Duties Defined and Duties Performed: A Gap Analysis of Directors' Duties in Small and Medium size Enterprises, Punjab and Tricity

A Report

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CHAPTER – I

INTRODUCTION

A corporation is an artificial being, invisible, intangible and existing only in contemplation of law. Therefore, a corporation, not being the natural person, cannot take an action or a judgement itself, rather it requires a channel through which it can take actions and decisions. The directors of the company thus serve as the required channel to accomplish the decision-making and action-taking task of the corporation. A corporation has its separate identity than its shareholders and its agents. Looking at this necessity, if the agents for carrying out its task, the role of the directors of a company becomes of paramount essence.

The Companies Act, 1956 entails the provision of the directors in terms that "directors include any person occupying the position of a director, by whatever name called- has made efforts to define the position of the director in following words, "Directors are described sometimes as agents, sometimes as trustees and sometimes as managing partners. But each of these expressions is used not as exhaustive of their powers and responsibilities, but as indicating useful points of view from which they may for the moment and for the particular purpose be considered".

POSITION OF DIRECTORS

It is not an easy task to explain the position of the directors in a corporation. They are the professional hired by the company to carry out its affairs. They are not the servants of the company, rather officers of the company. In case of Moriarty v. Regent's Garage & Engg Co. Lush opined that "a director is not a servant of any master. He cannot be described as a servant of the company or of anyone".

Duties of the Directors:

Under the Companies Act directors are accountable to for their acts done on behalf of the company. Besides the statutory duties, which the directors have to perform to ensure strict compliance with the various provisions of the Act they also have certain duties which arise out of their fiduciary relationship with the company (Sec. 2 (13) of the Act).

Statutory Duties:

1. **To file return of allotment:**

   Section 75 of the Companies Act, 1956 requires accompany to file with the Registrar, within a period of 30 days, a return of the allotments stating the specified particulars.

2. **Not to issue irredeemable preference share or shares or share redeemable after 20 years**:

   Section 80, as amended by Amendment Act, 1996, forbids a company to issue irredeemable preference shares or preference shares redeemable beyond 20years. Directors making any such issue may be held liable as officer in default and may be subject to fine up to Rs. 10,000/-.

3. **To disclose interest :** In respect of contracts with director, Section 299 casts an obligation on a director to disclose the nature of his concern or interest (direct or indirect), if any, at a meeting of the Board of directors. The said Section provides that in case of a proposed contract or arrangement, the required disclosure shall be made at the meeting of the Board at which the question of entering into the contract or agreement is first taken into consideration. In the case of any other contract or arrangement, the disclosure shall be made at the first meeting of the Board held after the director become interested in the contract or arrangement. The Delhi High Court in M/s. Raj Cylendrs & Containers v. Hindustan General Industries Ltd has observed that where the directors are personally interested in the deal, the contract is to the detriment of the company and hence not binding on it.

4. **To disclose receipt from transfer of property**

   Any money received by the directors from the transferee in connection with the transfer of the company's property or undertaking must be disclosed to the members of the company and approved by the company in general meeting. Otherwise, the amount shall be held by the directors in trust for the company. This money may be in the nature of compensation for loss of office but in essence may be on account of transfer of control of the company. But if it is bona fide payment of damages for the breach of contract, then it is protected by sec. 321(3). Even no director other than the managing director or whole time director can receive any such payment from the company itself.

5. **To disclose receipt of compensation from transferee of shares**

   If the loss of office results from the transfer (under certain conditions) of all or any of the shares of the company, its directors would not receive any compensation from the transferee unless the same has been approved by the company in general meeting before the transfer takes place. If the approval is not sought or the proposal is not approved, any money received by the directors shall be held in trust for the shareholders, who have sold their shares.

6. **Duty to attend Board meetings:**

A number of powers of the company are exercised by the Board of Directors in their meetings held from time to time. Although a director may not be able to attend all the meetings but if he fails to attend three consecutive meetings or all meetings for a period of three months whichever is longer, without permission of the Board, his office shall automatically fall vacant.

7. Other Duties:

a) To convene statutory, Annual General meeting (AGM) and also extraordinary general meetings

b) To prepare and place at the AGM along with the balance sheet and profit and loss account a report on the company's affairs including the report of the Board of directors

c) To authenticate and approve annual financial statement

d) To appoint first auditor of the company

e) To appoint cost auditor of the company

Need of the Study: Accountability is an important element of Board effectiveness. There should be some mechanism for evaluating the performance of the directors. The extent of liability of a director would depend on the nature of his directorship. In applying the general equitable principles to company directors, four separate rules have emerged. They are (1) that directors must act in good faith in what they believe to be the in the best interest of the company (2) they must not exercise powers conferred upon them for purposes different from those for which they are conferred. (3) That they must not fetter their discretion as to how they shall act and (4) that without the informed consent of the company, they must not place themselves in a position in which their personal interests or duty to other persons are liable to conflict with the duties to the company. This study attempts to examine the inconsistencies that exist with regard to the duties performed by directors. It tries to emphasize the duties as provided by Companies Act 1965 and actual duties performed by the directors of various companies. The aim is to identify, to list and to analyze the laws, which are incoherent or may suffer from practical problems due to inadequacies, or conceptual problems to the law.

CHAPTER – II

REVIEW OF LITERATURE

Board of Directors is the focus of many academic studies in the field of corporate governance and strategic management. If we look at the primary functions of the board of directors of an organization, one can conclude that monitoring and advising the top management are its two critical functions (e.g. Coles, Daniel & Naveen 2007).

A small number of board directors and more independent directors are considered to be important elements of an effective board (Yermack[i], 1996; Fama and Jensen[ii], 1983). Multiple directorships can add value by enhancing executive experience (Carpenter and Westphal[iii], 2001) and by permitting the executive to establish a network or to monitor business relations (Mace[iv], 1986; Loderer and Peyer[v], 2002). On the contrary, Ferris et al[vi]. (2003) and Fich and Shivdasani[vii] (2006) contend that directors holding a larger number of outside board seats may be overcommitted, thereby causing poor corporate performance. Ali et al[viii] (2011) highlighted the conceptual and practical problems related to laws that define directors' duties.

The duties performed by the directors and what behaviours make their duties more effective as a governance mechanism are some of the fundamental questions concerning today's corporate governance (Schmidt and Brauer[ix], 2006). Much of the Corporate Governance literature refers to board effectiveness as to a board's ability to perform its direction and control roles effectively and thus "ensure the company's prosperity", "genuinely add value to the organization", "move the company closer to its goals" or "bring about corporate performance that satisfies the interests of shareholders/stakeholders" (Aguilera[x], 2005).

Pye and Pettigrew[xi] (2005) point out that the "contextual fabric ... reflects very differently on the choices made by directors and boards in their doing of corporate directing and any subsequent judgments of effectiveness". Consequently, it is concluded that how a director contributes to board effectiveness, as well as the criteria (measurements) of board effectiveness (that is, how do we know that a board has performed its roles effectively) will differ in different board contexts. In addition, despite an agreement in the Corporate Governance literature that any discussion of board effectiveness requires a clear understanding of the board roles (Huse[xii], 2005), the research offers different interpretations of the concept of board roles. This contributes to the lack of clarity as to what is considered by board roles/tasks/functions in relation to individual director role and contribution, and ultimately leads to the methodological issue of distinguishing between board and individual level of analysis.

One stream of the governance literature considers that board roles are direction (the strategic guidance of the company) and control (monitoring of the management for the benefit of the company to ensure that strategic objectives are achieved (e.g. hiring, compensation and replacement of CEO and senior managers, approval of major initiatives proposed by management), reporting to the shareholders, and ensuring compliance with the law) (Aguilera[xiii], 2005). Within this literature, board director contribution involves director qualities and behaviours important for the board's successful performance of its direction and control roles.

Another stream of the Corporate Governance literature however points out that individual board director contribution is essentially about creating roles that a board needs to perform (Huse[xiv], 2005). Hence, an extensive literature examines and tries to conceptualize roles that board directors perform. Moreover, a number of authors claim that the distinction between board roles is blurred and hence conceptual differences between them should not really exist (Roberts et al[xv] 2005). Consequently, Schilling[xvi] (2004) points out that, although much activity and involvement from a board director is now demanded, many board members are uncertain about their roles.

Another debate in the literature concerns the factors important for board effectiveness. One stream of the literature focuses on the structural elements of the board, with an argument that how effectively a board governs the company depends on board composition, whilst another "camp" emphasizes the importance of board dynamics for board effectiveness. Sherwin[xvii] (2003) explains these disparate views by noting that boards face two types of issues: "mechanical" issues, such as board structure and composition, which are often addressed by regulations and are "easy to see" from outside the boardroom, and "organic issues" that cannot be "regulated" and that revolve around board interaction, communication, and trust. Roberts et al[xviii]. (2005) also claim that board structure and composition that are visible from a distance serve "distant perceptions" of board effectiveness, whereas what serves "actual" board effectiveness is a culture of openness and constructive dialogue in an environment of trust and mutual respect. Both views are considered below in more detail, with implications for individual board director role.

Another set of studies deal with the impact of board composition on board effectiveness. Board composition within this literature is usually considered narrowly, in terms of the ratio of inside (executive) directors to outside (non-executive) directors, whilst firm performance is used as proxy for board effectiveness (Dalton et al[xix]., 2003). Stewardship theory values inside directors for their operational expertise and information about intended strategic initiatives (Lorsch and Palepu [xx], 2002). Since the primary concern of this perspective is the board's effective performance of its "strategic role", stewardship theory posits that boards with a higher proportion of executives will outperform those with a lower proportion (Sundaramurthy and Lewis [xxi], 2003). Agency theory suggests that outside directors, being detached from management and daily operations, facilitate objectivity in board's control role, and thus hypothesizes that boards with a higher proportion of outside directors will outperform those with a lower proportion (Sundaramurthy and Lewis[xxii], 2003). Moreover, not only is there a lack of consistent evidence between board composition and firm performance (Schmidt and Brauer[xxiii], 2006), but using firm performance as proxy for board effectiveness largely ignores the individual-level and group-level "outputs" of a board (Nicholson and Kiel[xxiv], 2004). Generally, the studies that focus on board composition in relation to board effectiveness have been criticized for overlooking the fact that directors are a social group that is part of a highly dynamic system.

The literature on boardroom dynamics shows that, although it is essential that board members are prepared to collaborate with colleagues on the board and see it as part of their role to assist the board to work as a cohesive team (Coulson-Thomas[xxv], 1991), it is equally important that they maintain their independence and avoid "groupthink" which leads to poor collective decisions (Renton[xxvi], 1999).

Ali et al[xxvii] (2010) Studies about various conceptual problems surrounding the directors' duties. They found out that the main causes of the problems in India may be attributable to that many of the supporting laws cannot sufficiently address the directors duties either due to lack of reform on certain areas or there are still uncertainties surrounding the application of law. In another study, Jiraporn, Singh and Lee[xxviii] (2009) examine whether holding multiple outside board seats compromises a director's ability to effectively perform monitoring duties. Analyzing over 1400 firms, we report that individuals who hold more outside directorships serve on fewer board committees.

The key qualities that each board director should display in his/her role, identified from the Corporate Governance literature, include:

1. Being prepared and informed/having knowledge and understanding of the company business.
2. Knowledge of other directors' skills and abilities
3. Understanding of the context within which the company operates
4. Strategic awareness, breadth of perspective and the ability to see a "much wider horizon"
5. Professional reputation, expertise and experience
6. Interpersonal and communication skills
7. Motivation and commitment to the affairs of the company and individual responsibility towards achieving the goals
8. Willingness to behave in particular ways and display certain qualities

Forbes and Milliken[xxix] (1999) claim that boards that have standards and expectations promoting high-effort behaviours among members such as devoting sufficient time to the role, actively seeking information, and actively participating in board discussions, are more likely to perform their control and strategic tasks effectively. Similar to Forbes and Milliken's (1999) notion of effort norms, Nadler[xxx] (2004) proposes that an effective board has the norms according to which board members are expected to be honest, constructive, willing to ask questions and challenge others, actively seek out other directors' views and contributions, as well as spend appropriate time on important issues. These norms – board's social systems or "board culture" as Nadler (2004) calls them – derive from the directors' shared beliefs about active preparation and participation, as well as from their shared values in terms of the director's respect for one another and their personal responsibility and accountability for the company's prosperity.

