Moreover, nearly 70 percent of the respondents are of the view that companies are not investing money in those projects which can benefit the society in general and common investors in particular. Nearly 65 percent of the respondents show their discontentment regarding the involvement of companies in insider trading. Almost 65 percent of the respondents do not consider audited financial results as reliable as should be. However, a majority of the respondents are of the view that management of the companies is not only interested in the financial benefits and perks but also taking care of the interests of common investors via dividend payment and bonus issue. In view of the above discussion, the hypothesis framed is accepted.

Moreover, data reflect that dissatisfaction regarding disclosure of financial information among respondents is more pronounced among less experienced respondents, investors, large investors and low income investors. On the other hand, dissatisfaction is more evident among less experienced respondents, small investors, traders and high income investors regarding promptness in attending investors' queries by the companies. Moreover, dissatisfaction regarding investment of funds, by companies in the societal projects is more prominent among experienced respondents, investors and

large investors. In this case, dissatisfaction among high income investors and low income investors is equally likely.

However, discontent among experienced respondents, traders, large investors and high income investors are more manifested regarding 'ensuring the interests of investors via dividend payment & bonus issue' by the companies. Moreover, dissatisfaction regarding 'allotment of shares abnormally at a high price' and 'involvement of companies in insider trading' is more pronounced among less experienced respondents, investors and large investors.

Perceptual Responses about Stock Market Functioning

It would be too simplistic an understanding of the issue of corporate governance if it were to be left to the companies alone. Each and every stakeholder in corporate governance can contribute to its effectiveness by bringing about an improvement in its own functioning. Thus, it was deemed necessary to find out from the respondents whether there has been any perceptible improvement in the functioning of the stock exchanges. For this purpose, the researchers have planned the respondents' perception on the issues relating to 'control of unfair practices of the brokers', 'granting of permission for listing and delisting', 'checking excessive volatility,' 'offering fair return' and 'responsiveness to queries of investors'. It would be appropriate to explore this hypothesis by summarizing the variables into specifically identifiable factors. Towards this end, factor analysis was resorted to and the output is provided in the appendix.

The results of the factor analysis, carried out on the data on questionnaire items related to stock market functioning in ensuring corporate governance in India, shows that all these items are

reducible to underlying major concerns i.e. ‘control mechanism’, regulating transaction’, and ‘delisting companies’. Moreover, it is clear that these three factors (components) are able to explain more than 61 percent of variation in the responses of the respondents. The researchers have taken these factors as the basis of testing the hypothesis framed in the study.

Table 4
Overall View About Functioning of Stock Market

S.N.	Variable	Lower Agreeability		Higher Agreeability	
		No. of Respondents	%age of Respondents	No. of Respondents	%age of Respondents
Control Mechanism	Control of Unfair Practices of Brokers by Stock Exchanges	194	78.86	52	21.14
	Share prices are not volatile in nature	183	74.09	64	25.91
Regulating Transaction	Dematerialization of shares	34	13.77	213	86.23
	Circuit breaker	86	34.82	161	65.18
Delisting Companies	Voluntary Delisting of Companies as a measure of governance	189	76.52	58	23.48
	Delisting as a measure of Punishment for the concern of investors	175	70.86	72	29.14
Aggregate view based on		144	58%	103	42%

average				
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Source: Derived from factor analysis

Majority of the respondents are of the view that stock exchanges are not working in the interests of investors in general. More than 3/4th of the respondents are of the view that stock exchanges fail to control unfair practices of brokers. Few of the respondents have also pointed out that the undue power has been given to the brokers under law. As per the requirements of SEBI, investors are not supposed to sign power of attorney. However, investors are supposed to sign even power of attorney while opening their demat account which is not in the interests of the common investors.

