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THE IMPACT OF EXTERNAL CORPORATE GOVERNANCE DISCLOSURE ON THE FINANCIAL PERFORMANCE OF LARGE RETAIL GROCERS IN THE UK

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Abstract

Due to enormous corporate scandals like Enron and WorldCom, there is an increase in calls for more attention on corporate governance. The main lesson that people learned after such scandals was that they could not trust existing laws and structures to maintain vigilance over corporate business practices, and there is an urgent need to vastly improve transparency and credibility in order to ensure that the stakeholders and the shareholders get the protection they deserve. The current research study determines the significance of corporate governance in relation to financial performance. The researcher encourages the notion that changes in the financial performance of the organisation based on profitability as well as corporate planning based on liquidity and efficiency ratios can be influenced by the level of monitoring of the board of directors. The aim is to use case analyses of some organisations to assess if there is impact of corporate governance reporting on the financial performance of large UK grocers. The study concludes that the investors' confidence will be strong only if the capital market is strong against numerous monitoring mechanisms, such as internal corporate governance (CG). Through this research it is established that there is a link between corporate governance and the performance of the organisation. It is argued that there is a need for Tesco, Sainsbury and Morrison to invest more in promoting accountability at the managerial level. Currently most measures are at the executive level and are effective. The study concludes that financial parameters like ROA (return on assets) are found to be impacted by meetings, board independence, board size and audit committee size.

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Chapter One: Introduction

1.1. Study Background

The economic recession that occurred from 2007 to 2010 hit a number of developed nations including the US and the UK. Subsequently, numerous large corporations found it difficult to operate and closed down. The financial crisis laid bare all the issues related to remuneration and performance of managers, the inability of boards to monitor and control company performance and various other issues related to corporate governance (OECD, 2009). However, it has to be noted that these challenges are not new. Gugler (2001) states that these reasons are exactly why corporate governance structures, their policies and management practices have been under strict scrutiny over the past few years. Berle and Means (1932) developed the framework for good managerial practices. Their work inspired managers with little or no experience to get motivated to serve in the best interests of the shareholders. In today's world, most large organisations have a structure that includes managers, who control the day to day managing of the organisation, and the board of directors, which controls the final decisions concerning the organisation (Fama and Jensen, 1983b). This is considered to be the best way to structure corporate governance as long as the decisions are made keeping the stakeholders' interests at heart (Fama and Jensen, 1983a).

By enhancing the corporate governance practices, the overall performance of the organisation can be improved in two distinct ways:

a. The cost of the capital required is lowered.

b. The expected cash flows to the investors will increase.

According to Shleifer and Wolfenzon (2002), shareholders believe that if the organisation's corporate governance practices can be improved, it will result in increased cash flows that can then be used to reward the shareholders as dividends instead of being expropriated by the managers who control the organisation. By lowering the overall cost of the capital required, the shareholders' burden of

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monitoring and auditing is reduced greatly (Beiner, et al, 2004). Burton (2000) argues that by establishing structures that can oversee how the management behaves and operates, and by limiting managerial discretion, the agency costs can be reduced. A number of nations debate between a "one size fits all" rule-based approach and a flexible principle-based governance approach to address concerns related to corporate governance.

When it comes to certain aspects of corporate governance, a rule-based approach was chosen by the US with the adoption of the Sarbanes-Oxley Act of 2002. In contrast, a principle-based approach was adopted in the UK. The primary reasons that a principle-based approach was chosen in the UK include the fact that it is non-binding, flexible and voluntary. In addition to this, a principle-based approach allows organisations to develop organisation specific governance structures that will aid in improving the overall efficiency of the business. Edwards and Clough (2005) state that adoption of such a principle-based approach has led to the formation of a significant number of guidelines and corporate governance codes/principles which focus on conformity and the accountability of the business.

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1.2. Problem Formulation

Due to enormous corporate scandals like Enron and WorldCom, there is an increase in calls for more attention on corporate governance. The main lesson that people learned after such scandals was that they could not trust existing laws and structures to maintain vigilance over corporate business practices, and there is an urgent need to vastly improve transparency and credibility in order to ensure that the stakeholders and the shareholders get the protection they deserve (Fearnley and Beattie, 2004).

There is empirical evidence that shows that organisations which have good corporate governance practices in the US and the UK tend to reduce the control rights that managers can wield. This results in an increase in the probability that the managers will invest in shareholder value-creating projects (Shleifer and Vishny, 1997). Furthermore, companies that have a history of being governed well tend to

have a much easier time when it comes to securing loans, have lower costs of capital, have more favourable treatment by all stakeholders and have improved financial performance (Claessens et al., 2003). According to Claessens et al. (2003), organisations that have poor corporate governance tend to have poor financial performance and risky financing patterns. This in turn increases the possibility of a macroeconomic crisis being triggered. Typically, most of the attention in previous research has been focused on large sections of the industrial sector, e.g. retail, energy, FMCG etc. Therefore, there is a gap when it comes to research related to how the attributes affect individual organisations.

The results have not always been clear when it comes to research that has focused on the relationship between effectiveness and board characteristics. A few studies have attempted to delve into and clear up the inconclusive results (Hillman et al., 2009). Such studies have concluded that the inconclusive results are largely due to the one dimensional perspective that all corporate governance related research tends to take. By adopting a one dimensional perspective, the contextual factors overlooking the behaviour of the board of directors and their causes are not taken into account (Haspeslagh, 2010).

The current research study determines the significance of corporate governance in relation to financial performance. The researcher encourages the notion that changes in the financial performance of the organisation based on profitability as well as corporate planning based on liquidity and efficiency ratios can be influenced by the level of monitoring of the board of directors. The aim is to assess if there is impact of corporate governance reporting on the financial performance of large UK grocers.

1.3. Research Question

The current research will focus on a single industry, the grocery retail industry, and attempt to assess answers to the above problem. The primary research question is:

What is the impact of best practice corporate governance on the financial performance of the large UK grocers?

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1.4. Objectives

The following objectives are observed in this study.

1. To assess the current environment of the grocery retail sector and identify impacts on performance and planning.
2. To investigate the financial performance of the chosen organisations in the sector by promoting a financial ratio analysis.
3. To determine the degree to which the corporate governance code is followed by the organisations.
4. To identify the impact of corporate governance on the organisational performance.

1.5. Chapterisation

The study has six chapters.

- Chapter One presents the study background, problem and objectives.
- Chapter Two presents the relevant literature on corporate governance and financial performance.
- Chapter Three presents the methodology of the study, including research framework and data collection.
- Chapter Four presents the empirical models which are tested in the study.
- Chapter Five presents the results and discusses the findings.
- Chapter Six presents the study conclusion by discussing recommendations, limitations and future research.

Chapter Two: Review of Literature

2.1. Introduction

In the UK, the grocery retail industry has evolved over time and the concept of multiple retailing, where a single organisation has ten or more stores, has gained prominence over the years. Such evolution has also resulted in the concept of one stop grocery shopping, where all grocery items are sold under a single roof (Clarke et al., 2012). According to Wrigley (2010), there has been a reduction in the overall number of high street outlets by supermarkets and a steady increase in the average store size. Hallsworth et al. (2010) further argue that the grocery retail industry has a number of channels operating within it, including discount stores, hypermarkets, online stores, supermarkets and convenience stores. Given this growth and evolution of different market structures, it is important to examine the role of corporate governance mechanisms in impacting the financial performance of organisations in this sector. This review will examine the growth of the UK grocery retail industry, the importance of corporate governance and the determinants of financial performance to arrive at the theoretical framework of the current study.

Section I: UK Grocery Retail Sector

2.2. Grocery Retail Industry Growth

The grocery retail market in the UK is estimated to be worth £169.7 billion in the year 2013. This was an increase of 3.7% when compared to 2012. IGD predicts that the net worth of the UK grocery retail industry will be about £192.6 billion by the year 2017 (IGD, 2014). It is essential that every component of the grocery retail industry be analysed and understood, as it has been found that for every pound spent by a UK national, 54.0p is spent on groceries (SAS, 2013). Figure 1 represents the growth of the UK retail industry.

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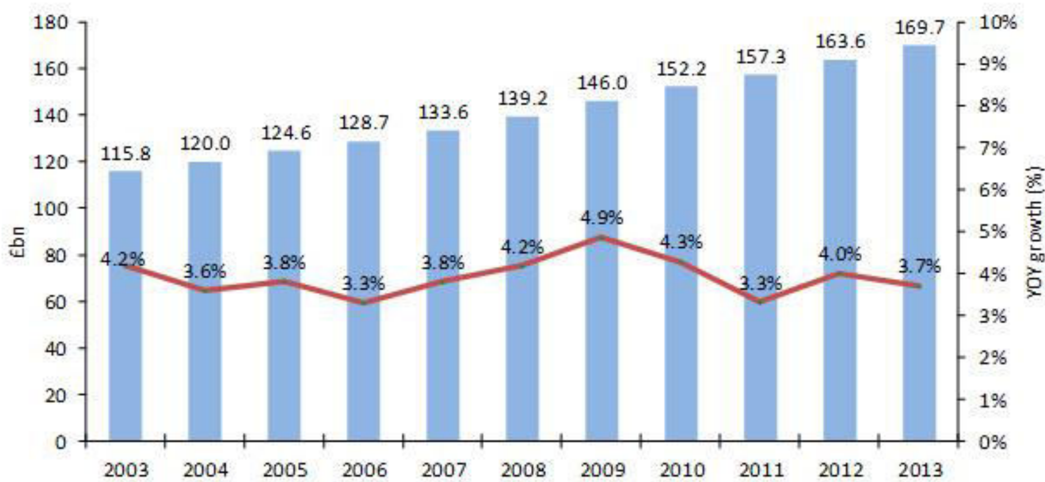
Figure 1: Growth of the UK Retail Sector (Source: IGD, 2014)



In the UK, major supermarkets have the largest share of the national grocery market, with around 75% of the overall value of the grocery retail market. These supermarkets include brands such as Morrison's, Tesco, Sainsbury's and ASDA (Wardman, 2012). Among these big brands, Tesco has the single largest share of the grocery retail market, occupying a 24% market share in 2012. However, Tesco has lost its market share when compared to 2007, when it had a 30% market share. The primary reason for this decline in the market share is increased competition from other supermarket chains. According to Wardman (2012), Sainsbury's increased its market share from 16.5% to 16.7% and ASDA increased its market share from 16.9% to 17%. Morrison's saw a dip in their market share from 12.4% to 12.3%. The percentage of growth is expected to be minimal, as higher prices of groceries coupled with squeezed income have resulted in people wanting to spend only on their essentials (Thompson et al., 2012). Market saturation, attitude towards other retailers and aggressive planning strategy are the main factors for the loss of market share by Tesco (De Chernatony, 2012). These are the main reasons as to why this particular topic was chosen to be the area of research for this current study. An in-depth analysis is essential to understand the importance of customer focus, the current financial performance of major brands within the UK grocery sector and the overall macro economic climate.