CHAPTER – III

RESEARCH METHODOLOGY

Research Problem

Imposing duties on directors through law mechanism is an effective means of monitoring directors while they are managing their companies. Mainly, there are two types of duties: fiduciary duty and the duty of care and skills. Unfortunately, the boundary of each duty is not necessarily clear in a given situation. There are still some conceptual problems surrounding the application of the directors' duties provisions under the Companies Act 2013. The main causes of the problems may be attributable to that, many of the supporting laws cannot sufficiently address the directors' duties either due to lack of reform on certain areas, or there are still uncertainties surrounding the application of the law. This might be due to the non-objectivity on the meaning and the application of laws relating to proper purpose rule, certain procedural requirements e.g. relating to disclosure, meaning of CSR or corporate governance etc. This research project attempts to examine the inconsistencies that exist with regard to the duties performed by directors. It tries to emphasize the duties as provided by Companies Act 2013 and actual duties performed by the directors of various companies. The aim is to identify, to list and to analyze the laws, which are incoherent or may suffer from practical problems due to inadequacies, or conceptual problems to the law.

Objectives

The broad objective of the study is to analyze the gap between the conceptual and practical aspects with regard to directors' duties so that further improvements could be done. Specifically, the objectives of the study are following:

Primary objectives

- To enlist the laws on directors duties as perceived by directors of companies under study.
- To examine the actual duties performed by the directors of various companies
- To analyze the gaps between the perceptual and actual duties as performed by the directors

Secondary objectives

- Relation between satisfaction level of directors and annual turnover
- Relation between satisfaction level of directors and type of industry
- Relation between satisfaction level of directors and age of company/firm

- Relation between satisfaction level of directors and city wise location of industry
- Relation between satisfaction level of directors and location of industry in Tricity
- Factor analysis of all the challenges faced by directors in regular operations

Research Methodology

The study confines to the companies located in Punjab and Tricity (Chandigarh, Panchkula and Mohali). A random selection of directors was made from various public companies and private companies by snowball sampling technique. Data has been collected from 146 directors from 146 companies (one director from each selected company) that are located in Punjab and Tricity.

In order to collect primary data for the study, a comprehensive and structured interview schedule on various aspects of director's duties and the related laws was prepared. The interview schedule consisted of three sections. The first section had ten questions relating to firm's profile. The responses of these questions were taken on nominal scale. The second section had ten questions relating to the six laws that are stated for companies' directors under Company's Act 2013. The third section has twenty questions to map the satisfaction level of directors regarding their duties and responsibilities.

The questions revolve around assessing the extent to which the theoretical framework of directors' duties, including aspects of corporate governance and corporate social responsibility, are consistent with the practices. We have used personal interview method, telephonic conversation as well as online filling of interview schedule for the study. Besides personal interviews of various directors the interview schedule was also sent by mail to 500 companies. Data was then collected from all the sources and was compiled for further analysis.

The duration of the survey was from August 2015 to January 2016.

Sources for companies details:

Various sources were referred in order to get information of small and medium scale companies located in the desired areas. Following are the sources referred in order to obtain the information:

- Yellow pages
- Mohali industry association
- Chandigarh industry association
- Panchkula industry association
- Jalandhar industry association

Statistical Techniques Used for Data Analysis

For the purpose of analyzing the gap between the conceptual and practical aspects with regard to directors' duties and the associated aspects, the following statistical techniques have been used;

1) **Chi square**

The association between the satisfaction level and different aspects of company, i.e. location of the company, turnover of the company, age of the company and type of industry has been measured. Chi square test is applied to find the association between the variables. In this analysis Pearson chi square test has been used.

2) **Wilcoxon test**

Wilcoxon test was applied to check whether there is difference between the response collected from directors and the ideal response according to the laws. The Wilcoxon test is the nonparametric test. Wilcoxon test does not assume normality in the data, so it can be used when this assumption has been violated and the use of the dependent t-test is inappropriate.

3) **Normality test**

Checking the normality of data is a prerequisite for several statistical tests because normal data is an underlying assumption in many parametric testing. There are two main methods of assessing normality: graphically and numerically. Both of these methods have been used to check the normality of the data.

4) **Factor Analysis**

This has been used to study the challenges that are faced by the director of the companies while operating the business on regular basis. This technique of data reduction helped in deriving the reduced number of factors determining the major challenges that are faced by the directors.

Limitations of the study

The scope of the study is limited to small and medium scale industries in Punjab and Tricity.

CHAPTER – IV

ANALYSIS AND INTERPRETATION OF THE DATA

To analyze the objectives of the study which consists understanding of directors about the laws framed under 2013 Act (Section 166), we contacted directors of small and medium sized companies (both public and Private). In all 146 directors from 146 companies were interviewed through structured interview schedule designed for the study. An attempt was made to enlist the laws on directors duties as perceived by directors of companies under study and to examine the actual duties performed by the directors of various companies. Besides the above, the study also analyze the demographics of the firms and satisfaction level of its directors.

Objective 1: To enlist the laws on directors duties as perceived by directors of firms under study.

Duties of Directors under the 2013 Act (section 166)

1. To act in accordance with the articles of association of the company;
2. To act in good faith to promote the objects of the company;
3. To act in the best interests of the company, its employees, the shareholders, the community and for the protection of the environment;
4. To exercise duties with due and reasonable care, skill and diligence and to exercise independent judgment;
5. To not be involved in a situation of direct or indirect conflict with the interests of the company; and
6. To not to achieve any undue gain or advantage

These duties can broadly be classified into two:

(i) duty of care, skill and diligence; and

(ii) Fiduciary duties

The duty of care, skill and diligence requires directors to devote the requisite time and attention to affairs of the company, pursue issues that may arise through "red flags" and take decisions that do not expose the company to unnecessary risks. Fiduciary duties, on the other hand, require the directors to put the interests of the company ahead of their own personal interests. Rules that prevent conflict of interest and self-dealing on the part of directors are integral to this set of duties.

Objective 2: To examine the actual duties performed by the directors of various companies

FREQUENCY CHARTS OF THE PECEPTION OF DIRECTORS REGARDING THE ENFORCEMENT AND RELEVANCE OF LAWS

LAW 1

Law 1 states that “To act in accordance with the articles of association of the company “

According to the responses taken by 145 directors, the majority i.e. 53.1 percent is found to follow this law. This law comprises of responses from the following questions in the interview schedule:-

- It is a challenge for the Directors to act within their powers
- It is a great challenge for the directors to carry out the statutory obligations imposed by the Companies Act 2006 and other legislation.

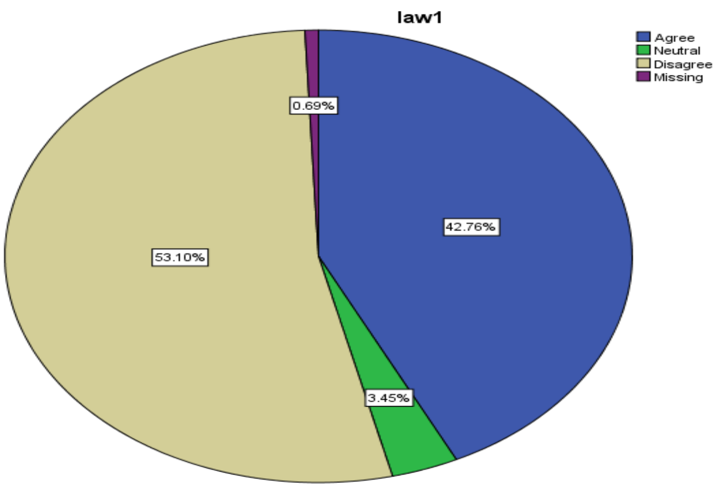
The directors are assumed to follow the law if they disagree to the given statements of the schedule. In all 53.1 percent of the directors disagreed and 3.4 were neutral to the questions.

Table 4.1: Frequency table for law 1

		Frequency	Percent
	Agree	62	42.8
	Neutral	5	3.4
	Disagree	77	53.1
	Total	144	99.3
Missing	System	1	.7
Total		145	100.0

(Source: Primary Data)

Figure 4.1: Frequency chart for law1



LAW 2 and LAW 5

Law 2 states that "To act in good faith to promote the objects of the company"

Law 5 states that "To not be involved in a situation of direct or indirect conflict with the interests of the company"

This law comprises of responses from the following questions in the questionnaire:-

- Directors have to make sure frequently that there is no conflict of interest and duty.
- Directors have to make a declaration of interest where appropriate.

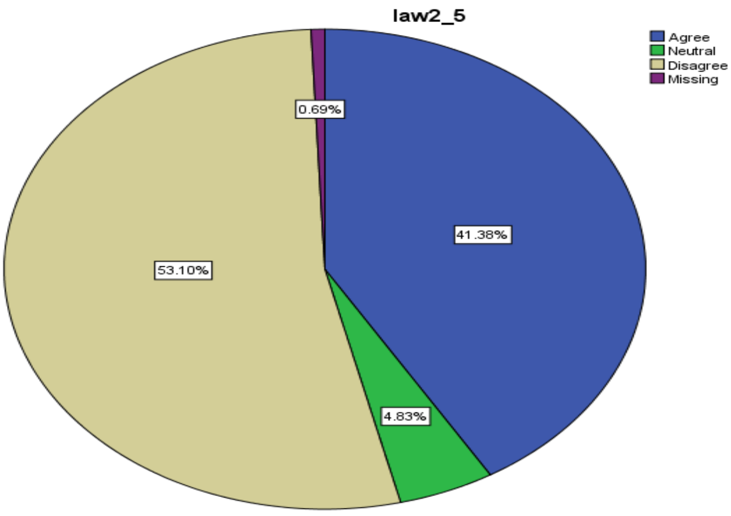
According to the responses taken by 145 directors, 41.4 percent of the respondents were found to follow these laws. Since the majority disagrees with these two statements which is opposite of what was desired, therefore these two laws are not followed by the directors.

Table 4.2: Frequency table for law 2 & law 5

		Frequency	Percent
Valid	Agree	60	41.4
	Neutral	7	4.8
	Disagree	77	53.1
	Total	144	99.3
Missing	System	1	.7
Total		145	100.0

(Source: Primary Data)

Figure 4.2: Frequency chart for law2 & law5



LAW 3

Law 3 states that "To act in the best interests of the company, its employees, the shareholders, and the community and for the protection of the environment"

This law comprises of response from the following questions in the questionnaire:-

- While performing their duties the directors find hard to take all stakeholders i.e. employees, suppliers, customers, environment and the community into consideration.

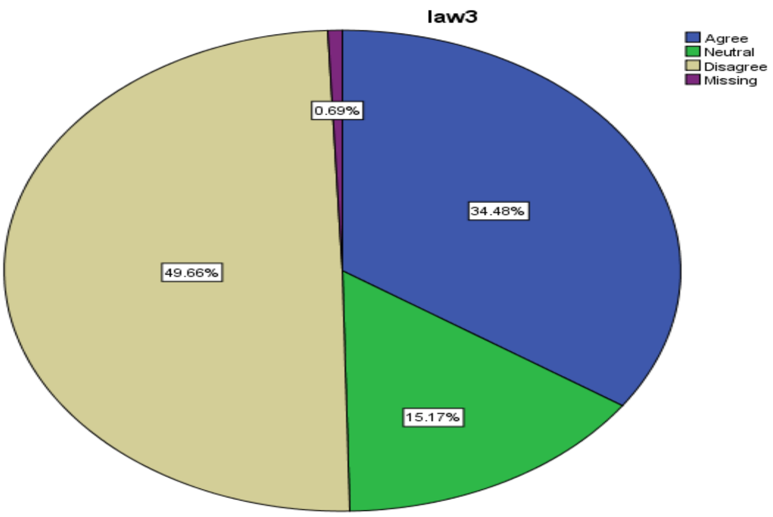
According to the responses taken by 145 directors, the 49.7 percent were found to disagree with the statement given in the interview schedule and thus follows this law.