Moreover, respondents are dissatisfied with delisting of companies either by stock exchanges in case of violation of listing agreement^{xiii} or voluntary delisting of companies. In both the cases, shareholders suffer the liquidity crisis of shares of companies delisted. However, respondents happily agreed upon the technological advancements taken place in the stock market and information processing particularly dematerialisation of shares and on-line trading. In view of the above evidence, the aforesaid hypothesis is accepted.

Moreover, data also demonstrate the fact that dissatisfaction is more explicit among less experienced respondents, traders, small investors and high income investors regarding 'control of unfair practices of brokers', 'dematerialisation of shares' and 'circuit breaker'. However, large investors are more dissatisfied as compared to their counter parts namely small investors regarding dematerialisation of shares. On the other hand, experienced respondents, investors, large investors and high income investors are more dissatisfied regarding share price volatility.

Moreover, dissatisfaction of, experienced respondents, investors, small investors and low income investors, is more evident in case of voluntary delisting and compulsory delisting of the companies.

V Conclusion

An attempt in the present study has been made to elicit the responses of investors with regard to the study of corporate governance practices in India. The analysis is based on primary source of data collection i.e. survey. The subjects of the study have expressed their discontent as regards the regulatory framework. The regulatory authorities have been perceived to be wanting in implementing the corporate governance norms for investors' protection- an avowed objective of corporate governance. Thus, the hypothesis framed with regard to regulatory framework for ensuring corporate governance is categorically accepted. However, respondents have shown their satisfaction regarding behaviour of stock market intermediaries in ensuring corporate governance except with reference to the 'relevance and reliability of the information provided by the brokers' and 'attractiveness of the price' at which they strike the deal on behalf of the investors. Therefore, the hypothesis framed with reference to this issue is categorically rejected. Moreover, respondents have shown their dissatisfaction regarding effectiveness of regulatory authorities in ensuring good corporate governance practices. Though in some cases, it has been observed that the stock exchanges are able to affect the corporate practices in the interests of common investors by ensuring the allotment of shares by companies on just and fair basis and dividend policy of the companies. Whereas respondents are of the view that internal functioning of stock market is not investor-friendly, however technological advancements taken place at the end of

stock exchanges for information processing is appreciated by investors. However, it may be concluded that hypothesis designed in the study with regard to internal functioning for ensuring corporate governance is seems to be accepted.

Appendix

Appendix 1-(Regulatory Framework)

Communalities and Components

Variables Name	Communalities		Component Matrix	Rotated Component Matrix
	Initial	Extraction	Component 1	
Control of Price Manipulation	1.000	.736	.858	Only one component was extracted. The solution cannot be rotated.
Insider Trading	1.000	.791	.889	
Penalizing Errant Market Players	1.000	.734	.857	
Redressal of Investors' Grievances	1.000	.487	.698	

Extraction Method: Principal Component Analysis.

Appendix 2-Variance Explained

Component	Initial Eigen Values	% of Variance	Cumulative %	Extraction Sums of Squared Loadings	% of Variance Explained by Factor	Cumulative % of Variance Explained
1	2.747	68.681	68.681	2.747	68.681	68.681
2	.660	16.498	85.179	Not considered because of initial Eigen value is less than 1		
3	.363	9.075	94.254			
4	.230	5.746	100.000			

Extraction Method: Principal Component Analysis

Appendix 3-(Behaviour of Stock Market Intermediaries)

Communalities and Components

Variables Name	Communalities		Component Matrix		Rotated Component Matrix	
	Initial	Extraction	Component 1	Component 2	Component 1	Component 2
Reliability of Information	1.000	.817	.304	.851	4.323E-03	.904
Attractiveness of the Price	1.000	.755	.454	.741	.182	.850
Brokerage Charged	1.000	.248	.473	.156	.394	.304
Transparency in Dealing	1.000	.819	.889	-.167	.894	.138
Promptness in Settlement of Account	1.000	.772	.847	-.234	.877	6.029E-02
Courtesy of Service	1.000	.807	.862	-.254	.897	4.620E-02
Observance of Good Faith	1.000	.678	.813	-.127	.809	.151

Extraction Method: Principal Component Analysis.