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According to a report by SAS (2013), an increase to £4,190m was found in the amount of money spent on food and groceries. However, the report also pointed out that the amount of profits in the non food retail industry was minimal. The main reason for this has been put down to inflation and needs (Clark et al., 2012). Furthermore, the grocery retail sector has survived through the economic recession, as groceries are something that people cannot skimp on. About 59% of the income was found to be used for groceries by UK nationals, according to a survey (IGD, 2013). Hence, this industry was chosen as consistent and sufficient data could be gathered. The survey also showed that the average number of trips to the grocery store has increased over the years, as people are trying to look for the best offers and manage their budgets.

People are also not loyal to any particular store and are diversify their purchasing patterns as per the offers. This is another important consumer trend that has to be analysed. According to Felgate et al. (2011), the online shopping facility has proven to be quite popular among the masses with a significant number of people preferring it. One of the main reasons for the growth in online shopping is that it saves time and energy for people and they can compare products and services offered by different retailers before making a purchase (Holland and Mandry, 2013). Furthermore, Pioch et al. (2009) state that online shopping allows people to promote management of their budget better. The current study delves into three grocery supermarket chains, which are Tesco Plc, Sainsbury Plc and Morrison Plc.

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2.3. Macro Economic Analysis of the UK Grocery Retail Industry

To understand the current status of the UK grocery retail industry, the current research adopts a Porter's analysis to understand the strength of the retailers. This helps in providing an understanding of the current position of the retailers in the market.

2.3.1. Threat of Substitutes

The threat of substitutes for the UK grocery market is quite low, especially for supermarket chains like Tesco, ASDA etc. The main reason for this is that high street outlets and discount stores do not offer the variety that the big retailers can offer. Tesco has a big advantage when compared to other retailers, as it offers the widest range of services, including online services and home delivery of all products. The threats increase when non food products are taken into consideration due to the reduction in income liquidity and growth in product specific stores (Bruce and Daly, 2011).

2.3.2. Threat of Entry of New Competitors

The threat of entry of new competitors into the food retail industry is relatively low. Competitors find it difficult to crack this market, as it requires a lot of investment as well as infrastructure. Moreover, the big four competitors occupy a significant portion of the UK grocery market and it will be hard to gain any more market share for a new entrant (Hall, 2011).

2.3.3. Competitive Rivalry

The threat of competitors is very high in the UK retail industry. The major brands all provide a similar range of services. Therefore, it is very difficult for one brand to distinguish itself from others. Moreover, brands try their best to come up with customer centric services that will help them gain market share all the time. This results in a very high degree of competition at all levels, and the brands cannot risk losing their market share as it will be very hard to get it back (Poulter, 2012).

2.3.4 Bargaining Power of Buyers

Due to the high levels of competition, the customers have more bargaining power. Cost is the most vital factor for consumers to make their decisions on where to purchase. Therefore all the brands constantly provide offers and discounts to entice consumers (Poulter, 2012).

2.3.5. Bargaining Power of Suppliers

The suppliers' bargaining power is quite low when it comes to the UK grocery sector. However, suppliers have been given more power following the recently implemented Groceries Code Adjudicator (Wrigley, 2010).

Section II: Corporate Governance

2.4. Definition and Importance of Corporate Governance

Extant literature defines corporate governance as the methods adopted by organisations to ensure that there is effective direction and control (Erkens et al., 2012; Solomon, 2011). OECD (2004) presents an effective definition of corporate governance. It is argued that the process of corporate governance helps in maintaining proper structure and regulations with respect to the relationships, while ensuring that the associated responsibilities of board members are clearly defined. On-Kit and Guo Sze (2007) indicate that the aim of corporate governance is to explain the roles and responsibilities of various participants, including the board members, executive committee, employees, shareholders and other stakeholders. Solomon (2011) argues the need to look beyond the duties of stakeholders to identify corporate governance as a process which can impact the overall economic development of an organisation, while ensuring that the accountability and transparency of operations are promoted.

Over the years, the definition of corporate governance has been considered from different perspectives. For instance, Berghe and De Ridder (1999) identified corporate governance as a process which requires multiple perspectives. They promoted three different schools of thought with respect to the definition. The first philosophy associated with corporate governance is the policy and supervision required to ensure effective governance. The second philosophy associated with corporate governance is to determine the relationship between various parties and understand the employees' and board members' roles and responsibilities. The third philosophy which governs corporate governance identifies the relationship between organisational functioning and transparency in light of its vision and mission. The authors indicate that despite three different primary objectives of corporate governance, there is a common emphasis on the need to separate ownership and

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control and establish a clear demarcation between insiders (i.e. those who are involved in day to day operations) and outsiders (i.e. those who oversee operations).

OECD (2009) identifies the need for better corporate governance in the aftermath of the recent global credit crunch. The report clearly identifies that between 2007 and 2009, governments around the world undertook efforts to alter the requirements of corporate governance, especially in relation to financial markets. Rezaee (2009) reiterates that the role of corporate governance is central to the promotion of corporate competitive advantage, as it has a direct impact on the financial stability and performance of an organisation.

Sabri and Florence (2007) are of the opinion that the primary factor of corporate governance which impacts the organisational functioning is the need to focus on governance systems which currently exist within organisations. Nini et al. (2012), on the other hand, indicate that more than the governance systems, corporate governance should pay attention to the degree of compliance of the organisation with established governance practices. However, Jenkinson and Meyer (2012) indicate that the primary purpose of corporate governance should be focus on the transparency and accountability of organisational practices. Acharya et al. (2013) present an effective synthesis of the above views by arguing the need for corporate governance to function as a continuous process within the organisation, organising, directing and controlling various corporate entities. The authors conclude that the focus of corporate governance should be on different processes involved in the direction and management of organisational business affairs. Erkens et al. (2012) conclude that to understand the role of corporate governance it is important to balance the corporate objectives and performance with the responsibilities of stakeholders and the measures of transparency and accountability.

The importance of corporate governance is also discussed by Wintoki et al. (2012). According to the authors, the role of corporate governance in an organisation is to understand the responsibilities of the boards of directors, CEO, owners and managers, while keeping in mind the accountabilities of different parties, including the monitoring of governance, reporting hierarchy and the role of independent board members. The authors also indicate that these responsibilities and accountabilities are to be promoted in a manner which ensures checks and balances, i.e. there is

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appropriate transparency to different stakeholders. Having discussed the importance of corporate governance, the following section will focus on the role of corporate governance systems.

2.5. Corporate Governance Systems

According to Chowdary (2003), corporate governance systems are found to be largely associated with developments of industrial capitalism. Mallin (2011) argues that industrial development is often promoted in a manner that enables the incorporation of designs focusing on alternative business opportunities. Given this scenario, the author indicates that there is a need to examine different governance mechanisms and practices which are most suitable for a business. Chung-Cheng et al. (2006) also argue that in a global market there is a need to identify the most effective corporate governance practice which will have an impact on the organisational functioning. The authors indicate the need to classify corporate governance systems as market oriented and network oriented, and evaluate the applicability of a specific system for a given corporation.

Bhasa (2004) identifies four primary systems of corporate governance, including the market centric model, network model, emerging governance model and transition model. Wintoki et al. (2012) further argue that the corporate governance systems of developed economies are often based on a market centric approach. The current study focuses on organisations which are based in the UK. Therefore, the current research will consider only the market oriented model in detail.

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2.5.1. Market Based System

According to Alcantara et al. (2012), the market based model of corporate governance is also referred to as the Anglo Saxon model. In this approach, the ownership structure shows diversity, with the stock markets being highly liquid. In the market based system, investors are given effective protection and organisations are directly controlled by professional managers, whose primary aim is to improve the shareholder value. Bhasa (2004) indicates that in this approach, the power of

decision making is often in the hands of the executive committee of the organisation. Cernat (2004) supports this view by indicating that the fragmented nature of ownership results in limited power for the shareholders in appointing directors and voting on company issues. Choi (2011) argues that in a market based corporate governance system there is a need to focus on the existing conflict between the strength of the manager and the views of the shareholders. Mallin (2011) further argues that the lack of ownership by the executive management may result in decisions which are not in the best interest of the shareholder. This can lead to an increase in agency costs.

According to Mueller (2006), the Anglo Saxon model has an effective approach only when it helps in the promotion of effective information flow and communication between the management and the investors, and hence is largely based on the degree of corporate disclosure. Solomon (2011) further argues that the regulations and corporate governance measures of organisations are aimed at presenting uniform information to all shareholders. Siepel and Nightingale (2012) indicate that this model promotes a firm which has a board of directors who have a certain degree of independence from the management with respect to decision making. This helps in promoting impartiality with respect to the monitoring of managerial performance. The authors also indicate that the degree of independence of the board is often called into question, as there are mixed evidences with respect to the role of non-executive board members. The authors conclude that the market based system is most effective in capital markets.

The market based model of corporate governance can be differentiated based on the legal system of the country in which the organisation exists. This review considers the work of Tricker (2009), who compares the corporate governance models of the US and the UK. The authors identify that in the US the corporate governance is largely based on a rule based system, where the government laws and rules are found to have the greatest impact. Any violation of these rules results in legal action against the board for lack of accountability and transparency. A good example of the rule based system is the promotion of the Sarbanes-Oxley Act (2002). In the UK, the governance is largely promoted based on a principle based system where organisations are expected to follow a Code of Corporate Governance. Mallin (2011) argues that the Cadbury Code (proposed in 1992) helps in arriving at a clear

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definition of governance benchmark. Tricker (2009) argues that in the UK the corporate governance principles are linked to the concept of a unitary board and shareholders, and directly relate to the responsibilities of the board and not the responsibilities of the law. Tricker (2009) refers to this approach as a "comply or explain" model, with companies expected to file reports indicating that the Code of Governance principles are met.