Table 4.3: Frequency table for law 3

		Frequency	Percent
Valid	Agree	50	34.5
	Neutral	22	15.2
	Disagree	72	49.7
	Total	144	99.3
Missing	System	1	.7
Total		145	100.0

(Source: Primary Data)

Figure 4.3: Frequency chart for law3



LAW 4

Law 4 states that "To exercise duties with due and reasonable care, skill and diligence and to exercise independent judgment"

This law comprises of responses from the following questions in the questionnaire:-

- Directors of your company have to carry out their duties with reasonable care and skill.

- There are huge expectations from executive directors who are responsible for an area in which they have a specialist or professional qualification.

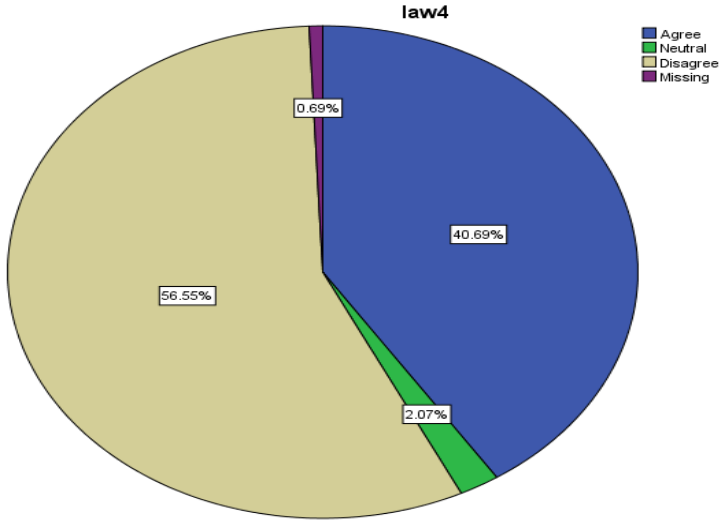
According to the responses taken by 145 directors, the majority i.e. 56.6 percent does not follow this law and only 40.7 percent of the respondents agreed to the laws.

Table 4.4: Frequency table for law 4

		Frequency	Percent
Valid	Agree	59	40.7
	Neutral	3	2.1
	Disagree	82	56.6
	Total	144	99.3
Missing	System	1	.7
Total		145	100.0

(Source: Primary Data)

Figure 4.4: Frequency chart for law4



LAW 6

Law 6 states that "To not to achieve any undue gain or advantage."

This law comprises of response from the following question in the questionnaire:-

- Directors cannot take bribes and disclose any personal interests to the company.
- The directors of your company need not divert business opportunities to anyone else in the company.

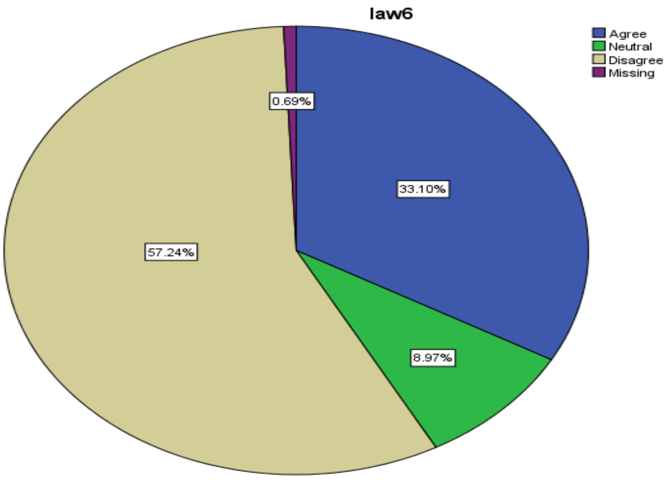
According to the responses taken by 145 directors, the majority i.e. 57.6 percent disagreed with the statements in the schedule which is opposite of what was desired, therefore with regard to this law the actual practices of the directors is different than the laws framed by the government.

Table 4.5: Frequency table for law 6

		Frequency	Percent
Valid	Agree	48	33.1
	Neutral	13	9.0
	Disagree	83	57.2
	Total	144	99.3
Missing	System	1	.7
Total		145	100.0

(Source: Primary Data)

Figure 4.5: Frequency chart for law6



Objective 3: To analyze the gap between the conceptual and practical aspects with regard to directors' duties.

1. **NORMALITY OF DATA**

In order to analyze the gap between the conceptual and practical aspects and to compare the laws and its actual practices by the directors under study various statistical tests are applied. First of all two tests for normality are run. For dataset smaller than 2000 elements, Shapiro-Wilk test is applicable, otherwise, the Kolmogorov-Smirnov test is used. In this case, since there are only 145 elements, the Shapiro-Wilk test is used. From the table 4.6, the p-value is 0.000.Therefore the alternative hypothesis is acceptedand conclusion is that the data is not normal. The normality check of the complete data is shown in Table 4.6 and Figure 4.6. to 4.11.As the data was not found to be normal, t-test is applied on the data.

Normality of the responses of the directors regarding the laws

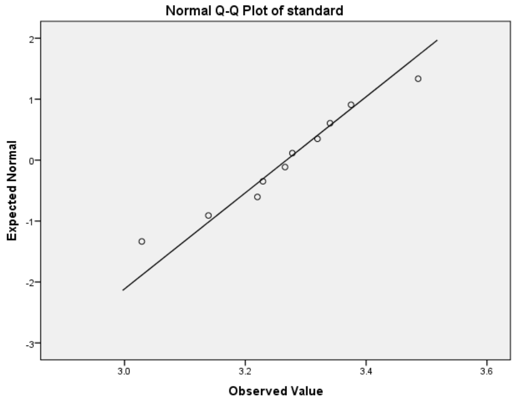
Table 4.6 : Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
law1	.354	144	.000	.654	144	.000
law2_5	.353	144	.000	.662	144	.000
law4	.374	144	.000	.640	144	.000
law6	.370	144	.000	.670	144	.000
law3	.324	144	.000	.716	144	.000

a. Lilliefors Significance Correction

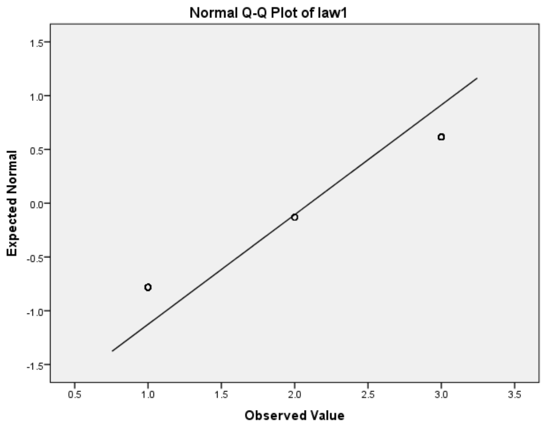
(Source: Primary Data)

Figure 4.6 : Normal Q-Q plot



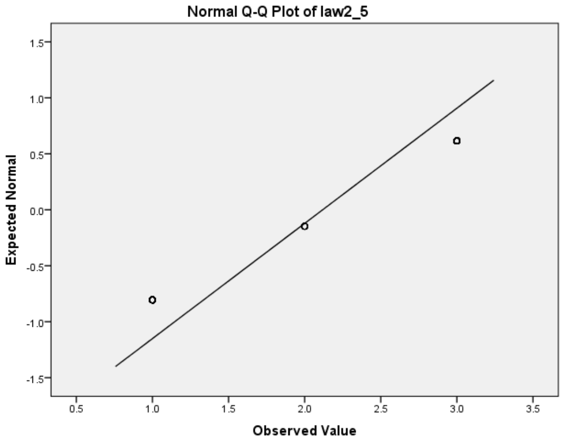
LAW 1

Figure 4.7 :Normal Q-Q plot for law 1



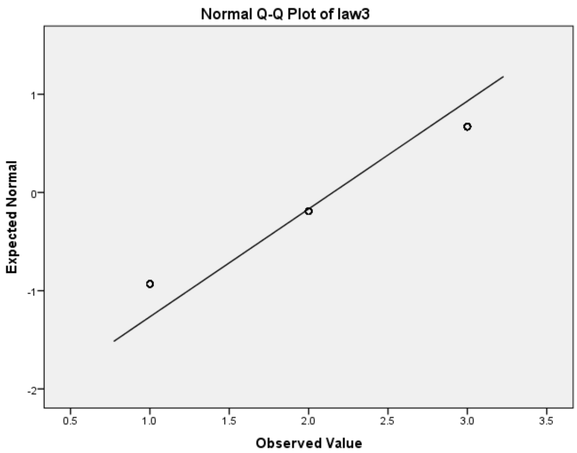
LAW 2 and 5

Figure 4.8 :Normal Q-Q plot for law2 & law5



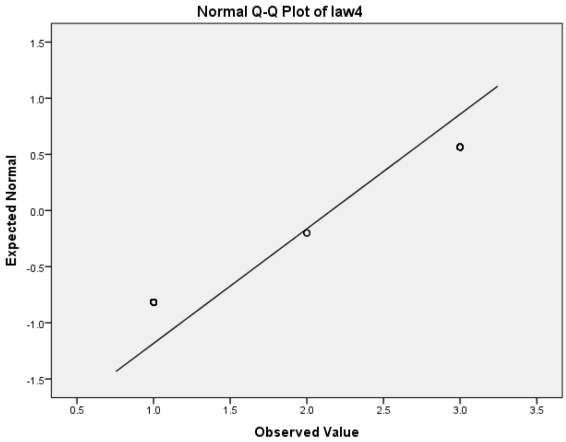
LAW 3

Figure 4.9 :Normal Q-Q plot for law 3



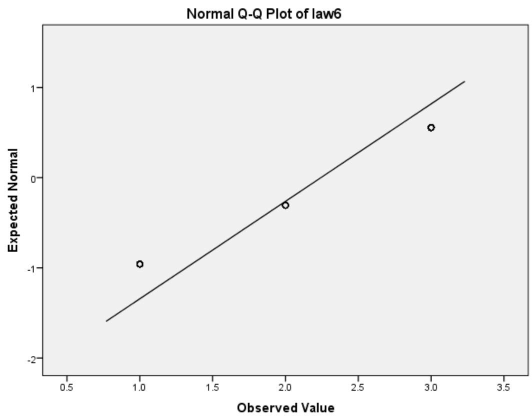
LAW 4

Figure 4.10:Normal Q-Q plot for law 4



LAW 6

Figure 4.11 :Normal Q-Q plot for law 6



Thus, it can be seen that the data is not normal in any of the case.

Wilcoxon test

As the normality test shows that the data is not normal, so Wilcoxon test will be applied to check whether there is difference between the response collected from directors and the ideal response according to the laws.

LAW 1

In the law 1 the ideal response would be disagreement to the questions asked.

In the analysis the response have been divided in three sections(1, 2 and 3). The denotations are as follows:

1- Agree
2- Neutral
3- Disagree

So for this case null hypothesis will be:

H_0- The median of law 1 equals 3

Table 4.7 : Hypothesis Test Summary for law 1

	Null Hypothesis	Test	Sig.	Decision
1	The median of law1 equals 3.00	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

The null hypothesis is rejected as the significance value is less than 0.05.

LAW 2 and LAW 5

In the law 2 and law 5 the ideal response would be disagreement to the questions asked.

In the analysis the response have been divided in three sections(1, 2 and 3). The denotations are as follows:

1- Agree
2- Neutral
3- Disagree

Thus, for this case null hypothesis will be:

H_0- The median of law 2 and law 5 equals 1

Table 4.8 : Hypothesis Test Summary for law 2 & law 5

	Null Hypothesis	Test	Sig.	Decision
1	The median of law2_5 equals 1.00	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

LAW 3

In the law 3 the ideal response would be disagreement to the questions asked.