Appendix 4-Variance Explained

Component	Initial Eigen values	% of Variance	Cumulative %	Extraction Sums of Squared Loadings	% of Variance explained by Factor	Cumulative % of Variance explained	Rotation Sums of Squared Loadings	% of Variance	Cumulative %
1	3.43	49.063	49.063	3.434	49.063	49.063	3.217	45.956	45.956

	4								
2	1.461	20.877	69.940	1.461	20.877	69.940	1.679	23.984	69.940
3	.842	12.022	81.962	Not considered because of initial Eigen value is less than 1					
4	.485	6.924	88.886						
5	.356	5.092	93.978						
6	.238	3.402	97.380						
7	.183	2.620	100.000						

Extraction Method: Principal Component Analysis

Appendix 5-(Corporate Practices)

Communalities and Components

Variables Name	Communalities		Component Matrix				Rotated Component Matrix			
	Initial	Extraction	1	2	3	4	1	2	3	4
Management Greed	1.000	.811	8.928E-02	-.258	.577	.635	8.860E-02	1.403E-02	-.145	.884
Investment in Societal Projects	1.000	.559	.371	.543	-.124	.333	-1.812E-02	.700	.254	6.917E-02
Allotment at Abnormally High Price	1.000	.667	.370	.663	.215	-.208	1.711E-02	.306	.756	-4.845E-02
Allotment at just & fair basis	1.000	.719	.468	.150	-.673	.159	.294	.670	-.177	-.390
Reliability	1.000	.667	.733	-	-	-.105	.807	.115	4.765	-

of Audited Financial Results of the Companies	0			.335	7.729 E-02				E-03	3.614 E-02
Statutory information in Popular Newspaper	1.000	.546	.424	-.414	.235	-.374	.633	-.353	.143	1.383 E-02
Promptness in attending investors' Queries	1.000	.601	.685	-.337	.132	3.640 E-02	.741	8.317 E-02	3.039 E-02	.209
Transparency in Financial Information	1.000	.729	.815	-.211	-.142	-1.913 E-02	.799	.295	3.928 E-02	-4.062 E-02
Ensuring the interests of investors via dividend payment and bonus issue	1.000	.551	.488	.360	.189	.384	.163	.546	.303	.368
Insider trading	1.000	.693	.309	.496	.387	-.449	9.227 E-02	-2.428 E-02	.825	-5.787 E-02

Extraction Method: Principal Component Analysis.

Appendix 6-Total Variance Explained

Compo	Initi	% of	Cumula	Extract	% of	Cumula	Rotati	% of	Cumula
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Component	Initial Eigen values	Variance	Percentage %	Initial Sums of Squared Loadings	Variance explained by factor	Percentage of Variance explained	Rotated Sums of Squared Loadings	Variance	Percentage %
1	2.686	26.864	26.864	2.686	26.864	26.864	2.371	23.714	23.714
2	1.642	16.420	43.284	1.642	16.420	43.284	1.562	15.625	39.338
3	1.131	11.307	54.591	1.131	11.307	54.591	1.483	14.832	54.170
4	1.084	10.844	65.435	1.084	10.844	65.435	1.127	11.265	65.435
5	.862	8.616	74.051	Not considered because of initial Eigen value is less than 1					
6	.758	7.583	81.634						
7	.593	5.928	87.562						
8	.525	5.247	92.809						
9	.448	4.481	97.290						
10	.271	2.710	100.00						

Extraction Method: Principal Component Analysis

Appendix 7-(Stock Market Functioning)

Communalities and Components

Variables Name	Communalities		Component Matrix			Rotated Component Matrix		
	Initial	Extraction	1	2	3	1	2	3
Stock Market Fair Return	1.000	.602	.331	.386	.586	2.385E-02	7.952E-03	.775
Control of Unfair Practices of Brokers by Stock Exchanges	1.000	.647	.503	.454	.433	2.250E-02	.248	.765