From the above section, the importance of corporate governance mechanisms is clearly understood. The following section will examine the indicators of financial performance.

Section III: Financial Analysis

2.6. Importance of Financial Ratios: Indicators of Financial Analysis

Helfert and Helfert (2001) argue that financial ratio analyses are used as indicators of organisational performance, as they help in understanding the existing relationship between two items in financial reports. These items are used to evaluate the financial performance of the organisation from a historic perspective. Fridson and Alvarez (2011) further indicate that the use of ratios is effective as they help in providing information to a number of stakeholders including employees, managers, top management, shareholders, creditors, security analysts and investors with respect to the financial health of the organisation. Therefore, to understand the financial performance of the organisation, the current research will adopt a financial ratio analysis.

The first type of ratio which is examined in the current research is the profitability ratio. According to Pareja (2010), profitability ratios help in relating the earnings made by the organisation to the overall sales, assets and equity. The different profitability ratios which are discussed in the current research are identified in the following Table 1.

According to Bodie et al. (2011), the examination of liquidity ratios helps understand the ability of the organisation to meet its short term obligations. When examined from a retail perspective, the liquidity ratios are often small due to the fast movement of

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inventories and limited credit associated with sales. The information on liquidity is useful for creditors as well as investors, as it shows the current financial health of the organisation. The different liquidity ratios which are discussed in the current research are identified in the following Table 1.

According to Fridson and Alvarez (2011), the efficiency ratios of an organisation provide information with respect to the efficiency of operations. For instance, an examination of the stock turnover or the net asset turnover identifies the productivity of the organisation and its ability to convert its stocks and assets into sales. Collier (2009) argues that a high efficiency ratio is required by retail organisations, as it will lead to an increase in efficiency of output. The different efficiency ratios which are discussed in the current research are identified in the following Table 1.

According to Fraser (1990), the gearing ratios of an organisation provide a comparison of the external resources available to the organisation with the total capital that the organisation currently possesses. It is always preferable for organisations to have a low gearing ratio.

Based on the above theoretical views, this research focuses on assessing the performance of the organisation based on their financials.Having discussed the role of financial ratios in indicating the financial health of an organisation, the following section will link the role of corporate governance and its indicators to the framework of the study.

Section IV: Framework of the Study

2.7. Financial Attributes Impacting Board Performance

2.7.1. Board Size

According to Firstenberg and Malkiel (1994), if the point of view of an agency is considered, it is more likely that smaller boards reach a consensus easily by allowing the members to conduct genuine interaction and debate. On the other hand, Psaros (2009) contends that larger boards are a source of greater management oversight, expertise, and a broad array of resources and contracts. However, it has been argued that higher agency problems are found in larger boards because it is difficult to maintain coordination and it is difficult for them to make strategic decisions that

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are value maximising (Kusandi and Mak, 2005). As a result, strategies that would maximise company value are not implemented. Additional costs that are involved with larger boards exceed the additional benefits achieved by them (Pye, 2000). It is argued by Psaros (2009) that the board size should be optimum to ensure the promotion of corporate accountability and transparency. In line with this view, it is contended that there is a need to examine the association between corporate governance and financial performance. On the basis of these contradictory views, many researchers have opted to examine if the size of the board has any effect on the financial performance of a company. An inverse relationship can be established between the size of the board and the financial performance of a company (Guest, 2009) and the same results have been measured by Tobin Q. Eisenberg et al. (1998) for medium and small sized companies in Finland, while Reddy et al. (2008) in New Zealand report similar results. It is therefore argued that an increase in board size will negatively impact firm performance.

H1: There is an inverse relationship between board size and financial performance

2.7.2. Board Independence and Diversity

There has been extensive debate on the issues of board independence and board diversity attributes as important determinants of board composition (Milliken and Martins, 1996; Dulewicz and Herbert, 2004). According to Dulewicz and Herbert (2004), when there are a greater number of non-executive directors governing remuneration and the audit committee, there is an improvement in firm performance. Diversity is considered desirable because preceding literature suggests that it increases group performance, exchange of ideas and discussion. Brennan and McCafferty (1997) add that the value of a corporation increases if there are women on the board because (i) women are more independent as they do not belong to any "old-boys"; and (ii) women understand better the needs of consumers, consumer behaviour and opportunities through which companies can meet those needs. On the basis of these arguments, it is reasonable to posit that the financial performance of a company is affected positively by diversity.

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H2: Board diversity positively impacts the financial performance of an organisation.
H3: Board independence is positively associated with the financial performance of the organisation.

2.7.3. Audit Committee Independence and Number of Board Meetings

According to Lin et al. (2006), in financial reporting, better integrity is provided if independent audit committee members are present. According to Bhagat and Bolton (2008), the governance integrity which can be determined using the audit committee and the remuneration committee can have a positive impact on the organisational performance. On the same lines, Bedard et al. (2004) indicate that audit committee independence has a negative relation when associated with financial manipulations, but there is no direct impact on financial performance. Alternatively, it has been reported that the financial performance of a company is positively affected by the existence of an audit committee (Weir and Laing, 2000; Main and Johnston, 1998). A similar effect has been noticed by Klein (1998), along with the revelation that this relationship might not be that significant.

Forbes and Millikin (1999) argue that when there is a greater number of meetings conducted between the executive and non-executive members of an organisation, there is greater collaboration and consensus on strategic management. From this perception, one can argue that the board meetings positively impact financial performance.

H4: Audit committee degree of independence positively impacts the financial performance of an organisation.
H5: Board meetings are positively associated with the financial performance of the organisation.

The following Figure 2 depicts the theoretical framework of the study.

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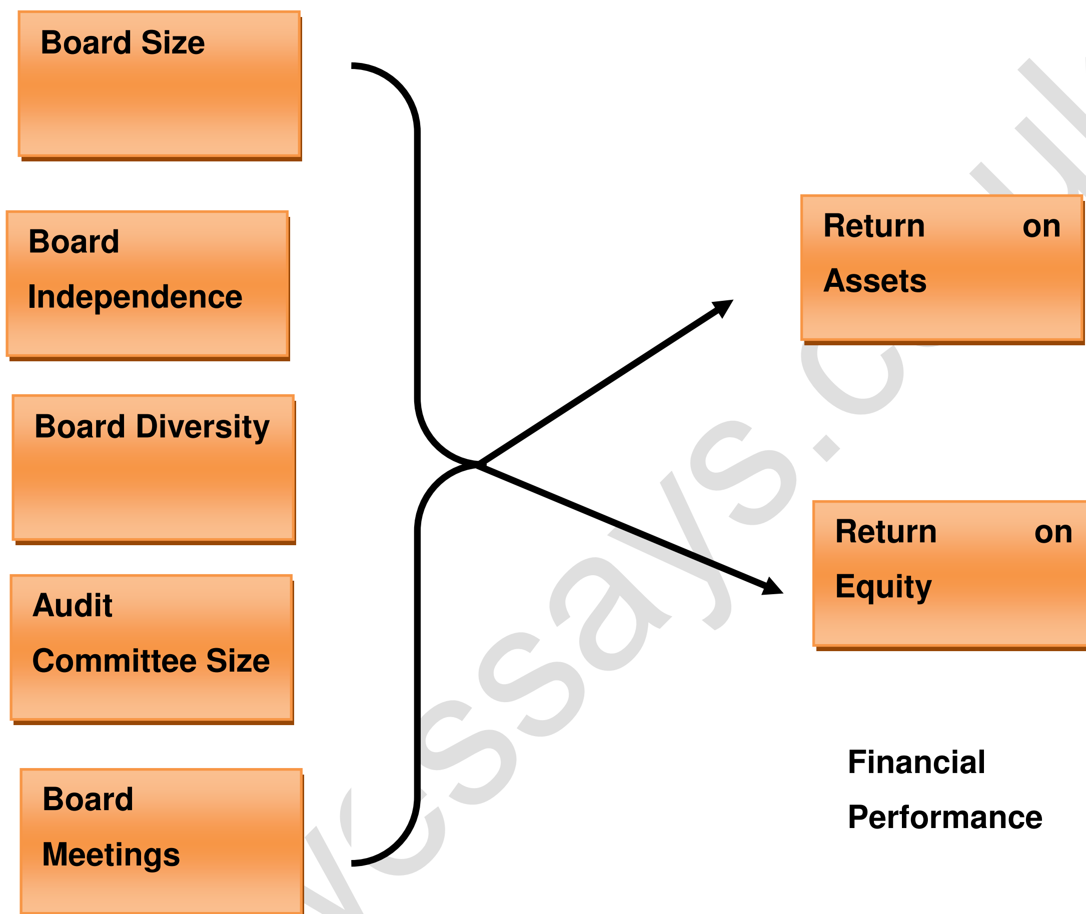
Figure 2: Theoretical Framework of the Study



Source: Author (2014)

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Chapter Three: Methodology

3.1. Introduction

The current chapter will present the research methodology that is adopted by the researcher. The research design, the research method, sources from where the data was gathered from and how data was analysed are all discussed in this chapter.

3.2. Research Design

It is essential that all research is carried out under a lens because the epistemology is quite hard to establish. There is a significant degree of difference between the natural world and the social world (Denzin & Lincoln, 2011). According to Berg and Lune (2004), the social environment involves relationships being continuously constructed and re-constructed, and people have a tendency to interpret epistemologies based on what is historically inherited. This process is recognised by the interpretivist approach. According to the interpretivist approach, there is no absolute truth, and temporal and social space informs individuals about the perceived truths. Thus, a researcher using this approach will try to interpret the views that can be observed in the literature review in a bid to draw conclusions based on extant evidence (Berg & Lune, 2004). This research will therefore adopt an inductive approach to understand the direct impact of corporate governance on organisational performance.