In the analysis the response have been divided in three sections(1, 2 and 3). The denotations are as follows:

1- Agree
2- Neutral
3- Disagree

Thus, for this case null hypothesis will be:

H_0- The median of law 3 equals 3

Table 4.9 : Hypothesis Test Summary for law 3

	Null Hypothesis	Test	Sig.	Decision
1	The median of law3 equals 3.00	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

LAW 4

In the law 4 the ideal response would be agreement to the questions asked.

In the analysis the response have been divided in three sections(1, 2 and 3). The denotations are as follows:

1- Agree
2- Neutral
3- Disagree

Thus, for this case null hypothesis will be:

H_0- The median of law 4 equals 1

Table 4.10 : Hypothesis Test Summary for law 4

	Null Hypothesis	Test	Sig.	Decision
1	The median of law4 equals 1.00	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

LAW 6

In the law 6 the ideal response would be disagreement to the questions asked.

In the analysis the response have been divided in three sections(1, 2 and 3). The denotations are as follows:

1- Agree
2- Neutral
3- Disagree

Thus, for this case null hypothesis will be:

H_0- The median of law 6 equals 1

Table 4.11 : Hypothesis Test Summary for law 6

	Null Hypothesis	Test	Sig.	Decision
1	The median of law6 equals 1.00.	One-Sample Wilcoxon Signed Rank Test	.000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

2. RELATIONSHIP BETWEEN DEMOGRAPHIC PARAMETERS OF SELECTED COMPANIES AND SATISFACTION LEVEL OF DIRECTORS WITH REGARD TO SCALING UP OF THEIR COMPANIES/FIRMS

In order to find out the relationship between various demographic parameters of selected companies with their directors' satisfaction level with regard to scaling up of the company, chi square analysis is used.

a) Relation Between Turnover and Satisfaction of directors

To find out that whether satisfaction level for scaling up of the company is related to the annual turnover of the company chi-square test is applied.

The results are shown in Table 4.12 and Table 4.13.

Table 4.12 : Annual turnover * satisfied or dissatisfied Crosstabulation

Count		satisfied or dissatisfied			Total
		Satisfied	Neutral	Dissatisfied	
Annual_turnover	below 1 cr	3	1	0	4
	1-20 cr	42	4	4	50
	21-40 cr	50	3	0	53
	41-60 cr	25	2	0	27
	61-80 cr	5	2	0	7
	81-100 cr	1	0	0	1
	100 cr above	1	0	0	1
Total		127	12	4	143

(Source: Primary Data)

Table 4.13 : Chi-Square Tests

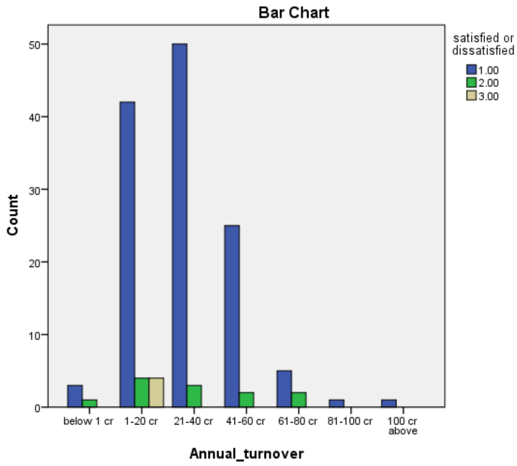
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.539[a]	12	.331
Likelihood Ratio	12.974	12	.371
Linear-by-Linear Association	1.690	1	.194
N of Valid Cases	143		

a. 17 cells (81.0%) have expected count less than 5. The minimum expected count is .03.

In Table 4.13 the results of "**Pearson Chi-Square**" row are applicable. In it, the values are $\chi 2$ = 13.539, p = .331. This states that there is no statistically significant association between satisfaction of scaling up of company and annual turnover.

However, the frequencies show that there are 4 companies out of 143 that are dissatisfied with the scaling up of their company and all 4 of them have their annual turnover between 1 to 20 crores.

Figure 4.12 :Bar chart for relation between turnover and satisfaction



NOTE: Count denotes Number of Directors

b) **Relation between age of the company and satisfaction level of Directors**

To find out that whether satisfaction level for scaling up of the company is related to age of company chi-square test is applied.

The results are shown in Table 4.14, Table 4.15 and Table 4.16.

Table 4.14 : Case Processing Summary for relation between age of company and satisfaction

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
years_coded * Rate your satisfaction level with regard to scaling up of your company	120	82.8%	25	17.2%	145	100.0%

(Source: Primary Data)

Table 4.15 : Age of company * Rate your satisfaction level with regard to scaling up of your company						
Age of company	Rate your satisfaction level with regard to scaling up of your company					Total
	Highly Satisfied	Satisfied	Neutral	Dissatisfied	Highly Dissatisfied	
0-10 yrs	1	5	1	1	0	8
11-20 yrs	3	25	3	0	0	31
21-30 yrs	10	12	1	2	1	26
31-40 yrs	6	15	1	0	0	22
41-50 yrs	6	13	1	0	0	20
51-60 yrs	2	4	2	0	0	8
60 yrs above	1	4	0	0	0	5
Total	29	78	9	3	1	120

(Source: Primary Data)

Table 4.16 : Chi-Square Tests for relation between age of company and satisfaction

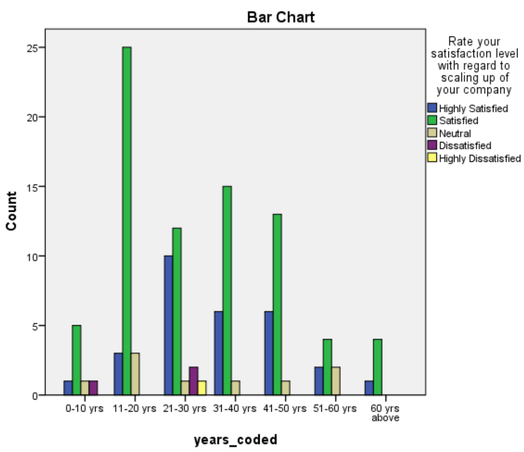
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	25.589[a]	24	.374
Likelihood Ratio	24.449	24	.436
Linear-by-Linear Association	2.205	1	.138
N of Valid Cases	120		

a. 26 cells (74.3%) have expected count less than 5. The minimum expected count is .04.

In Table 4.16 the results of "**Pearson Chi-Square**" row are applicable. In it, the values are $\chi 2$ = 24.449, p = .436. This states that there is no statistically significant association between satisfaction of scaling up of company and its age.

However, the frequencies show that there are four companies out of 120 that are dissatisfied with the scaling up of their company and all four of them are less than 30 years old.

Figure 4.13 :Bar chart for relation between years and satisfaction



NOTE: Count denotes Number of Directors

c) Relation between city wise location of the company and satisfaction

To find out that whether satisfaction level for scaling up of the company is related to location of company chi-square test is applied.
The results are shown in Table 4.17, Table 4.18 and Table 4.19.

Table 4.17 : Case Processing Summary for relation between location of the company and satisfaction

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
city * Rate your satisfaction level with regard to scaling up of your company	139	95.9%	6	4.1%	145	100.0%

(Source: Primary Data)

Table 4.18 : City * Rate your satisfaction level with regard to scaling up of your company Crosstabulation

		Rate your satisfaction level with regard to scaling up of your company					Total
		Highly Satisfied	Satisfied	Neutral	Dissatisfied	Highly Dissatisfied	
city	Mohali	8	15	3	0	1	27
	Ludhiana	2	17	2	0	0	21
	Jalandhar	19	37	2	0	0	58
	Chandigarh	3	6	2	1	0	12
	Amritsar	0	2	1	0	0	3
	Panchkula	2	2	0	0	0	4
	Phagwara	2	2	0	0	0	4
	Others	0	7	1	2	0	10
Total		36	88	11	3	1	139

(Source: Primary Data)

Table 4.19 : Chi-Square Tests for relation between location of the company and satisfaction

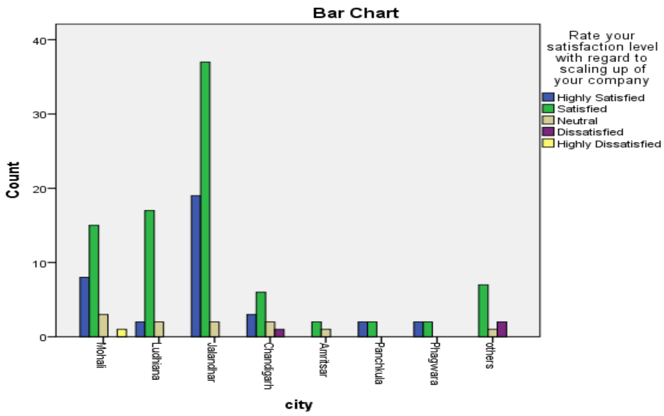
	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	40.186[a]	28	.064
Likelihood Ratio	34.687	28	.179
N of Valid Cases	139		

a. 32 cells (80.0%) have expected count less than 5. The minimum expected count is .02.

(Source: Primary Data)

In Table 4.19 the results of "**Pearson Chi-Square**" row are applicable. In it, the values are $\chi2$ = 40.186, p = .064. This states that there is no statistically significant association between satisfaction of scaling up of company and the location of the company.

Figure 4.14 :Bar chart for relation between location of company and satisfaction



NOTE: Count denotes Number of Directors

d) <u>Relation between location of the company and satisfaction (Tricity and Punjab)</u>

To check if the satisfaction level is dependent whether company is located in Chandigarh and Tricity or in other parts of Punjab, following test are applied.

The results are shown in Table 4.20, Table 4.21 and Table 4.22.

Table 4.20 : Case Processing Summary for Relation between location of the company and satisfaction(Tricity and Punjab)

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Location * satisfied or dissatisfied	139	95.9%	6	4.1%	145	100.0%

(Source: Primary Data)

Table 4.21 : Location * satisfied or dissatisfied Crosstabulation

		satisfied or dissatisfied			Total
		satisfied	Neutral	Dissatisfied	
Location	Punjab	81	5	0	86
	Tricity	36	5	2	43
	Others	7	1	2	10
Total		124	11	4	139

Source: Primary Data

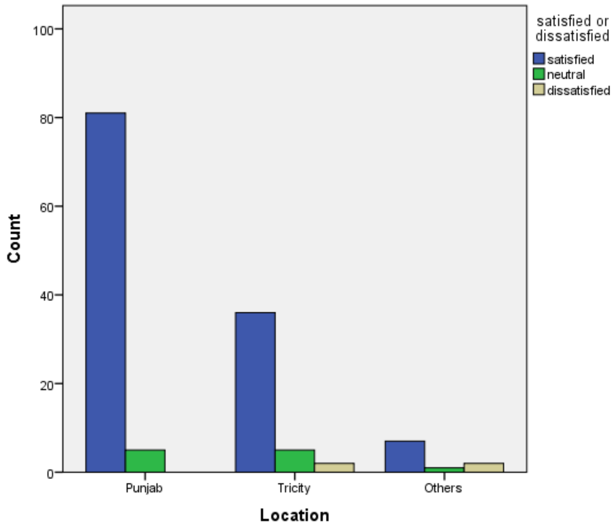
Table 4.22 : Chi-Square Tests for Relation between location of the company and satisfaction(Tricity and Punjab)

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.214[a]	4	.004
Likelihood Ratio	11.738	4	.019
N of Valid Cases	139		

a. 5 cells (55.6%) have expected count less than 5. The minimum expected count is .29.

In Table 4.22 the results of "**Pearson Chi-Square**" row are applicable. In it, the values are $\chi 2=$ 15.214, p = .004. This states that there is statistically significant association between satisfaction of scaling up of company and the location of the company in regards to nearness to Chandigarh or in Punjab.