Handling Investors Queries	1.000	.573	.337	.677	3.192E-02	.377	.437	.489
Influence of Accounting Bodies	1.000	.582	.510	.256	-.506	5.244E-02	.760	-4.679E-02
Share prices are volatile in nature	1.000	.571	.271	-.347	.614	-.558	-.279	.427
Dematerialization of shares	1.000	.742	-.572	.631	-.129	.847	-.148	-5.151E-02
Delisting as a measure of Punishment	1.000	.739	.788	.129	-.318	-.236	.811	.159
Voluntary Delisting of Companies	1.000	.684	.805	.112	-.154	-.294	.719	.285
On-line trading	1.000	.678	-.491	.656	8.115E-02	.781	-.208	.157
Circuit breaker	1.000	.289	-.286	.453	-3.463E-02	.531	-4.977E-02	6.162E-02

Extraction Method: Principal Component Analysis.

Appendix 8-Total Variance Explained

Component	Initial Eigen values	% of Variance	Cumulative %	Extraction Sums of Squared Loadings	% of Variance explained by factor	Cumulative % of Variance explained	Rotation Sums of Squared Loadings	% of Variance	Cumulative %
1	2.730	27.302	27.302	2.730	27.302	27.302	2.210	22.101	22.101

2	2.06 2	20.62 3	47.924	2.062	20.623	47.924	2.149	21.49 1	43.592
3	1.31 4	13.14 3	61.067	1.314	13.143	61.067	1.747	17.47 4	61.067
4	.898	8.982	70.048	Not considered because of initial Eigen value is less than 1					
5	.828	8.278	78.326						
6	.702	7.018	85.345						
7	.563	5.632	90.977						
8	.467	4.667	95.644						
9	.265	2.646	98.289						
10	.171	1.711	100.000						

Extraction Method: Principal Component Analysis

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End Notes

ⁱ In the present study stock market intermediaries refers to Brokers only

ⁱⁱ In the present study, typology of respondents have been developed on the basis of their monthly income level, size of investment, behavioral pattern of investment and their relative experience in the stock market.

ⁱⁱⁱ Jim Solomon and Aris Solomon (2004), "Corporate Governance and Accountability", John Wiley & Sons Ltd, England, page 42 (303 pages)

^{iv} In the present study, investors refer to the households investing in equity share market.

^v Structured questionnaire refers to set of questions which are precisely decided in advance. When used as an interviewing method, the questions are asked exactly as they are written, in the same sequence, using the same style, for all interviews.

^{vi} If self-completion forms are used, almost inevitably some people do not respond. The researchers then can never be certain that the non-respondents are representative of the whole group. There is always the chance that the non-respondents are so opposed to the subject being surveyed that they refuse to participate. If the questionnaire is being administered personally, then one can carry on until a fully representative sample has been obtained.

^{vii} Factor analysis is a statistical method used to describe variability among observed variables in terms of fewer unobserved variables called factors.

^{viii} In the present study, capital market refers to equity share market.

^{ix} Laws for the protection of the interest of investors may include Investors Protection Act, SEBI Act, Companies Act, 1956, SCRA.

^x Interested readers may refer to the appendix for the output of Factor analysis

^{xi} Initially the data was collected on five point scale, however, for the purpose of hypothesis testing and comparison across the typology scale has been consolidated in to two points namely lower agreeability and higher agreeability. For this, agreeability of respondents to first three points in the scale is considered as lower agreeability and agreeability to two higher points is considered as higher agreeability.

^{xii} Interested readers may refer to the appendix for the output of Factor analysis.

^{xiii} In case of default by the company with regard to the norms of listing agreement, stock exchanges do not resort to delisting. Stock exchanges go for suspension of the companies at the initial stages and if the default continues they resort to delisting. Moreover, in both the cases, investors have to face the liquidity crisis.