There are two fundamental approaches to carrying out a research. These include a deductive or an inductive approach (Denzin & Lincoln, 2011). The approach best suited to this research study is determined by the conceptual framework that is used in the project. By adopting an inductive approach, the primary goal would be to make generalisations rather than specifications. This approach is quite beneficial when exploring phenomena about which little is known. A deductive approach involves testing the hypothesis to determine if it is true or not, whereas an inductive approach involves developing theories on which future hypotheses can be based. The researcher utilises a deductive approach in the current study, primarily because the aim is to identify the association between corporate governance and an

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organisation's financial performance by applying previous research carried out in this area of research.

The primary research strategy for the current study is to analyse the existing literature base and to try to identify patterns or findings from it. This is a very time consuming process that involves going through studies conducted by other researchers in a similar topic area. Therefore, this research adopts an archival research strategy. According to Neuman (2005), a major advantage of this strategy is that new patterns and anomalies may be identified that could not have been identified at the time when such similar studies were conducted.

The strategy involved scanning studies for title relevance and abstract relevance. The selected studies were read in detail and coded for emergent themes. Neuman (2005) also states that this type of research strategy has a high degree of validity as long as the method adopted is objective. The major advantage of this approach is that lots of evidences can be examined.

3.3. Research Method

The researcher will adopt a mix of quantitative and qualitative secondary data analysis design. Using this method means that the researcher will gather previously established qualitative data and will use this data to investigate the research questions by understanding the company corporate governance principles (Heaton, 1988). The researcher will also adopt a quantitative approach towards gathering data alongside the qualitative approach. The quantitative data will be probed by the researcher to determine any empirical evidences that may exist in connection with the current study's research framework in terms of accounting performance. Once the relevant data is gathered, analysis of the data will be carried out as warranted by an inductive approach. The main aim of data analysis is to develop some useful information, to identify new perspectives of conceptual focus or to enable sub-set analysis, as shown in the below figure.

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Figure 3: Focus of Secondary Data Analysis

Main focus of analysis	Single qualitative data set	Multiple qualitative data sets	Mixed-method data set
Additional in-depth analysis	a more *intensive focus* on a particular finding or aspect than was undertaken as part of the primary work		
Additional sub-set analysis	a *selective focus* on a sub-set of the sample from the original study (or studies), sharing characteristics which warrant further analysis		
New perspective of conceptual focus	the *retrospective analysis* of the whole or part of a data set from a different perspective, to examine concepts which were not central to the original research		

Source: Heaton (1998)

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3.4. Research Method

Secondary data analysis refers to analysis of data that is collected from sources that have already been established, and which is used for purposes other than the primary objectives of the research study (Silverman, 2010). Rapley (2011) defines secondary data analysis as a process whereby a research question is answered or a solution sought for a particular issue by analysing existing information that aids in establishing new answers that have not previously been determined by anyone else.

According to Silverman (2010), secondary research is important as it attempts to shed new light on a particular subject matter and also tries to determine any new research gaps. There are four important aspects to a secondary data analysis, which are presented by Bernard & Ryan (2010). These are:

- Secondary data analysis is more effective than primary data. This is because it answers specific questions and problems. Primary data analysis investigates a small scope of the problem, whereas secondary data analysis looks at the bigger picture.
- Secondary data collection takes less time compared to primary data collection.

- Secondary data collection is less expensive to set up and run in comparison to primary data collection.
- Secondary data collection can be done by one person, whereas primary data collection requires participants' help.

3.5. Steps in Secondary Data Analysis

According to Heaton (1998), the first step when it comes to secondary data analysis is to outline the research objectives. This is followed by determining the different types of data collection method. The final step is the promotion of the related analytical processes that will be used to evaluate the given data. According to Rapley (2011), the secondary data analysis methods should be transparent when it comes to allowing people to see what measures are being used and what ethical principles are being used in the study.

3.5.1. Data Sources

Silverman (2010) is of the opinion that secondary data collection sources have to be clearly identified and stated along with the inclusion and exclusion criteria. The current study takes into consideration two streams of data source.

1. Data is gathered from academic sources that have already been peer reviewed and published in databases such as Sage, Emerald and Science Direct.
2. Data is also gathered from organisations' websites (Tesco, Sainsbury, Morrison) and their annual financial reports.

3.5.2. Data Inclusion and Exclusion Criteria

Inclusion Criteria:

1. Case studies and applications that are relevant and have occurred in the past five years.

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Exclusion Criteria:

1. Non-English articles.
2. Articles that are too vague or general.
3. Articles that were published before 2007.

3.6. Data Analysis

Rapley (2011) believes that in a qualitative research, thematic data analysis process is most commonly used. This process is beneficial in the case of reflective or review based research. This process aids in pinpointing, evaluating and recording recent trends in data analysis. A typical thematic analysis process involves five steps, which are also followed by the current study. These include the familiarisation of data, identification of specific patterns of research, selecting and choosing data which underlies the associated pattern, review of the data and presenting the final report.

The quantitative analysis will involve the promotion of a ratio analysis to identify the profitability, liquidity, efficiency and gearings performance of the organisation. Furthermore, the study uses a simple regression analysis to test the association between corporate governance and company performance. The analysis of the ratios and their formula is given in chapter five. The following chapter presents the empirical assessment carried in the study.

3.7. Conclusion

This chapter presents a summary of all the research strategies, methods and approaches that were used by the researcher in the current study. The following chapter presents the study empirical analysis.

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Chapter Four: Empirical Analysis

4.1. Analysis of Financial Ratios

The financial ratios which are analysed in the current research are determined using the formulae presented in the following table. The data which are collected are from company reports and databases like Morningstar, Bloomberg and others.

Table 1: Ratio Analysis

Ratio	Formula
Profitability Ratios	
Gross Margin	Gross Profit/Net Sales
Operating Margin	Operating Profit/Net Sales
Net Margin	Net Profit/Net Sales
Return on Equity	Net Income/Equity
Return on Net Assets	Net Income/(Fixed Assets + Working Capital)
Return on Capital Employed	EBIT/Capital Employed
Liquidity Ratios	
Current Ratio	Current Assets/Current Liabilities
Quick Ratio	Current Assets (Inventories + Prepayments)/Current Liabilities
Efficiency Ratio	
Asset Turnover Ratio	Net Sales/Total Assets
Stock Turnover Ratio	Cost of Sales/Average Inventory
Gearing Ratio	
Net Gearing	Net Debt/Equity
Long Term Debt to Equity	Total Liabilities/Total Assets
Interest Coverage Ratio	EBIT/Annual Interest Expense

Source: Author (2014)

4.2. Assessment of Corporate Governance Quality

According to FRC (2012), the corporate governance code in the UK is aimed at facilitating a management process which is transparent and efficient and can be used to ensure good governance practices of accountability, transparency and probity of the sustained success of the organisation. The UK Corporate Governance Code, which was first developed in 1992 as part of the Cadbury Report (1992),

identifies that the focus of the corporate governance code is to ensure that the governance parameters are set and that the board of directors is aware of the procedures involved in promoting shareholder interest. The board of directors is considered to be subject to laws and regulations in the annual general meeting and is accountable to the shareholders.

Table 2: Tesco Corporate Governance

Effectiveness: Financial Disclosures	Leadership	Remuneration	Relationship with Shareholders
		Director stock ownership	Auditor appointment and rotation
Financial and Operating Results	Size of board	Director remuneration	Notice of the AGM
Related Party Transaction	Composition of board		Agenda of the AGM
Critical Accounting Policies	Division between Chairman and CEO		
Corporate Reporting Framework	Chairman's statement		
Statement of Directors' Responsibilities	Information about independent director		
Risk and Estimates in Preparing and Presenting Financial Statements	Role and functions of the board		
Segment Reporting	Changes in board structure		
Information regarding Future Plan	Audit committee		
	Remuneration committee		

Source: Adopted from FRC (2012)

4.3. Impact on Financial Performance

The aim of this section is to present a simple model which identifies the impact of corporate governance attributes, especially the board characteristics, on the performance of the organisation.

The following equations are tested using regression analysis.

$$ROE = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BM + \beta_3 AC + \beta_4 BD + e_t$$

$$ROA = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BM + \beta_3 AC + \beta_3 BD + +e_t$$

where,

ROE = Return on equity

ROA= Return on assets

BS = Board size (Number of executive directors + Number of non-executive directors)

BM = Board meeting (Total number of meetings in a year)

AC = Audit committee size (Number of members in the audit committee/ total board size)

BD = Board diversity (Number of females on board of directors/total board size)

BC = Board independence (Number of non-executive directors/ total board size).

4.4. Conclusion

The above empirical frameworks will be tested in the following section. The purpose of the following section is to assess the financial performance, corporate governance and the impact of corporate governance on performance. The results obtained are discussed along with views expressed in literature.

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Chapter Five: Analysis and Findings

5.1. Introduction

The aim of this chapter is to assess the association between the financial performance of the grocery retail companies and their corporate governance. The chapter will first assess the financial performance and corporate planning of the three organisations. Following this, an assessment of the corporate governance soundness of the organisations is clearly presented, and finally the empirical framework suggested in Chapter Four is tested.

5.2. Assessment of Financial Performance and Corporate Planning

The current section will examine the financial performance and corporate planning of the three retail organisations under consideration.

5.2.1. Profitability Analysis

The following section identifies the profitability ratios of the three companies assessed in this research. According to Brigham and Ehrdart (2013), the assessment of the profitability ratios identifies the current status of the organisation's financial health.

According to Brigham and Houston (2011), the ratio return on capital employed helps convert the investments made by a business into profit. It is argued that this ratio helps in assessing the ability of an organisation to use its funding effectively. From the following figure, it is observed that Morrison is found to have greater return on capital when compared to Tesco and Sainsbury. However, the last year has shown a significant reduction in the return on capital for all companies. For instance, Morrison showed a significant growth from 10.56% in 2009 to 12.53% in 2012; however, in 2013 the organisation shows a drop to 10.73%. Similarly, Tesco showed a drastic

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drop from 12.5% in 2012 to 6.29% in 2013. Finally, Sainsbury also shows a drop from 9.78% in 2012 to 8.23% in 2011.