Figure 4.15 :Bar chart for relation between location of company and satisfaction (Tricity and Punjab)



NOTE: Count denotes Number of Directors

e) <u>Relation between type of industry and satisfaction</u>

To find out that whether satisfaction level for scaling up of the company is related to the type of the industry chi-square test is applied.

The results are shown in Table 4.23, Table 4.24 and Table 4.25.

Table 4.23 : Case Processing Summary for Relation between type of industry and satisfaction

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Type of industry * Rate your satisfaction level with regard to scaling up of your company	142	97.9%	3	2.1%	145	100.0%

(Source: Primary Data)

Table 4.24 : Type of industry * Rate your satisfaction level with regard to scaling up of your company Cross tabulation

		Rate your satisfaction level with regard to scaling up of your company					Total
		Highly Satisfied	Satisfied	Neutral	Dissatisfied	Highly Dissatisfied	
Type of industry	Manufacturing	30	82	9	2	1	124
	Service	5	9	3	1	0	18
Total		35	91	12	3	1	142

(Source: Primary Data)

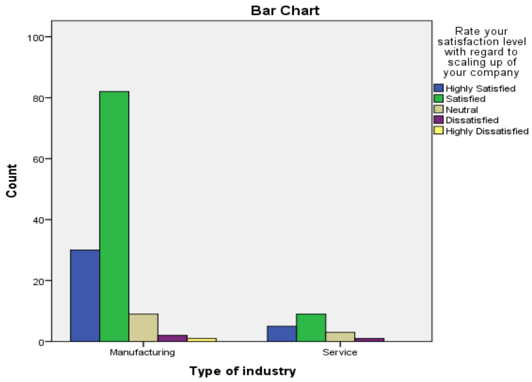
Table 4.25 : Chi-Square Tests for Relation between type of industry and satisfaction

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.668[a]	4	.453
Likelihood Ratio	3.224	4	.521
N of Valid Cases	142		

a. 6 cells (60.0%) have expected count less than 5. The minimum expected count is .13.

In Table 4.25 the results of "**Pearson Chi-Square**" row are applicable. In it, the values are $\chi2$= 3.668, p = .453. This states that there is no statistically significant association between satisfaction of scaling up of company and the location of the company.

Figure 4.16 :Bar chart for relation between type of industry and satisfaction



NOTE: Count denotes Number of Directors

3. FACTOR ANALYSIS TO FIND OUT FACTORS INFLUENCING DIRECTOR'S SATISFACTION

In order to find out the factors influencing director's satisfaction level and the challenges faced by the directors to comply with the laws in day-to-day activities performed by them, factor analysis was performed highlighting various factors. The factors underlined by the analysis are as follows:

1. Changes in business trends
2. Financial support from bank
3. Competition from other companies
4. Delay in payment realization
5. Changes in technology
6. Time management
7. Interaction with Government departments
8. Internal accounting compliances
9. OEM Compliances
10. Supply chain issues
11. Changes in Government Policies
12. Internal Audit reports of production, HR, ISO and Office systems
13. Turnover pressure
14. Adequacy of a compensation disclosure
15. Statutory compliance of Government
16. Employee Attrition
17. Efficiency and productivity of employees
18. Business Scaling up
19. Work Life Balance
20. Knowledge Sharing by other directors and stakeholders

Applying factor analysis on the above issues :-

Table 4.26 : KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.783
Bartlett's Test of Sphericity	Approx. Chi-Square	2166.424
	Df	190
	Sig.	.000

Table 4.27 : Rotated Component Matrix

	Component			
	1	2	3	4
Changes in business trends	.796	.271	.048	.262
Financial support from bank	.826	.071	.261	.071
Competition from other companies	.923	.213	.119	-.077
Delay in payment realization	.855	.000	.074	.088
Changes in technology	.619	.181	.419	.006
Time management	.617	.320	.105	.426
Interaction with Government departments	.032	.663	.229	.502
Internal accounting compliances	.157	.556	.351	.515
OEM Compliances	.137	-.241	.572	.520
Supply chain issues	.217	.413	.655	.195
Changes in Government Policies	.108	.650	.538	.049
Internal Audit reports of production, HR, ISO and Office systems	.098	.136	.639	.155
Turnover pressure	.181	.728	.472	.043
Adequacy of a compensation disclosure	.213	.356	.581	.029
Statutory compliance of Government	.185	.396	.767	-.100
Employee Attrition	.115	.719	.176	-.031
Efficiency and productivity of employees	.351	.752	.079	.022
Business Scaling up	.506	.472	.150	.222
Work Life Balance	.489	.100	.181	.484
Knowledge Sharing by other directors and stakeholders	.087	.048	-.015	.754

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

Interpretation of factor analysis :-

From the above analysis the issues are clubbed in four different factors as follows:-

1. **Change management**

a. Changes in business trends
b. Financial support from bank
c. Competition from other companies
d. Delay in payment realization
e. Changes in technology
f. Time management
g. Business Scaling up
h. Work Life Balance

2. Interaction with government and internal functioning of the organization

i. Interaction with Government departments

j. Internal accounting compliances

k. Changes in Government Policies

l. Turnover pressure

m. Employee Attrition

n. Efficiency and productivity of employees

3. Compliances

o. Internal Audit reports of production, HR, ISO and Office systems

p. Adequacy of a compensation disclosure

q. Statutory compliance of Government

r. OEM Compliances

s. Supply chain issues

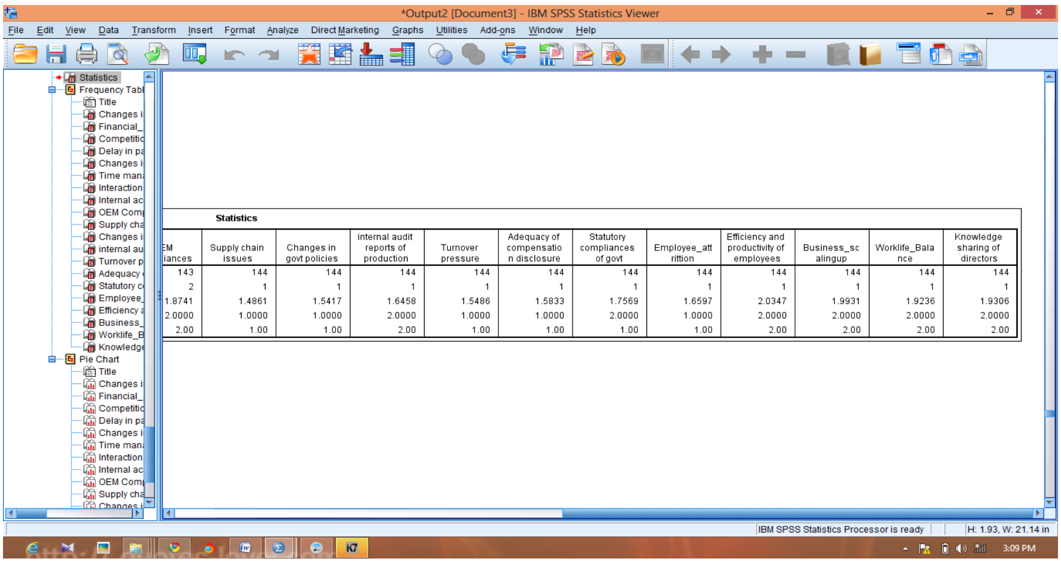
4. Knowledge Sharing by other directors and stakeholders

t. Knowledge sharing by other directors and stakeholders

These are the issues that pose challenge to the directors of the SMEs.

<u>Analysis of individual parameters:-</u>

Figure 4.17 :Screenshot of analysis of individual parameters



Statistics

EM iances	Supply chain issues	Changes in govt policies	internal audit reports of production	Turnover pressure	Adequacy of compensation disclosure	Statutory compliances of govt	Employee_attrition	Efficiency and productivity of employees	Business_scalingup	Worklife_Balance	Knowledge sharing of directors
143	144	144	144	144	144	144	144	144	144	144	144
2	1	1	1	1	1	1	1	1	1	1	1
1.8741	1.4861	1.5417	1.6458	1.5486	1.5833	1.7569	1.6597	2.0347	1.9931	1.9236	1.9306
2.0000	1.0000	1.0000	2.0000	1.0000	1.0000	2.0000	1.0000	2.0000	2.0000	2.0000	2.0000
2.00	1.00	1.00	2.00	1.00	1.00	1.00	1.00	2.00	2.00	2.00	2.00

FACTOR 1: CHANGE MANAGEMENT

PARAMETER A – CHANGES IN BUSINESS TRENDS

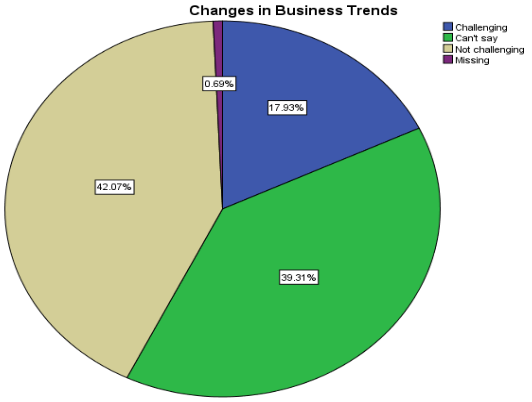
According to the responses of 146 directors, the majority i.e. 42.4 percent companies do not feel that changes in business trends are challenging, they easily cope up with the changing business trends.

Table 4.28 : Frequency table for Changes in Business Trends

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	26	17.9	18.1	18.1
	Can't say	57	39.3	39.6	57.6
	Not challenging	61	42.1	42.4	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.18 :Frequency chart for changes in business trends



PARAMETER B- FINANCIAL SUPPORT FROM BANK

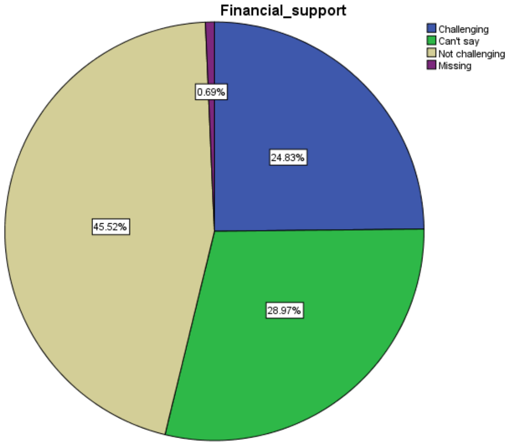
According to the responses of 146 directors, the majority i.e. 45.8 percent companies do not feel that taking financial support from banks is challenging, they easily do their financial dealings with the banks.

Table 4.29: Frequency table for Financial support

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	36	24.8	25.0	25.0
	Can't say	42	29.0	29.2	54.2
	Not challenging	66	45.5	45.8	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.19 :Frequency chart for Financial support



PARAMETER C- COMPETITION FROM OTHER COMPANIES

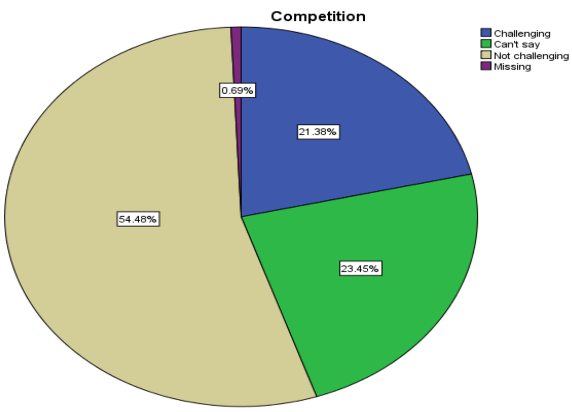
According to the responses of 146 directors, the majority i.e. 54.9 percent companies do not feel that competition from other companies is challenging.

