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Corporate Governance Practices in India: A Comparative Analysis of Senior and Middle Managers

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Abstract

Employees create wealth and bring sustainability to an organization. The organizations are building on their strength by adopting to the best governance mechanisms making employees as the enablers. The current paper investigates the perceptual differences of Senior & Junior Managers in the context of CG practices within an organization. A sample of 255 employees from various public and private sector were assessed. The findings point towards difference between Senior and Junior Managers. Management Processes emerged as a significant variable.

Keywords: Employees; Corporate Governance; sustainability

Introduction

Employees are the most important asset to any organization. Yet, the traditional and classical theory of Corporate Governance (CG) did not consider employee as an important stakeholder or asset to the company. However, the past few decades saw an increasing importance of employees as companies changed from capital-intensive processing of raw materials to the development of highly sophisticated products and services (Zingales, 2000).

The trajectory of corporate governance mechanisms have witnessed several changes. The classical economists like Adam Smith (1776), Berle and Means (1932) raised the issue of CG in terms of separation of ownership and control leading to agency theory. The traces of agency theory can be found prevalent in the present context as well. From the economic perspective, corporate governance is a field in economics that investigates how to secure/ motivate efficient management of corporations by the use of incentive mechanisms, such as contracts, organizational designs and legislation. This is often limited to the question of improving financial performance, for example, how the corporate owners can secure/ motivate that the corporate managers will deliver a competitive rate of return (Mathieson, 2002.

The limited perspective of shareholder theory has been challenged. Employees have not been given serious thought by the classical theorists. Stakeholder theory has been gaining momentum in the past few years. Globalization has fueled the knowledge economy making employees as one of the most important assets. Basic principles of CG like accountability, transparency, disclosure have found their way in managing the mundane affairs of the company.

Organizations are vesting employees with more trust and power. More and more employees are participating and engaging in the process of decision making than ever before. Indian organizations have also been quick to adapt to the emerging trends and have made sweeping changes in its operative style. The paper investigates the perceptual discontinuity between Senior and middle level managers related to the various parameters of corporate governance.

Literature Review

The strategic focus of the organizations has been to develop leadership, culture and employee commitment. By laying emphasis on these factors' organizations are trying to create a governance framework for the employees internally and at the same time boost the confidence of the investors.

An organization's success extent is determined by the good governance and management of the employees. Researchers and scholars are continuously integrating the various aspects related to the managing processes and governance. Boatright (2004) argued in favor of establishing "employee governance" thereby suggesting that employee be involved in decision making, in specific, if the decision had an impact on the employees directly. Not only, in terms of governance but efforts are also being made at the strategic levels to improve on the governance by engaging employees. n Leadership binds the strategy, culture and the commitment of employees.

Indian organizations, forced by the dynamic forces of globalization also became more open and moved from their traditional and conservative management. Corporate Governance no longer remains a compliance tick for the organizations and authorities. Visible changes can be perceived as CG drives the mindset and organizational culture in the organizations.

Buchanan (2007) in his study on Japanese firms analysed the concept of internalism, which stands for the belief that companies should be controlled by internally appointed managers who are integrated into their firms.

Lacker *et al*. (2004) in their study examined the relation between a broad set of corporate governance factors and various measures of organizational behaviour and managerial performance. They found that typical structural indicators of corporate governance have very limited ability to explain managerial behaviour and organizational performance.

The pattern of governance exhibited in a firm is also to a large extent is dependent on the hierarchical level and the decision-making power of the manager. In his classical work, Katz (1955) and Arul (1974), proposed that the relative importance of three broad managerial skills (conceptual, technical and human) is dependent on the manager's rank in the organization. On the similar lines, Pavett and Lau (1983) reported that hierarchical level contributes to differences in the rated importance of the managerial roles. Mumford *et al*. (2007) in their study indicated that leadership skills and behaviors associated with it are linearly related to organizational level. Even, though all leaders need the same basic skills, but higher-level leaders simply need a greater degree of those skills. However, the proponents of applied research support the discontinuity perspective, where certain behaviors and skills are beneficial at one level but unneeded, or even counterproductive, at another level. Specifically, research spanning such disparate topics as derailment (Hogan *et al*., 2010; McCall & Lombardo, 1983), promotions and upward transitions (Downey *et al*., 2001; Freedman, 1998; Kates & Downey, 2005), and decision making. (Brousseau *et al*., 2006) emphasizes how performance requirements change with level and how promotion to a higher level requires significant adaptation while quick and centralized decision making seems to characterize effective middle managers whereas a more reflective, judicious, and collaborative style characterizes effective executives. Vijayakumar (2006) in his study in Indian context reported that "Work activities of senior level managers in IT sector, is characterized by human resource management than the work activities of junior and middle level managers of IT and all the three levels of managers of other sectors". The results of the study also find support by other theorists.

Data and Methodology

For the purpose of the study a scale measuring the various parameters of corporate governance was designed and validated. The sample was drawn from the population of the companies having an average of Rs.150 crore turnover in the National Capital Region (NCR) of Delhi. The companies were selected on the basis of convenience sampling. The sample comprised 255 respondents – 157 middle managers and 98 senior managers from the National Capital Region of Delhi. The manager's designation was chosen as per the organization's description of the status. The hypothesis of this is given below.

Table 1: Comparative analysis of senior managers and middle level managers on corporate governance practices

Managers	N	Mean	S.D.	Df	t
Senior level	98	181.24	22.80	253	3.34**
Middle level managers	157	171.24	23.12		

** P<.05

Table 2: Comparison of dimensions of corporate governance between senior managers and middle level managers

	Senior Managers (N = 98)		Middle Level Managers (N = 157)		
	Mean	Standard Deviation	Mean	Standard Deviation	T
Management Processes	125.52	16.86	118.33	17.43	3.24**
Vision & Strategy	39.11	6.37	37.44	6.03	2.09
Information Disclosure	11.57	2.42	10.87	2.19	2.35

**p>.05

H1: Senior Managers will have significantly higher score on CG practices as compared to Middle Level Managers

Table 1 shows the comparative analysis of senior managers and middle level managers on corporate governance practices

Significant difference can be observed between senior and junior managers in corporate governance practices. The value of t is significant at .05 level. Study of the various other dimensions of corporate governance was also undertaken. Table 2 represents the perceptual difference of the managers on corporate governance practices.

t value of 3,24 exhibits significant in the manager's perceptions on the management process variable. The other two variables Vision & Strategy and Information Disclosure did not project any difference.

Discussion

Managers are constantly under the pressure to perform and subsequently make decisions. Studies by various researchers (Katz, 1974; Seyedinejat *et al*., 2014) that skills required by the managers at different levels of hierarchy (triplet skills). Senior managers play a strategic role in the organizations and thus are involved with the various policy related matters. Middle level managers are like the linking pins (Likert) and hence more on to be the operational side of the organization. This has led to the perceptual differences between senior managers and junior managers. The perceptual differences become more relevant in the context of governing mechanisms operating within the organization's environment. Management Processes as one of the variables further adds on to the difference. The other two variables Vision & Strategy and Information disclosure do not exhibit any significant difference.

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