Figure 4: Return on Capital Employed

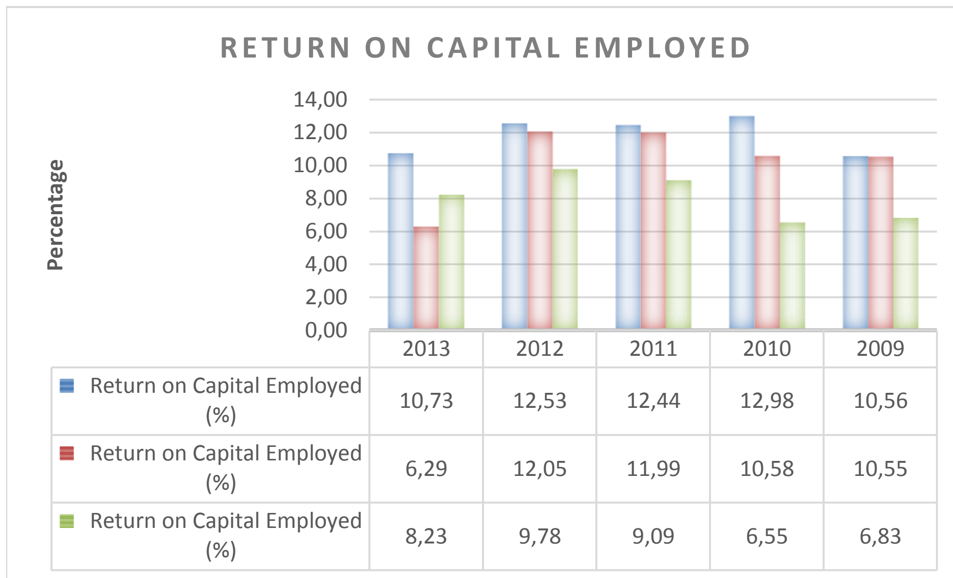
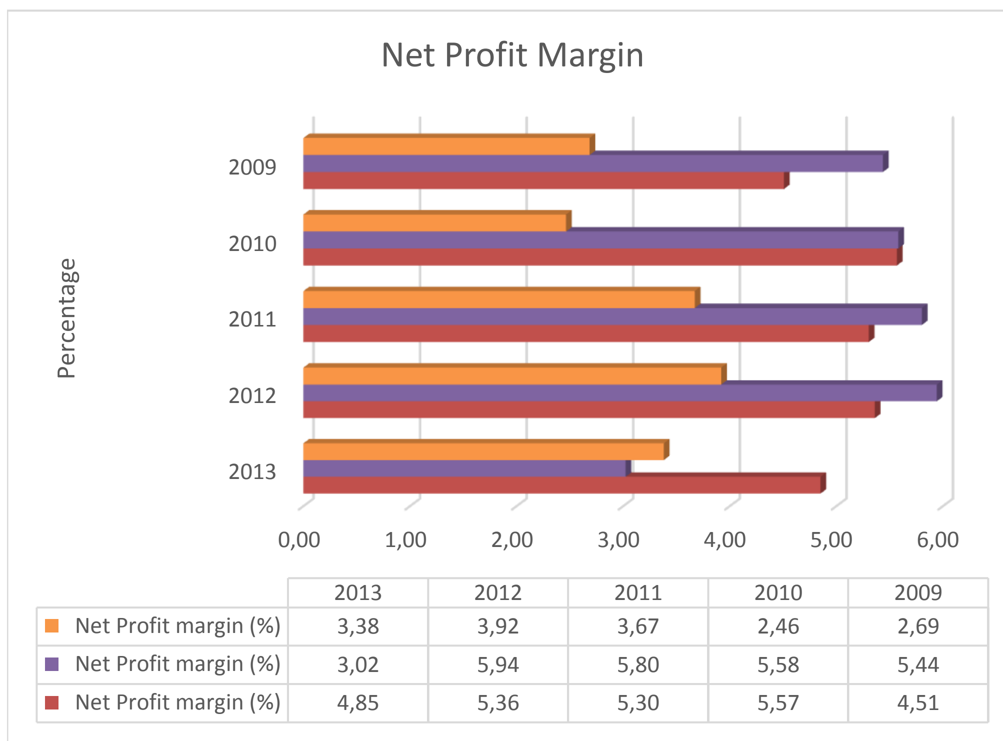
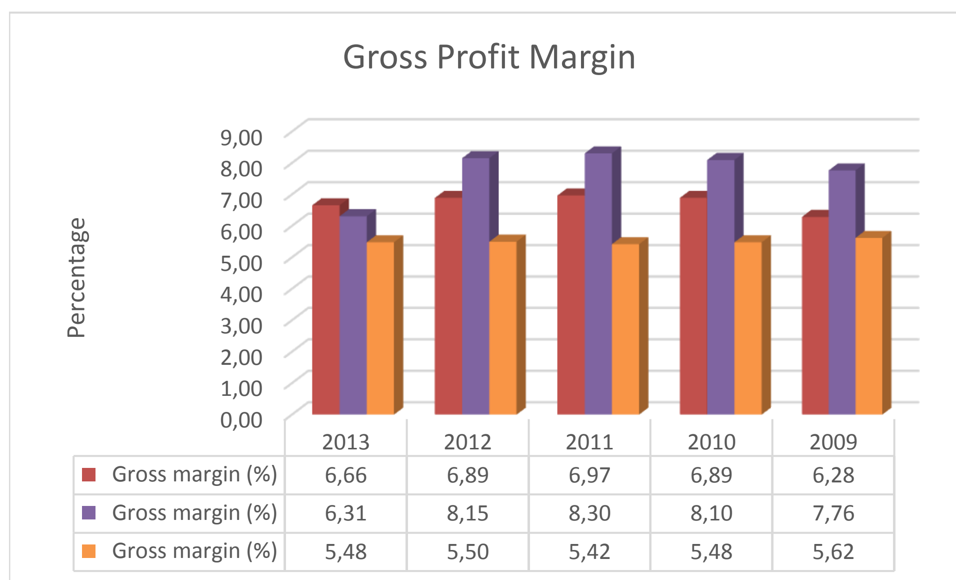


Figure 5: Net Profit Margin



According to Collier (2009), the use of a net profit assessment helps in the determination of the efficiency of an organisation to operate its business and help convert sales to profit after accounting for operating expenses. The above figure identifies the net profit margin of the organisations. It is observed that the overall net profit of Tesco has shown a significant hit in 2013, with a fall from 5.94% to 3.02% (a fall by 2.9%). Similar trends have been expressed by Sainsbury (a reduction by 0.5%) and Morrison (a fall by 0.51%). It is argued that there has been a significant rise in net profit margin for the three organisations over the last four years. For instance, Morrison showed a 0.8% growth from 2009 to 2012. Similarly, Tesco and Sainsbury showed a 0.5% and 1.2% growth respectively from 2009 to 2012. An assessment of the gross profit margin shows trends which are similar to the net margin with Morrison and Sainsbury showing a moderate drop in 2013 but Tesco showing a significant fall (1.8% decrease), as observed in the following figure.

Figure 6: Gross Profit Margin

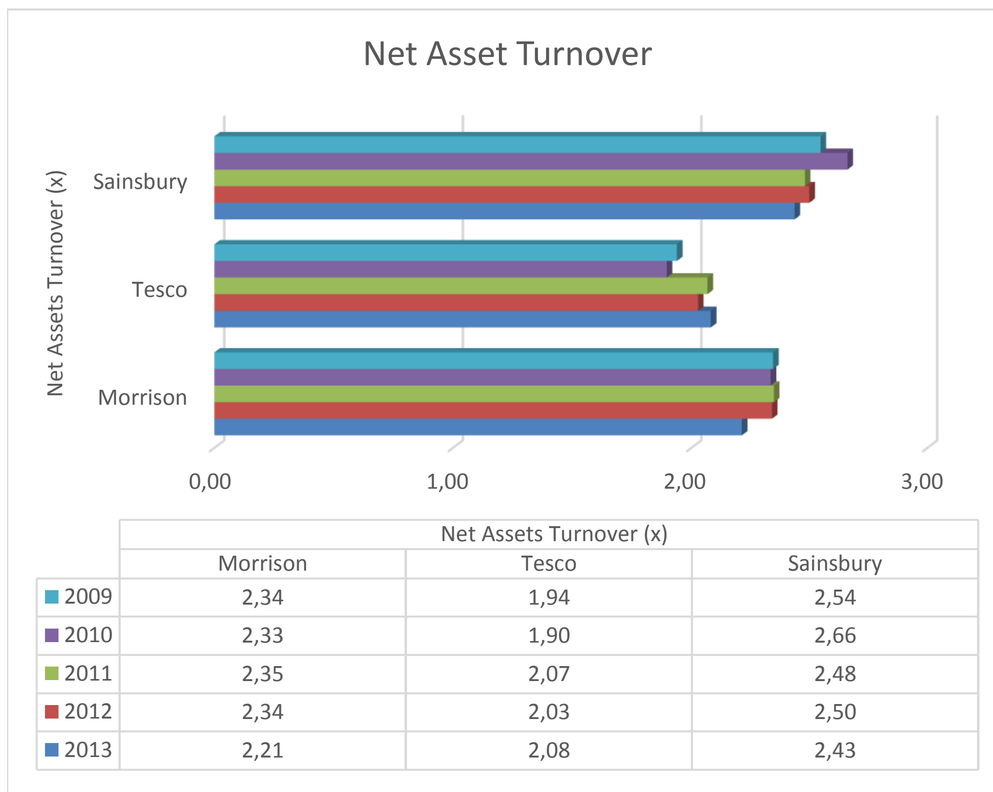


5.2.2. Efficiency Ratios

Brigham and Houston (2011) argue that the assessment of turnover ratios helps identify the efficiency of the organisation in making use of different assets.

This section examines the efficiency of performance of the different organisations. It is argued that the net asset turnover of Tesco has shown an improvement to 2.08 in 2013 when compared to 2.03 in 2012. However, both Morrison (2.34 in 2012 and 2.21 in 2013) and Sainsbury (2.50 in 2012 and 2.43 in 2013) show a fall. However, it is important to note that Tesco had previously shown a decrease in 2012 (2.07 in 2011 to 2.03 in 2012).