Table 4.30 : Frequency table for Competition

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	31	21.4	21.5	21.5
	Can't say	34	23.4	23.6	45.1
	Not challenging	79	54.5	54.9	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.20 :Frequency chart for Competition



PARAMETER D- DELAY IN PAYMENT REALIZATION

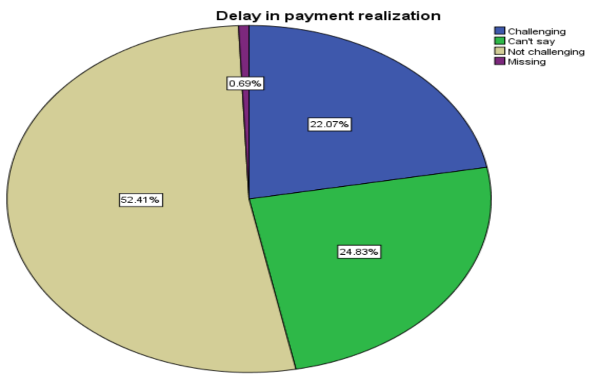
According to the responses of 146 directors, the majority i.e. 52.8 percent companies do not feel that delay in payment realization is challenging.

Table 4.31 : Frequency table for Delay in payment realization

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	32	22.1	22.2	22.2
	Can't say	36	24.8	25.0	47.2
	Not challenging	76	52.4	52.8	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.21 :Frequency chart for Payment realization



PARAMETER E- CHANGES IN TECHNOLOGY

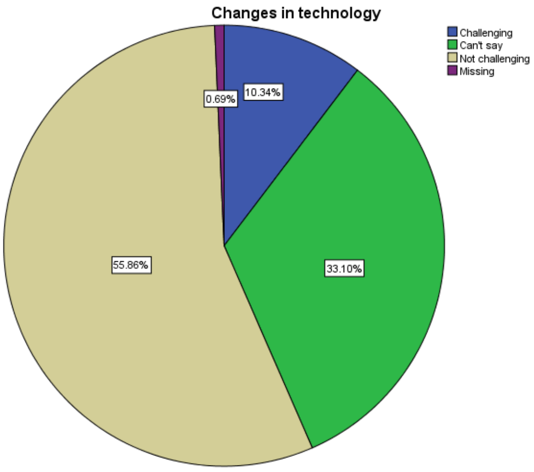
According to the responses of 146 directors, the majority i.e. 56.3 percent companies do not feel that changes in technology are challenging.

Table 4.32 : Frequency table for Changes in technology

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	15	10.3	10.4	10.4
	Can't say	48	33.1	33.3	43.8
	Not challenging	81	55.9	56.3	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.22 :Frequency chart for Changes in Technology



PARAMETER F- TIME MANAGEMENT

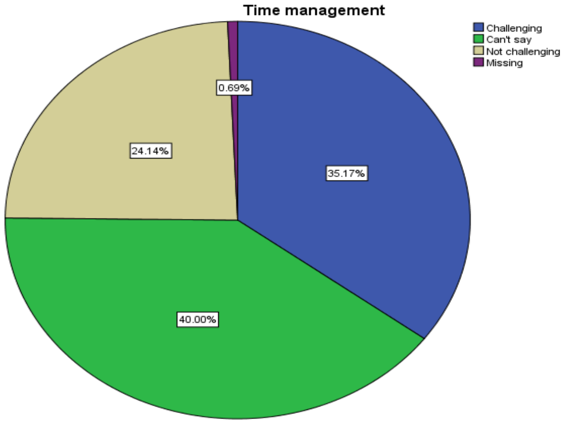
According to the responses of 146 directors, the majority i.e. 40.3 percent companies could not decide whether time management is a challenge or not for their firm.

Table 4.33 : Frequency table for Time management

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	51	35.2	35.4	35.4
	Can't say	58	40.0	40.3	75.7
	Not challenging	35	24.1	24.3	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.23 :Frequency chart for Time management



PARAMETER G – BUSINESS SCALING UP

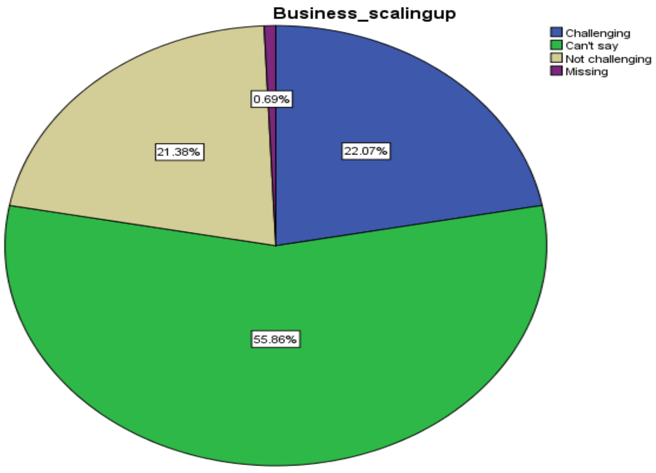
According to the responses of 146 directors, the majority i.e. 56.3 percent companies feel that business scaling up is a challenging task.

Table 4.34 : Frequency table for Business scaling-up

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	32	22.1	22.2	22.2
	Can't say	81	55.9	56.3	78.5
	Not challenging	31	21.4	21.5	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.24 :Frequency chart for Business scaling up



PARAMETER H – WORK LIFE BALANCE

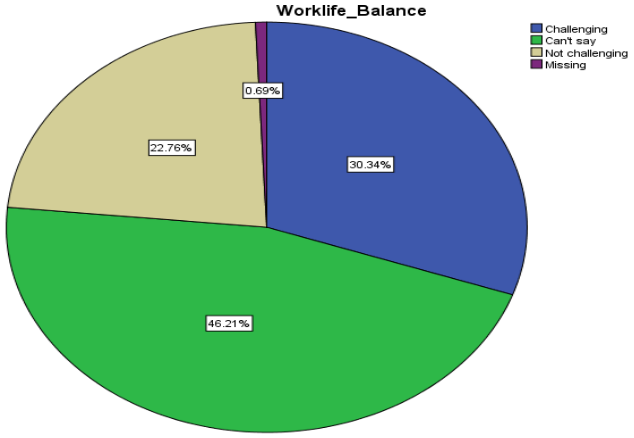
According to the responses of 146 directors, the majority i.e. 46.5 percent companies find it difficult to decide whether work life balance is a challenge or not.

Table 4.35 : Frequency table for Work life Balance

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	44	30.3	30.6	30.6
	Can't say	67	46.2	46.5	77.1
	Not challenging	33	22.8	22.9	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.25 :Frequency chart for Worklife Balance



FACTOR 2: INTERACTION WITH GOVERNMENT AND INTERNAL FUNCTIONING OF THE ORGANIZATION

PARAMETER I- INTERACTION WITH GOVERNMENT DEPARTMENTS

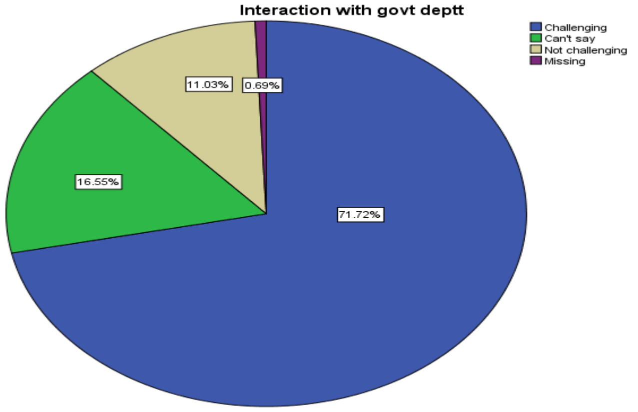
According to the responses of 146 directors, the majority i.e. 72.2 percent companies feel that interaction with government departments is really challenging.

Table 4.36 : Frequency table for Interaction with government department

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	104	71.7	72.2	72.2
	Can't say	24	16.6	16.7	88.9
	Not challenging	16	11.0	11.1	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.26 :Frequency chart for Interaction with government department



PARAMETER J-INTERNAL ACCOUNTING COMPLIANCES

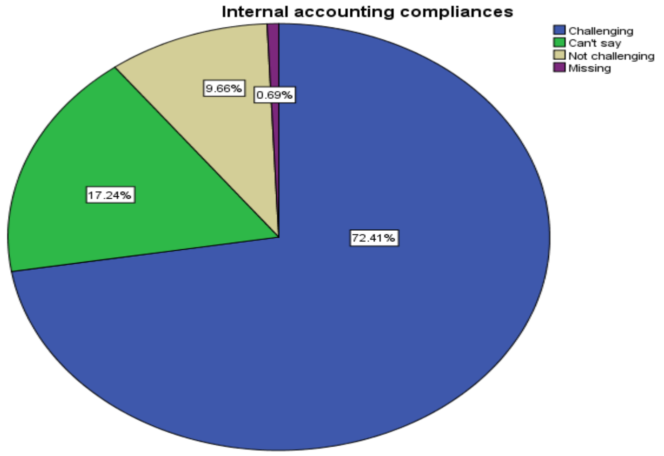
According to the responses of 146 directors, the majority i.e. 72.9 percent companies feel that internal accounting compliances are challenging.

Table 4.37 : Frequency table for Internal accounting compliances

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	105	72.4	72.9	72.9
	Can't say	25	17.2	17.4	90.3
	Not challenging	14	9.7	9.7	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.27 :Frequency chart for Internal accounting compliances



PARAMETER K- CHANGES IN GOVERNMENT POLICIES

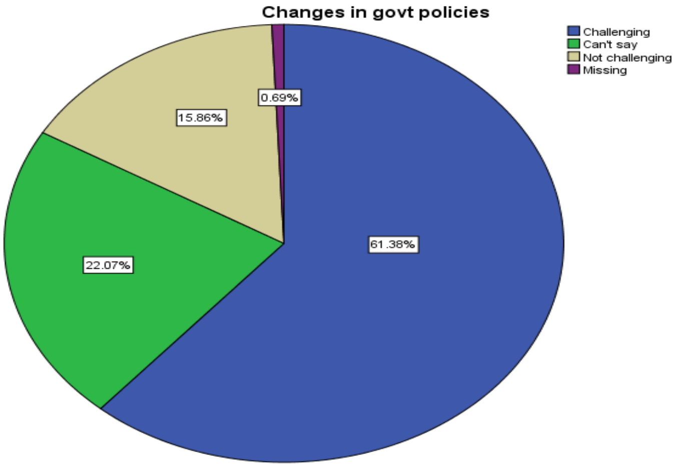
According to the responses of 146 directors, the majority i.e. 61.8 percent companies feel that changes in government policies come as a challenge to them.

Table 4.38 : Frequency table for Changes in government policies

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	89	61.4	61.8	61.8
	Can't say	32	22.1	22.2	84.0
	Not challenging	23	15.9	16.0	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.28 :Frequency chart for changes in government policies



PARAMETER L- TURNOVER PRESSURE

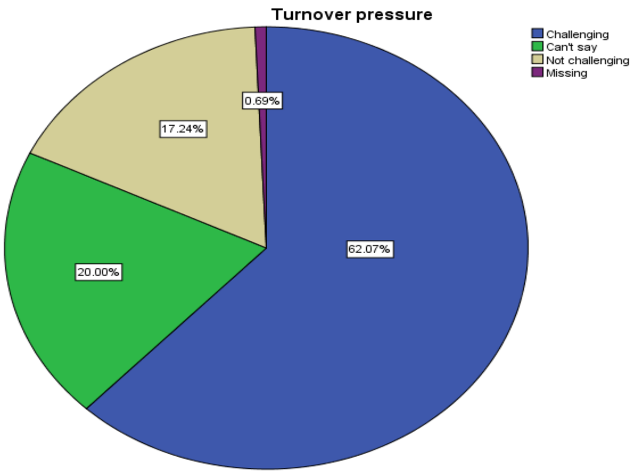
According to the responses of 146 directors, the majority i.e. 62.5 percent companies feel that turnover pressure is challenging.

Table 4.39 : Frequency table for Turnover pressure

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	90	62.1	62.5	62.5
	Can't say	29	20.0	20.1	82.6
	Not challenging	25	17.2	17.4	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.29 :Frequency chart for Turnover pressure



PARAMETER M – EMPLOYEE ATTRITION

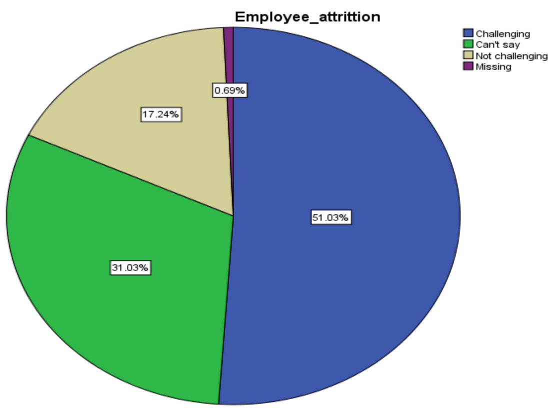
According to the responses of 146 directors, the majority i.e. 51.4 percent companies feel that employee attrition is a challenging parameter for their firm.

Table 4.40 : Frequency table for Employee attrition

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	74	51.0	51.4	51.4
	Can't say	45	31.0	31.3	82.6
	Not challenging	25	17.2	17.4	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.30 :Frequency chart for Employee Attrition



PARAMETER N – EFFICIENY AND PRODUCTIVITY OF EMPLOYEES

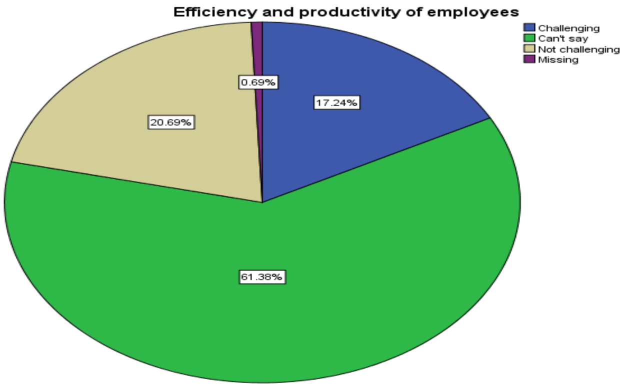
Table 4.41 : Frequency table forEfficiency and productivity of employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Challenging	25	17.2	17.4	17.4
	Can't say	89	61.4	61.8	79.2
	Not challenging	30	20.7	20.8	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

According to the responses of 146 directors, the majority i.e. 61.8 percent companies feel that efficiency and productivity of employees is challenging.

(Source: Primary Data)

Figure 4.31 :Frequency chart for Efficiency and productivity of employees



FACTOR 3: COMPLIANCES

PARAMETER O- INTERNAL AUDIT REPORTS OF PRODUCTION, HR, ISO AND OFFICE SYSTEMS

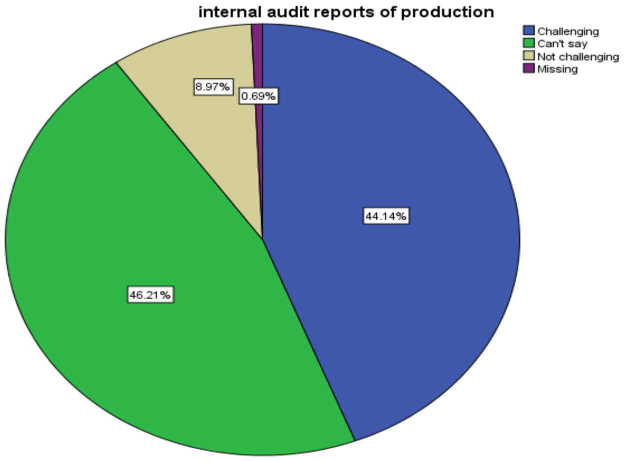
According to the responses of 146 directors, the majority i.e. 46.5 percent companies find it difficult to decide whether this parameter is challenging or not.

Table 4.42 : Frequency table for internal audit reports of production

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	64	44.1	44.4	44.4
	Can't say	67	46.2	46.5	91.0
	Not challenging	13	9.0	9.0	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.32 :Frequency chart for Internal audit reports of production



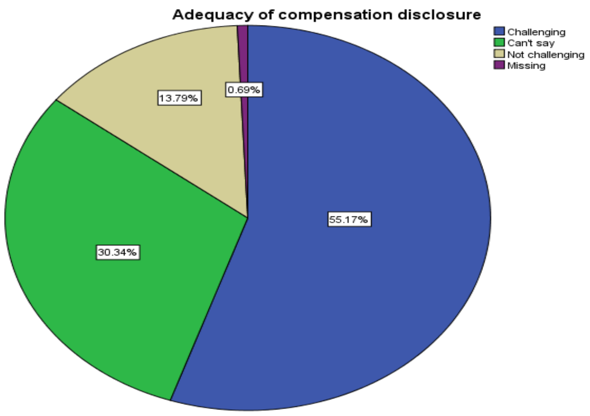
PARAMETER P – ADEQUACY OF A COMPENSATION DISCLOSURE

According to the responses of 146 directors, the majority i.e. 55.6 percent companies feel that this parameter is challenging.

Table 4.43 : Frequency table for Adequacy of compensation disclosure

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	80	55.2	55.6	55.6
	Can't say	44	30.3	30.6	86.1
	Not challenging	20	13.8	13.9	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

Figure 4.33: Frequency chart for Adequacy of compensation disclosure



PARAMETER Q – STATUTORY COMPLIANCE OF GOVERNMENT

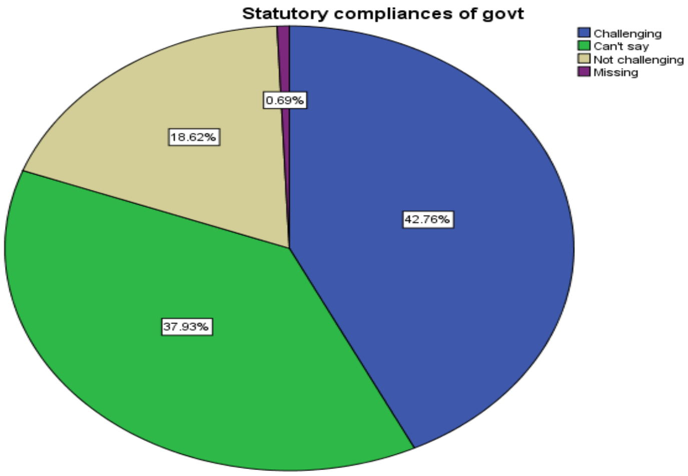
According to the responses of 146 directors, the majority i.e. 43.1 percent companies feel that abiding by statutory compliance of government is challenging.

Table 4.44 : Frequency table forStatutory compliances of government

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	62	42.8	43.1	43.1
	Can't say	55	37.9	38.2	81.3
	Not challenging	27	18.6	18.8	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.34 :Frequency chart for Statutory compliances of government



PARAMETER R- OEM COMPLIANCES

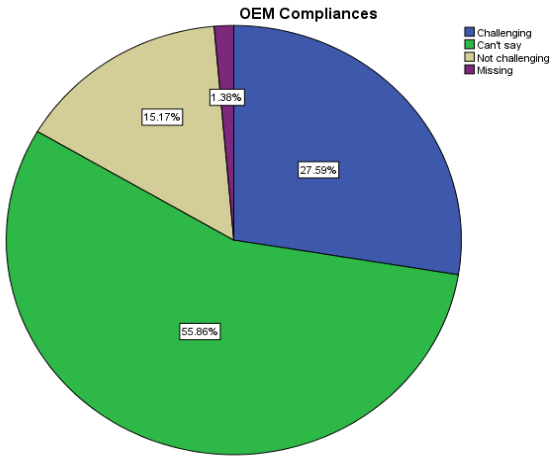
According to the responses of 146 directors, the majority i.e. 56.6 percent companies find it difficult to say whether OEM compliances is challenging or not.

Table 4.45 : Frequency table for OEM Compliances

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	40	27.6	28.0	28.0
	Can't say	81	55.9	56.6	84.6
	Not challenging	22	15.2	15.4	100.0
	Total	143	98.6	100.0	
		1	.7		
Missing	System	1	.7		
	Total	2	1.4		
Total		145	100.0		

(Source: Primary Data)

Figure 4.35 :Frequency chart for OEM Compliances



PARAMETER S- SUPPLY CHAIN ISSUES

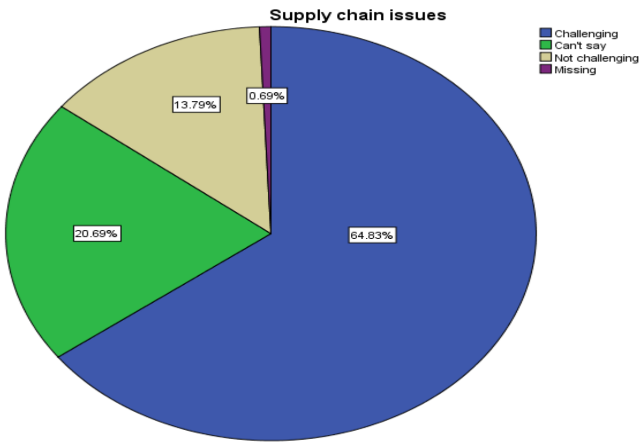
According to the responses of 146 directors, the majority i.e. 65.3 percent companies feel that supply chain issues are challenging.

Table 4.46 : Frequency table for Supply chain issues

		Frequency	Percent	Valid Percent	Cumulative Percent
	Challenging	94	64.8	65.3	65.3
	Can't say	30	20.7	20.8	86.1
	Not challenging	20	13.8	13.9	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.36: Frequency chart for Supply Chain Issues



FACTOR 4: PARAMETER T- KNOWLEDGE SHARING BY OTHER DIRECTORS AND SHAREHOLDERS

PARAMETER T- KNOWLEDGE SHARING BY OTHER DIRECTORS AND SHAREHOLDERS

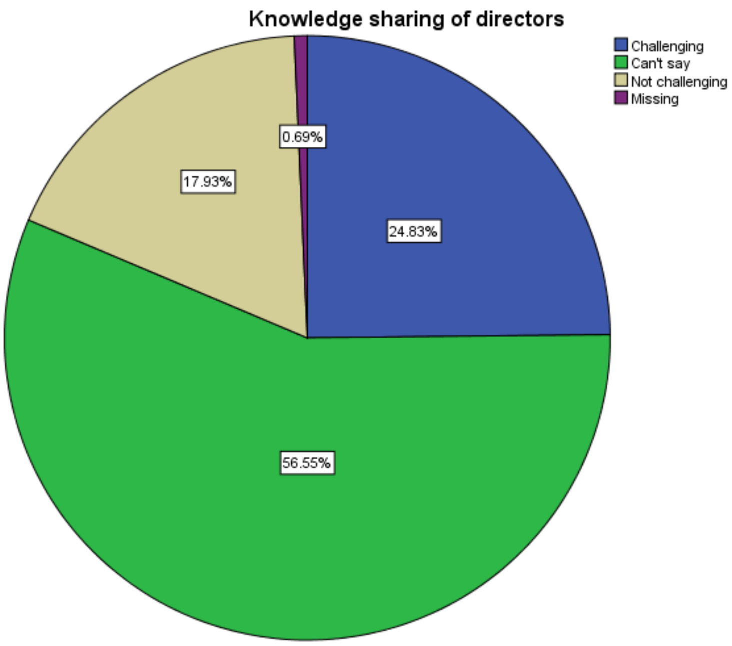
According to the responses of 146 directors, the majority i.e. 56.9 percent companies find it difficult to say whether or not this parameter is challenging.