Figure 7: Net Asset Turnover



	Net Assets Turnover (x)		
	Morrison	Tesco	Sainsbury
2009	2,34	1,94	2,54
2010	2,33	1,90	2,66
2011	2,35	2,07	2,48
2012	2,34	2,03	2,50
2013	2,21	2,08	2,43

Brigham and Ehrdart (2013) contend that the use of the stock turnover ratio helps in assessing if the stocks are utilised efficiently. Collier (2009) contends that the stock turnover for grocery retail stores is normally low, which is associated with the current research. The following figure identifies the stock turnover ratio of the three companies under investigation. It is argued that the stock turnover ratio is highest for Sainsbury (23.61) when compared to Tesco and Morrison. There has been a significant drop in stock turnover for all the three organisations. For instance Sainsbury shows a drop of 4.83% from 2011 to 2013. Similar trends are seen with Tesco (1.96%) and Morrison (2.63%). It is contended that in general there is a

decrease in the ability of the organisation to convert its stock into sales. These attributes can be linked to the possibility of increased competition in the retail sector and a significant negative impact of recession.

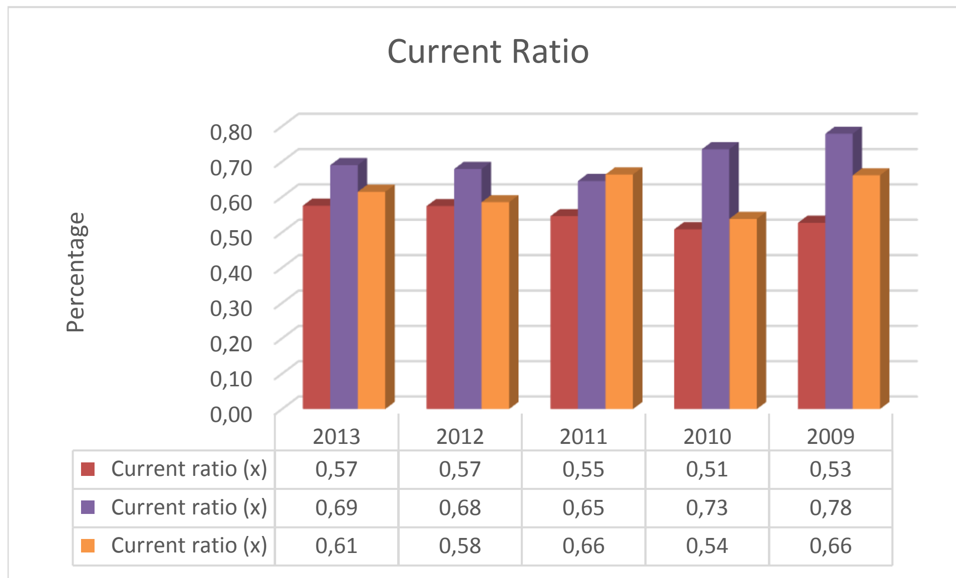
Figure 8: Stock Turnover

	2013	2012	2011	2010	2009
Stock Turnover (x)	23,61	25,99	28,44	27,45	26,19
Stock Turnover (x)	17,31	17,94	19,27	20,85	20,35
Stock Turnover (x)	23,20	23,27	25,83	26,71	29,41

5.2.3. Liquidity Ratio

The following figure identifies the current ratio of the three organisations. The current ratio helps in assessing the liquidity of the organisation. The current ratio determines the relationship that exists between existing liabilities and current assets. It is observed that the current ratio of Morrison is found to have remained moderately constant over the last three years (0.55 in 2011, 0.57 in 2012 and 0.57 in 2013). A similar trend is seen with Tesco (0.65 in 2011, 0.68 in 2012 and 0.69 in 2013). However, Sainsbury has shown a moderate decrease in 2012 (0.58) from 0.66 in 2011.

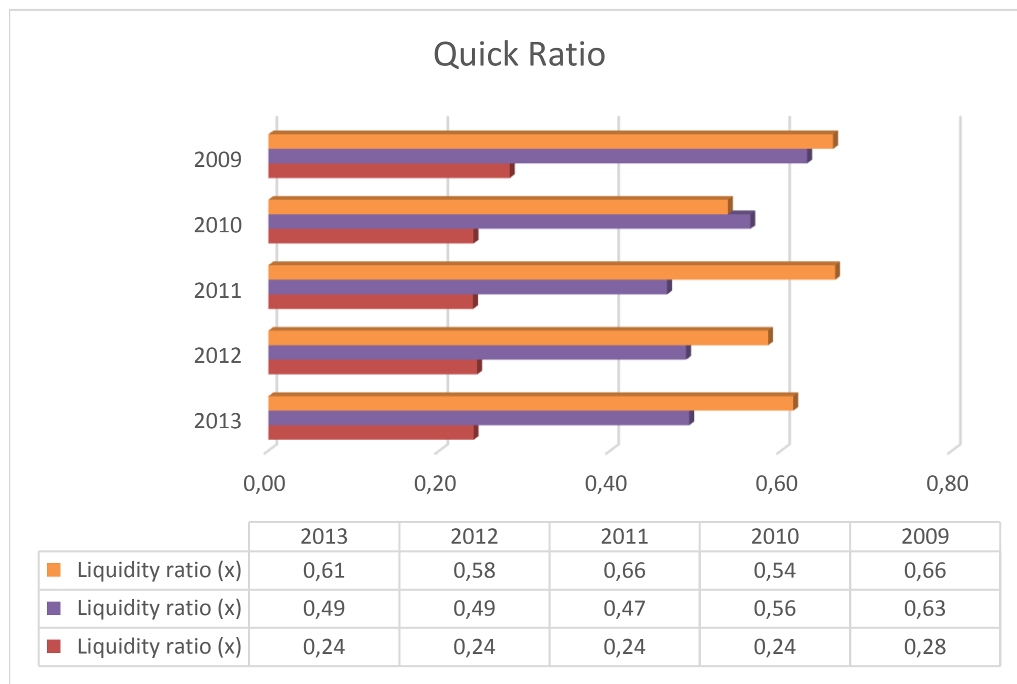
Figure 9: Current Ratio



	2013	2012	2011	2010	2009
Current ratio (x)	0,57	0,57	0,55	0,51	0,53
Current ratio (x)	0,69	0,68	0,65	0,73	0,78
Current ratio (x)	0,61	0,58	0,66	0,54	0,66

According to Kumbirai and Webb (2010), the use of the quick ratio is to assess if an organisation can meet its short term obligations. This ratio only identifies the relationship between existing liabilities and the quick assets. The following figure identifies the quick ratio of the three companies. It is observed that similar trends to those of the current ratio are observed with the liquidity ratio. For instance, the liquidity of Morrison has remained constant at 0.24 over the last four years.

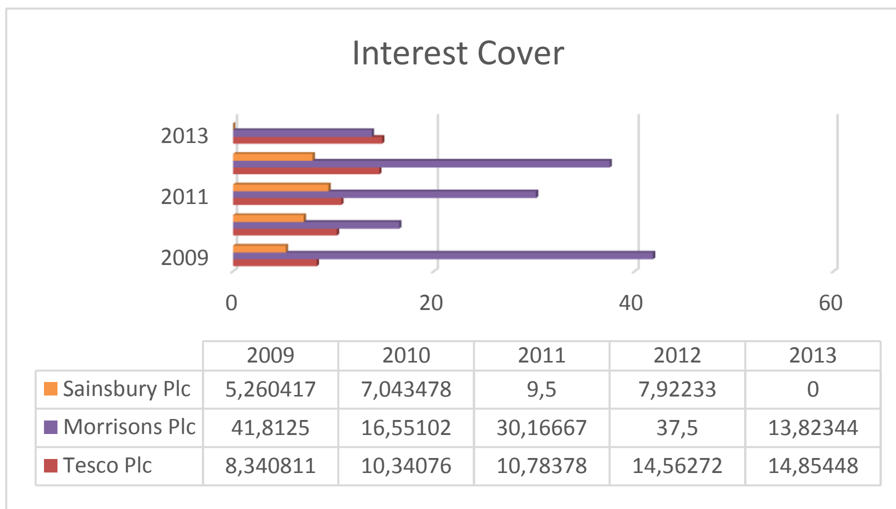
Figure 10: Quick Ratio



	2013	2012	2011	2010	2009
Liquidity ratio (x)	0,61	0,58	0,66	0,54	0,66
Liquidity ratio (x)	0,49	0,49	0,47	0,56	0,63
Liquidity ratio (x)	0,24	0,24	0,24	0,24	0,28

According to Fraser (1990), the assessment of organisational gearings is important as it helps in comparing the external sources of capital to the total capital of the organisation. It is preferable that an organisation has low gearings. The following figures present the debt to equity ratio and the interest cover ratio. It is observed that the interest cover of Sainsbury is the lowest (7.9) in 2012 when compared to Morrison (37.5) and Tesco (14.5). Furthermore, an assessment of the debt to equity ratio shows that Sainsbury is found to have performed better with the lowest gearing of 0.63. In comparison, Morrison has a gearing of 0.40 and Tesco has a gearing of 0.77 in 2012. It is interested to see that both Tesco and Morrison have shown an increase in debt-to-equity in 2013, with 0.87 and 0.56 respectively.

Figure 11: Interest Cover



	2009	2010	2011	2012	2013
Sainsbury Plc	5,260417	7,043478	9,5	7,92233	0
Morrisons Plc	41,8125	16,55102	30,16667	37,5	13,82344
Tesco Plc	8,340811	10,34076	10,78378	14,56272	14,85448

Figure 12: Debt to Equity Ratio

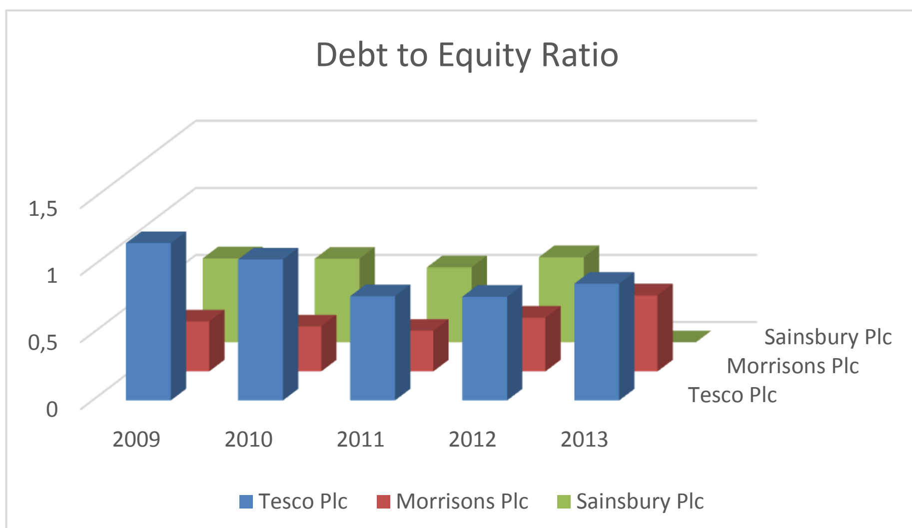


Table 3: Comparison of Financial Performance

Criteria	Companies								
	Tesco			Morrison			Sainsbury		
	5 year average	Rank	Points	5 year average	Rank	Points	5 year average	Rank	Points
Return on Capital Employed	10.29%	2	10	11.85%	1	15	8.1%	3	5
Gross Profit Margin	7.72%	1	15	6.74%	2	10	5.54%	3	5
Net Profit Margin	5.56%	1	15	5.12%	2	10	3.22%	3	5
Operational Ratio (x)									
Net Asset	2	3	5	2.31	2	10	2.52	1	15
Stock Turnover	19.15	3	5	25.68	2	10	26.34	1	15
Liquidity Ratio									
Current Ratio	0.71	1	15	0.55	3	5	0.6	2	10
Quick Ratio	0.53	1	15	0.25	3	5	0.6	2	10
Gearings ratio									
Debt to Equity Ratio	0.9	2	10	0.3	1	15	1.6	3	5
Interest Cover	11.7	2	10	27.9	1	15	7.4	3	5

The above section compares the five year performance of the three organisations. The organisations were ranked based on individual ratios and points were given based on the ranks. It is observed that overall Tesco is found to maintain a high financial and corporate planning where a five year period is concerned. However, it is interesting to note that there has been a change in trend over the last two years, with Morrison and Sainsbury registering better performance. It is contended that if a similar analysis were done for a period of 1-2 years, Morrison would perform better financially.

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5.3. Corporate Governance Performance

The aim of this section is to assess the corporate governance performance of the three organisations. This section will make use of a qualitative measure to assess the degree of corporate governance disclosure promoted by the organisation.

The assessment of the three organisations is presented in the following tables.

5.3.1. Tesco Corporate Governance

The following Table 3 presents an assessment of the corporate governance attributes of Tesco across the major frameworks promoted by FRC (2012). From the assessment, it is clear that Tesco meets the basic codes set in terms of corporate governance. It is argued that there is presence of group wise and segment wise performance. Furthermore, there is a clear presentation of changes made to the board over the last year which shows the accountability and transparency of proceedings. It is also interesting to note that Tesco has an external evaluation every three years covering a range of factors including skills, experience, independence and knowledge of the board. The review identified that there was a need to improve independence resulting in increasing the board independence. Similarly, suggestions were made with respect to board diversity to include more women. It is argued that by presenting the organisational weaknesses, Tesco has shown its willingness to improve its corporate governance. Another important trend which is observed from the Tesco (2013) report is that there is clear linking of executive pay to the organisational strategy. The report identifies how the remuneration framework directly relates to the directors and the possible outcomes based on performance scenarios.

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Table 4: Tesco Corporate Governance

Tesco Corporate Governance	Present/Absent	Comments
Effectiveness: Financial Disclosures		
Financial and Operating Results	Present	Highlights given both as a group and individually
Related Party Transaction	Present	
Critical Accounting Policies	Present	
Corporate Reporting Framework	Present	
Statement of Directors' Responsibilities	Present	
Risk and Estimates in Preparing and Presenting Financial Statements	Present	No separate risk assessment as part of financial assessment. Risks are present along with corporate governance report
Segment Reporting	Present	
Information regarding Future Plan	Present	Separate future plans given by Chairman, CEO and CFO
Leadership		
Size of board	Present	
Composition of Board	Present	No clear information given on board diversity
Division between Chairman and CEO	Present	
Chairman's Statement	Present	
Information about Independent Director	Present	
Role and Functions of the Board	Present	
Changes in Board Structure	Present	Very clear assessment of changes in board composition and roles
Audit Committee	Present	Individual report present
Remuneration Committee	Present	Individual report present
Attendance in Board Meetings		
Remuneration		
Director Stock Ownership	Present	
Director Remuneration	Present	
Relationship with Shareholders		
Auditor Appointment and Rotation	Present	Rotation information not very clear
Notice of the AGM	Present	But not very clear
Agenda of the AGM	Present	

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5.3.2. Morrison Corporate Governance

An assessment of the Morrison corporate governance report (Table 4) identifies that the organisation clearly differentiates between base salary, shareholding and the value of shareholding. However, compared to the Tesco report, there is no clear assessment of how the remunerations would change based on scenarios. However, it is observed that the code compliance is clearly presented, along with the efforts undertaken to maintain shareholder relations. Similarly, Morrison (2013) clearly presents a contract for the executive and non-executive directors. It is also argued that clear information is given with respect to risk management strategies for all

attributes including financial performance. Furthermore, the CG report has associated the financial performance with that of the strategic objectives of the organisation, indicating the need to promote accountability.

Table 5: Morrison Corporate Governance

Morrison Corporate Governance	Present/Absent	Comments
Effectiveness: Financial Disclosures		
Financial and Operating Results	Present	Summary and detailed information presented. Financial performance measured against strategic objectives
Related Party Transaction	Present	
Critical Accounting Policies	Present	Group and company accounting policies given separately
Corporate Reporting Framework	Present	
Statement of Directors' Responsibilities	Present	
Risk and Estimates in Preparing and Presenting Financial Statements	Present	Risk assessment presented effectively and not just as part of CG report
Segment Reporting	Present	
Information regarding Future Plan	Present	Future outlook given by Chairman and CEO
Leadership		
Size of Board	Present	
Composition of Board	Present	No clear information given on board diversity
Division between Chairman and CEO	Present	
Chairman's Statement	Present	
Information about Independent Director	Present	
Role and Functions of the Board	Present	
Changes in Board Structure	Present	Changes in board structure not highlighted separately. However, changes in the executive directors are highlighted
Audit Committee	Present	Individual report present
Remuneration Committee	Present	Individual report present
Attendance in Board Meetings	Present	
Remuneration	**Present**	
Director Stock Ownership	Present	Ownership is presented in general for executive committee. Director stock ownership and current standing are also clear
Director Remuneration	Present	Individual report present
Relationship with Shareholders		
Auditor Appointment and Rotation	Present	Rotation information clear
Notice of the AGM	Present	Not clear
Agenda of the AGM	Present	

5.3.3. Sainsbury Corporate Governance

The organisation details the need for board diversity and their striving towards the same as part of their strategy leadership plan. However, there is no clear identification of the changes in board structure separately as seen in the case of Tesco. It is also observed that the board review was carried out by the company secretary. In contrast, the review of Tesco was carried out by an external consultant, which may have improved their efficiency. The organisation, like the other two, clearly presents remuneration policy, components and pay for the different directors.

Table 6: Sainsbury Corporate Governance

Sainsbury Corporate Governance	Present/Absent	Comments
Effectiveness: Financial Disclosures		
Financial and Operating Results	Present	Summary and detailed information presented. Financial performance measured against market conditions
Related Party Transaction	Present	
Critical Accounting Policies	Present	Group policies present
Corporate Reporting Framework	Present	
Statement of Directors' Responsibilities	Present	
Risk and Estimates in Preparing and Presenting Financial Statements	Present	Risk assessment present
Segment Reporting	Present	
Information regarding Future Plan	Present	Future outlook given by Chairman
Leadership		
Size of Board	Present	
Composition of Board	Present	Separate highlight on board diversity
Division between Chairman and CEO	Present	
Chairman's Statement	Present	
Information about Independent Director	Present	
Role and Functions of the Board	Present	
Changes in Board Structure	Present	Separate section on board structure and risk management
Audit Committee	Present	Individual report present
Remuneration Committee	Present	Individual report present
Attendance in Board Meetings	Present	
Remuneration	**Present**	
Director Stock Ownership	Present	Clear ownership given for all directors
Director Remuneration	Present	Individual report present
Relationship with Shareholders		
Auditor Appointment and Rotation	Present	
Notice of the AGM	Present	
Agenda of the AGM	Present	

From the above assessment the following conclusions are made with respect to the corporate governance measures adopted by the three organisations.

- All the three retail grocery outlets are found to follow all the corporate governance parameters set in the FRC (2012).
- Tesco is found to show greater transparency and accountability, as it promotes an external board evaluation and links the remuneration strategy to organisational income.
- Morrison is found to show great transparency, as it not only provides the share of individual directors but also the current value and their block of ownership. Furthermore, great importance is given to risk assessment in the Morrison assessment.
- The Sainsbury report follows the general guidelines in promoting board diversity and strategic leadership by dedicating a separate section to the same.

It is concluded that since all the three organisations clearly identify with the general principles of corporate governance, they cannot be rated as one above the other.

5.4. Impact of Corporate Governance on Performance

The aim of this section is to test the empirical framework provided in Chapter Four.

The study will test two equations.

$$ROE = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BM + \beta_3 AC + \beta_4 BD + e_t$$

$$ROA = \beta_0 + \beta_1 BS + \beta_2 BC + \beta_2 BM + \beta_3 AC \beta_4 BD + e_t$$

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5.4.1. Descriptive Statistics

The following Table 7 presents the descriptive statistics of the board characteristics. It is observed that that the mean board size is 12 amongst the three companies, the lowest number being 9 (Sainsbury) and the highest being 14 (Morrison). It is also observed that the number of executive directors was highest at 9 in Morrison and lowest at 4 at Sainsbury. The average size of the audit committee is 3 (Mean = 3.54). An assessment of the independent organisations clearly shows that Tesco has greater stability with respect to board structure when compared to the other two.