Table 4.47 : Frequency table for Knowledge sharing of directors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Challenging	36	24.8	25.0	25.0
	Can't say	82	56.6	56.9	81.9
	Not challenging	26	17.9	18.1	100.0
	Total	144	99.3	100.0	
Missing		1	.7		
Total		145	100.0		

(Source: Primary Data)

Figure 4.37 :Frequency chart for Knowledge sharing of directors



CHAPTER – V

CONCLUSION AND SUGGESTIONS FOR FUTURE RESEARCH

Conclusion

Stipulation and elucidation of the duties and responsibilities of the directors of a company, especially the public limited companies, are welcome and great contribution of the new company law of India, the Companies Act of 2013, to better corporate governance and security, and the best possible growth and prosperity in the corporate world of India. The former company law of India, the Companies Act of 1956, was disgustingly deficient in this respect. The new CA-2013 can be seen as offering a landmark piece of legislation in this regard, which duly and explicitly clarifies, redefines, and enlarges the ambit of duties and responsibilities of the directors. These newly introduced provisions by CA-2013 regarding the duties and responsibilities of the directors, including the independent directors, not only provide greater certainty to the directors regarding their conducts and responsibilities, and thus, ensuring better and impeccable corporate management and governance; but also enable and empower the beneficiaries, regulators, and the courts, to judge, regulate, and control the activities and obligations of the directors more objectively and effectively.

This prudent legislation of the CA-2013 over the duties and liabilities of the directors, is further supported and supplemented by the revised corporate governance norms (Revised and New Clause 49 of the Listing Agreement) of SEBI [the Securities and Exchange Board of India], in order to bring the SEBI's corporate governance norms in connection with the listed companies, in close harmony and consistency with the provisions of the CA-2013.

While the several provisions of the CA-2013 related with duties of directors have been made effective from April 01, 2014; the revised SEBI's norms for corporate governance are likely to be in force from October 01, 2014.

Here, it may also be briefly just mentioned that the Directors are regarded as being the Key Managerial Persons of a company, with special importance to the listed companies. They can hold multiple high and responsible positions in the companies, such as the Managing Director, Manager, Whole Time Director, or an Independent Director. Thus, efficient, flawless, and rather progressive management of a company, and the desired growth and profitability of its businesses, are certainly largely dependent on the competence and trustworthiness of its directors. By the way, a Director means a Director appointed to the Board of a company; and, the Board of a company represents the collective body of its directors.

Duties of Directors under the New Indian CA-2013

The duties and responsibilities of directors stipulated by the Indian Companies Act of 2013, can broadly be classified into the following two categories: ---

[i] The duties and liabilities which encourage and promote the sincerest investment of the best efforts of directors in the efficient and prudent corporate management, in providing elegant and swift resolutions of various business-related issues including those which are raised through "red flags", and in taking fully mature and wise decisions to avert unnecessary risks to the company.

[ii] Fiduciary duties, which ensure and secure that the directors of companies always keep the interests of the company and its stakeholders, ahead and above their own personal interests.

The following duties and liabilities have been imposed on the directors of companies, by the Indian Companies Act of 2013, under its Section 166: ---

- A director of a company shall act in accordance with the Articles of Association (AOA) of the company.
- A director of the company shall act in good faith, in order to promote the objects of the company, for the benefits of the company as a whole, and in the best interests of the stakeholders of the company.
- A director of a company shall exercise his duties with due and reasonable care, skill and diligence and shall exercise independent judgment.
- A director of a company shall not involve in a situation in which he may have a direct or indirect interest that conflicts, or possibly may conflict, with the interest of the company.
- A director of a company shall not achieve or attempt to achieve any undue gain or advantage either to himself or to his relatives, partners, or associates and if such director is found guilty of making any undue gain, he shall be liable to pay an amount equal to that gain to the company.
- A director of a company shall not assign his office and any assignment so made shall be void.
- If a director of the company contravenes the provisions of this section such director shall be punishable with fine which shall not be less than one Lakh Rupees but which may extend to five Lac Rupees.

Thus, the new Indian Companies Act of 2013 is certainly a very innovative and landmark legislation in respect of the duties and responsibilities of the directors (of companies) also. Both broad categories of directors, namely, the directors having pecuniary relationship with the company, and the independent directors, have been properly considered under this mature legislation for directors. It is quite obvious from above illustrations that the CA-2013 sincerely seeks to make the corporate management and governance in India rather efficient, fully accountable, transparent, and maximally beneficial to all stakeholders and related professionals, through this intelligent legislation over duties and responsibilities of directors in Indian companies.

Imposing duties on directors through law mechanism is an effective means of monitoring directors while they are managing their companies. Mainly, there are two types of duties: fiduciary duty and the duty of care and skills. Breaches of each duty however carry different consequences in terms of liabilities or punishments. Fiduciary duty requires stricter observance by directors with almost zero tolerance; whilst, duty of skill and care, to a certain extent, may allow directors some flexibilities in its performance. Unfortunately, the boundary of each duty is not necessarily clear in a given situation. There are still some conceptual problems surrounding the application of the directors' duties provisions under the Companies Act 1965. The main causes of the problems may be attributable to that many of the supporting laws cannot sufficiently address the directors' duties either due to lack of reform on certain areas, or there are still uncertainties surrounding the application of the law. This might be due to the non-objectivity on the meaning and the application of laws relating to proper purpose rule, certain procedural requirements e.g. relating to disclosure, meaning of CSR or corporate governance etc. This research project attempts to examine the inconsistencies that exist with regard to the duties performed by directors. It tries to emphasize the duties as provided by Companies Act 1965 and actual duties performed by the directors of various companies.

Therefore, the gap between the conceptual and practical aspects with regard to directors' duties is to be analyzed. For that Wilcoxon test is applied on the data collected for all the six laws under Companies Act. As a result we find out that there is a difference between the responses collected from directors and the ideal response according to the laws. That concludes that in the directors' opinion the laws are not in accordance with the actual working of the companies. So either the laws have to be modified or the directors should follow them strictly.

While analyzing the data through the frequency charts, law 1 and law 3 are still found to be followed by the directors but after applying the tests it is found out that no law is followed by the directors.

The study also reveals that the satisfaction level for the scaling up of the company depends largely on the location of the companies i.e. the companies situated in the regions near Tricity have scaled up more as compared to the companies in Punjab.

The study also highlights the challenges faced by the directors of the SMEs. Factor analysis has been used to study this issueof compliance of laws by the directors. This technique of factor analysis helped in deriving the reduced number of factors determining the challenges faced by the directors of the small and medium scale enterprises.The most significant factor that cause challenges to the directors of the SMEs is "**Interaction with government and internal functioning of the organization".**

Suggestions

After the analysis, it is found out that there is a gap between the actual duties performed by the directors and the duties imposed by the government of India under the Companies Act.

For the benefit and success of SMEs , some strategic decision have to be taken by the administrative units of the companies for restructuring and redesigning their strategies to follow all the directors' duties stated under Companies Act.

SMEs are very prominent in the Punjab region in present. In spite of being major revenue generator, the SMEs are finding it difficult to follow the duties of the directors as suggested under the Companies Act. Therefore, government must create favourable regulatory framework which encourages the working of the SMEs to be more competitive.

Emanating from the research work, the most significant factor that pose challenge to the directors of the SMEs is "Interaction with government and internal functioning of the organization". This clearly states that the government should take measures to simplify the legal processes for the SMEs for the smooth functioning of the companies. Also, the SMEs themselves should reconsider the policies and strategies regarding the internal functioning of the organization and should pay more attention to it as it is posing challenge to the director.

Further Research

This study emphasizes that there is a significant gap between the duties of the directors of the SMEs as suggested by the Companies Act and as performed by the directors.

A further research could be carried out to compare the perspectives of both the government and the SMEs.

To further map the reasons of non-compliance of the laws by the directors, meetings, seminars, conferences and focus group discussionscan be conducted with the directors of the various SMEs to have an insight about their company and to analyze the reasons for the gaps in the duties. Both the government authorities and the directors of the SMEs should be included in these discussions so that the government representatives who are responsible for framing of the laws could realize the need of amendments that can be made in the Act. On the other hand, the directors can also understand well the importance of following their duties.

In the further research, the sample size of the research could be increased and also the scope of geographical locations that are considered should be widened.

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ANNEXURE

QUESTIONNAIRE FOR DIRECTOR

Project Title: Duties Defined And Duties Performed: A Gap Analysis of Directors' Duties in Small and Medium size Enterprises

Section A:

1. Name of the Company:
2. Number of Employees in the company:
3. No. of Directors in the company:
4. Date of establishment of the company:
5. Number of customers:
6. Type of industry: Manufacturing________ Service________ Any other _____________
7. Annual Turnover of the company:
8. The Unique Selling preposition of your company:
9. Any hindrances in scaling up of your company:
10. Rate your satisfaction level with regard to scaling up of your company:
    Highly Satisfied Satisfied Neutral Dissatisfied Highly Dissatisfied

Section B: Following are the statements that specify certain challenges faced by the Directors of the companies while performing their duties. To what extent do you agree/disagree to these statements? Please tick

1. It is a challenge for the Directors to act within their powers
   Strongly agree Agree Neutral Disagree Strongly Disagree
2. While performing their duties the directors find hard to take all stakeholders i.e. employees, suppliers, customers, environment and the community into consideration.
   Strongly agree Agree Neutral Disagree Strongly Disagree
3. Directors of your company have to carry out their duties with reasonable care and skill.
   Strongly agree Agree Neutral Disagree Strongly Disagree
4. There are huge expectations from executive directors who are responsible for an area in which they have a specialist or professional qualification.
   Strongly agree Agree Neutral Disagree Strongly Disagree
5. Directors of your company cannot exercise independent judgment.
   Strongly agree Agree Neutral Disagree Strongly Disagree
6. Directors have to make sure frequently that there is no conflict of interest and duty.
   Strongly agree Agree Neutral Disagree Strongly Disagree
7. Directors cannot take bribes and disclose any personal interests to the company.
   Strongly agree Agree Neutral Disagree Strongly Disagree

8. The directors of your company need not divert business opportunities to anyone else in the company.
   Strongly agree Agree Neutral Disagree Strongly Disagree
9. Directors have to make a declaration of interest where appropriate.
   Strongly agree Agree Neutral Disagree Strongly Disagree
10. It is a great challenge for the directors to carry out the statutory obligations imposed by the Companies Act 2006 and other legislation.
    Strongly agree Agree Neutral Disagree Strongly Disagree

Section C: To what extent do the following issues pose challenges for the directors of a company?

1. Changes in business trends
   To a large extent To some extent Can't say To a little extent Not at all
2. Financial support from bank
   To a large extent To some extent Can't say To a little extent Not at all
3. Competition from other companies
   To a large extent To some extent Can't say To a little extent Not at all
4. Delay in payment realization
   To a large extent To some extent Can't say To a little extent Not at all
5. Changes in technology
   To a large extent To some extent Can't say To a little extent Not at all
6. Time management
   To a large extent To some extent Can't say To a little extent Not at all
7. Interaction with Government departments
   To a large extent To some extent Can't say To a little extent Not at all
8. Internal accounting compliances
   To a large extent To some extent Can't say To a little extent Not at all
9. OEM Compliances
   To a large extent To some extent Can't say To a little extent Not at all
10. Supply chain issues
    To a large extent To some extent Can't say To a little extent Not at all
11. Changes in Government Policies
    To a large extent To some extent Can't say To a little extent Not at all
12. Internal Audit reports of production, HR, ISO and Office systems
    To a large extent To some extent Can't say To a little extent Not at all
13. Turnover pressure
    To a large extent To some extent Can't say To a little extent Not at all
14. Adequacy of a compensation disclosure
    To a large extent To some extent Can't say To a little extent Not at all
15. Statutory compliance of Government
    To a large extent To some extent Can't say To a little extent Not at all

16. Employee Attrition

To a large extent **To some extent** **Can't say** **To a little extent** **Not at all**

17. Efficiency and productivity of employees

To a large extent **To some extent** **Can't say** **To a little extent** **Not at all**

18. Business Scaling up

To a large extent **To some extent** **Can't say** **To a little extent** **Not at all**

19. Work Life Balance

To a large extent **To some extent** **Can't say** **To a little extent** **Not at all**

20. Knowledge Sharing by other directors and stakeholders

To a large extent **To some extent** **Can't say** **To a little extent** **Not at all**