Table 7: Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Executive Director	15	4.00	9.00	6.4000	1.99284
Non-Executive Directors	15	4.00	8.00	5.9333	1.38701
Board Size	15	9.00	15.00	12.3333	2.41030
Board Meeting	15	6.00	11.00	8.6667	1.34519
Audit Committee	15	3.00	4.00	3.5333	.51640
Valid N (listwise)	15				

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From the following Table 8, it is observed that the board independence is found to be highest at Sainsbury with a five year average of 0.59. This clearly shows that more than 50% of the board is made up of non-executive members. Tesco also has a five year average of 0.51, indicating 50% independence. However, Morrison has a low score of 0.40, indicating that only 40% of its board is effective. Similarly, an assessment of the audit committee size shows that the committee is at least 25% of the board for Tesco but is higher for Sainsbury at 29% and Morrison at 31%.

Table 7: Board Independence, Diversity and Audit Committee Size

	Year	Board Independence	Audit Committee-Size	Board Diversity
Tesco	2009	0.53	0.267	
	2010	0.53	0.267	
	2011	0.47	0.267	
	2012	0.53	0.267	
	2013	0.50	0.188	
Sainsbury	2009	0.60	0.300	
	2010	0.60	0.300	
	2011	0.58	0.250	
	2012	0.60	0.300	
	2013	0.56	0.333	
Morrison	2009	0.50	0.375	
	2010	0.38	0.308	
	2011	0.38	0.308	
	2012	0.36	0.286	
	2013	0.36	0.286	

5.4.2. Impact of Corporate Governance on Board Performance

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Table 9: Regression I

Coefficients[a]

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	29.730	17.038		-1.745	.115
	Board Size	-.753	.493	1.150	1.528	.161
	Board Meeting	.886	.356	.705	2.489	.034
	Board Independence	7.410	7.166	.435	1.034	.328
	Audit Committee Size	46.886	23.805	.918	2.110	.050
	Board Diversity	12.128	10.171	.541	1.970	.090
F= 2.815						
R=0.610						
a. Dependent Variable: Return on Assets						

The above Table 9 compares the financial performance variable, return on assets, with the board characteristics. From the F value of 2.815 and R value of 0.610, it can be contended that there is a significant goodness of fit and that the regression analysis can be carried out. An analysis of the board size and return on assets shows that there is a negative relationship (β= -0.753). However, the low t value (1.52) and high significance (0.161) show the lack of a relationship. An assessment of the board independence attributes shows similar results with lower t-score. However, it is observed that the number of board meetings and audit committee size show a significant positive relationship. It is observed that board meetings (p=0.034) and audit committee size (p=0.050) show an impact on financial performance at the 95% level of significance.

Table 10: Regression II

Coefficients[a]						
Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-100.882	23.854		-4.229	.002
	Board Size	-.329	.690	2.295	4.828	.001
	Board Meeting	.947	.499	.340	1.899	.090
	Board Independence	46.779	10.033	1.239	4.662	.001
	Audit Committee Size	147.568	33.328	1.303	4.428	.002
	Board Diversity	7.914	14.241	.159	.556	.592
F=9.71						
R=0.758						
a. Dependent Variable: Return on Equity						

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The above Table 10 compares the financial performance variable, return on equity, with the board characteristics. From the F value of 9.71 and R value of 0.758, it can be contended that there is a significant goodness of fit and that the regression analysis can be carried out. An analysis of the board size and return on assets shows that there is a negative relationship (β= -0.329) with a high t-value (t=4.828) and significant p value (0.001). This shows that there is an inverse relationship between board size and financial performance. An assessment of the board meeting

and board diversity attributes shows similar results with lower t-score. However, it is observed that the audit committee size and board independence show a significant positive relationship. It is observed that board independence (p=0.001) and audit committee size (p=0.002) show an impact on financial performance at the 95% level of significance.

From the above results, it is observed that the ROA (return on assets) is found to be impacted by board meetings and audit committee size. However, the return on equity (ROE) is found to be impacted by board independence, board size and audit committee size. This research argues that since either measure can be used as a determinant of financial performance, the following hypotheses can be accepted.

H1: There is an inverse relationship between board size and financial performance.
H3: Board independence is positively associated with the financial performance of the organisation.
H4: Audit committee degree of independence positively impacts the financial performance of an organisation.
H5: Board meetings are positively associated with the financial performance of the organisation.

While the following hypothesis is rejected:

H2: Board diversity positively impacts the financial performance of an organisation.

5.5. Conclusion

This chapter has discussed the results obtained in the current research by using the secondary data collection method. The following chapter will discuss the study implications and conclusion.

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Chapter Six: Discussion and Conclusion

6.1. Discussion: Revisiting the Study Objectives

This section will discuss the study results by revisiting the study objectives.

The first objective of the study was to assess the current environment of the grocery retail sector. From the PESTLE analysis, it is evident that there is a significant negative impact as well as increased threat of new competitors for the players.

The second objective was to investigate the financial performance of the chosen organisations in the sector by promoting a financial ratio analysis. The results of the financial ratio analysis identify that though there is a positive impact of Tesco and its highest ranking, there is a significant drawback associated with its financial performance, as observed from the last two years of data. The results obtained can be compared to those identified from market literature. For instance, the IGD (2013) report identifies that there has been a significant drop in the market share of Tesco over the last few years. The report holds that Tesco has taken efforts to diversify its focus (e.g. Tesco Bank) and improved its price investment strategies, which have led to Tesco losing its profitability. Morrison, on the other hand, has adopted a market strategy which is aimed at expansion of its stores and product lines. However, the organisation has shown a low liquidity and relatively low gearings. It is important that Morrison improves its liquidity by looking for external finances in case of immediate need. Sainsbury has shown that it is the leader in operational efficiency by promoting its efficiency ratios. The organisation has, however, shown a moderately high gearings and low profitability.

The third objective of the study was to determine the degree to which the corporate governance code is followed by the organisations. An assessment of the corporate governance performance identifies that all three organisations are found to perform in an efficient manner while following the code of conduct. The important attribute which is observed from this analysis is that Tesco is found to show greater transparency because of an external evaluation. In contrast, both Sainsbury and Morrison are found to conduct an evaluation using the company secretary. The study results can be compared to those expressed in literature. On-Kit and Guo Sze

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(2007) indicate that the aim of corporate governance is to explain the roles and responsibilities of various participants, including the board members, executive committee, employees, shareholders and other stakeholders in an independent manner. The authors indicate that improvements in corporate governance are largely linked to the degree of independent assessment and evaluation, even among members of the board. Morrison is found to have significantly improved attributes with respect to risk management and associating the performance of the directors with the strategic objective. It is contended that views in literature, for instance, Solomon et al. (2011), argue for the need for risk management to be considered as part of organisational functioning. Finally, Sainsbury is found to show a significant improvement in its expression of board diversity. As previously discussed in literature, it is contended that board diversity will have a positive impact on the performance of the organisation. It is therefore concluded that all three organisations are found to show an effective code of corporate governance.

The fourth objective of the study was to identify the impact of corporate governance on the organisational performance. From the results, it is observed that the ROA (return on assets) is found to be impacted by board meetings and audit committee size. However, the return on equity (ROE) is found to be impacted by board independence, board size and audit committee size. These results can be compared to those in literature. For instance, Benkel et al. (2006) suggest that the degree of accountability of the board increases with the degree of independence they have. According to Xie et al. (2003), if the percentage of independent directors is high, the likelihood of financial management and therefore financial performance is less. This view is supported by Klein (2002) by the establishment of a similar relationship but making the use of various control variables like firm size, ownership, performance and growth. Furthermore, Habbash (2010) contends that the ability of directors to uphold the shareholders' interest and discharge their duties increases when the frequency of board meetings is higher. Empirical evidences indicate the existence of a negative relationship between financial manipulation and board meetings (Xie et al., 2003). Since lower financial manipulation improves performance, the current study results are validated. Finally, the existence of audit committees, along with their independence, has been identified as helping to constrain the levels of financial

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manipulation in general (Piot and Janin, 2007), thereby promoting the performance. Therefore, it is concluded that the determinants of good corporate governance do have an impact on the performance of the firm.

6.2. Limitations and Future Research Directions

The current study did not adopt primary data collection. It is contended that an assessment of the variables associated with performance would have benefited if an interview could have been conducted with financial managers.

The study only studied three organisations in the retail sector. This makes it difficult for the results to be applied to the sector. Furthermore, it is argued that future research should focus on measures to assess individual company performance.

The study did not consider other parameters. For instance, it is argued that the CEO of the organisation can impact its performance. An important role is played by the CEO (Chief Executive Officer) of an organisation is generating value for the shareholders. Governance provision in a firm can be followed and incorporated by the CEO to augment its value (Defond and Hung, 2004). Morin and Jarrell (2001) add that investment by shareholders is heavy in the firms that have high corporate governance provisions, because such firms generate value for them. The CEO duality, in similarity with other corporate governance attributes, plays an important role when it comes to affecting the firm value. According to Alexander et al. (1993), if the same person holds the position of the CEO and Chairman, the value of a firm improves because the agency cost that exists otherwise between the two is eliminated here. Therefore, additional measures of performance need to be discussed.

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6.3. Conclusion

The study concludes that the investors' confidence will be strong only if the capital market is strong against numerous monitoring mechanisms such as internal corporate governance (CG). This is largely due to the amount of attention and investment that corporate governance can attract. In addition to this, corporate

governance also lends more credibility to financial reporting. There is a lot of research that has empirically proven that effective financial management practices have been significantly and positively influenced by internal corporate governance practices (Ambrose and Bian, 2010). Certain other studies have shown that the influence that internal corporate governance has tends to vary for different countries, based on certain factors such as the nature of ownership structure. Concentrated ownership can provide extra monitoring mechanisms, which will play a role in influencing how the board of directors and committees are formed. According to Wei (2007), the differences in the ownership structures among the various countries also tend to have a significant impact on the internal corporate governance mechanisms.

Through this research it is established that there is a link between corporate governance and the performance of the organisation. It is argued that there is a need for Tesco, Sainsbury and Morrison to invest more in promoting accountability at the managerial level. Currently most measures are at the executive level and are effective. The study concludes that financial parameters like ROA (return on assets) are found to be impacted by meetings, board independence, board size and audit committee size.

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