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SIGNIFICANCE OF CORPORATE GOVERNANCE ON INDIAN FIRM PERFORMANCE

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ABSTRACT

The focus of corporate governance (CG) systems is the agency problem, and it refers to the set of *mechanisms that influences managerial decisions when there is a separation of ownership and control. Better CG may or may not be related to higher organizational performance. In this article, we propose to study whether firm level good CG lead to better firm performance and higher value creation in the form of share price returns.The focus of corporate governance (CG) systems is the agency problem, and it refers to the set of mechanisms that influences managerial decisions when there is a separation of ownership and control. Better CG may or may not be related to higher organizational performance. In this article, we propose to study whether firm level good CG lead to better firm performance and higher value creation in the form of share price returns.The focus of corporate governance (CG) systems is the agency problem, and it refers to the set of mechanisms that influences managerial decisions when there is a separation of ownership and control. Better CG may or may not be related to higher organizational performance. In this article, we propose to study whether firm level good CG lead to better firm performance and higher value creation in the form of share price returns.*

Keywords: - Corporate Governance, Indian firm, Firm Performance, Board Ownership, Companies

I. INTRODUCTION

Corporate governance (CG) refers to the set of processes that provide an assurance to the outside investors of the firm a fair return on their investment. The focus of the CG systems is the agency problem. Corporate governance (CG) refers to the set of processes that provide an assurance to the outside investors of the firm a fair return on their investment. The focus of the CG systems is the agency problem.

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The focus of the CG systems is the agency problem. Effective CG requires the installation of mechanisms to ensure that firm executives respect the rights and interests of shareholders, as well as guarantee them to act responsibly with regard to generation, protection, and distribution of wealth invested in the firm.

II. CORPORATE GOVERNANCE

Corporate governance is a term with several interpretations. In the English-speaking world, this concept relates to whether or whether corporations put their shareholders' needs first. Whether or if a company priorities its workers, its customers, and its shareholders is sometimes referred to as "stakeholder value" in nations like Japan, Germany, and France (Allen & Gale, 2002). Corporations have the same challenge as nations throughout the world when trying to define the scope of their legitimate operations (Brown, Beekes, &Verhoeven, 2011). Although corporate governance is an issue for all businesses and is practiced in all nations, there is no universally agreed definition of the term. It's because people have such different opinions. No one notion of corporate governance has emerged as universally accepted (Maher &Andersson, 1999). Scholars and institutions alike have tried to pin down its meaning.

There are two primary categories into which the many conceptualizations of corporate governance in the literature may be sorted.

The genuine behavior of businesses is of interest; this includes how they perform and treat their shareholders and other stakeholders, as well as their efficiency and growth.

The other is normative, and it focuses on the principles and conditions under which businesses operate in accordance with the rules established by institutions like the law, the financial markets, and the labour market.

Studies of individual nations or companies inside a country should use the behavioural pattern, whereas studies of many countries or enterprises should use the normative framework (Claessens&Yurtoglu, 2012). Various writers and institutions have so far attempted to define and characterise corporate governance. The two definitions have certain commonalities when taken together.

Corporate governance is a multifunctional approach of governance. It mainly focuses on the improving corporate performance through responsibility of people participating in the administration.

III. FIRM PERFORMANCE

A wide variety of definitions of firm performance has been proposed in the literature. Performance can be related to theorganizational ability in meeting its targets and goals.

Firm performance is thus the effectiveness of a firm in achieving goalsand targets within specified time frame.

The performance of a firm can be measured using two kinds of measures: Market based and accounting based. The existing literature on corporate governance used both the type of measure. Market based measures are based on the market value. These measures are helpful for investors as they help them in

taking their investment decisions on future performance of the company based on its past and present performance.

IV. LITERATURE REVIEW

Mishra S. and Mohanty P. (2014) in their study examined the corporate governance issues in India in order to establish therelationship between corporate governance and financial performance using a sample of 141 companies belonging to the Agroup stocks listed in the Bombay Stock Exchange of India covering 18 industries. They developed a composite measure of corporate governance comprising of three indicators-legal, board and proactive indicators. The results of the multipleregression performed step-wise using ROA as a proxy for firm performance revealed that the board indicators (CEO-duality,board size, board composition, number of board meetings, Frequency of attendance in the board meetings) and proactiveindicators influence the firm performance significantly. The results concluded that composite corporate governance measureis a good predictor of firm performance.

In a similar line, **BijalwanJ. G. and Madan Pankaj (2013)** analyzed the relationship between board composition and firmperformance for 121 firms listed on BSE for the year 2010-2011. Financial performance of the firm is measured with thefinancial ratios viz. Return on Capital employed, Return on the equity, Profit after tax and Return on assets. The study foundthat there exist a significant positive relationship between board composition and firm performance. Also board size and firmperformance are significantly related but thestrength of relationship is not strong. Larger boards are less effective thansmaller boards except in case of PSUs in India. Also the standard board sizes vary according to the nature of the industry.

V. RESEARCH METHODOLOGY

The proposed research is descriptive in nature, based exclusively on secondary data, collected from moneycontrol.com and CMIE data source. Data pertaining to corporate governance variables of Board Size (number of directors in board), Duality (if chairman and managing director are same), Remuneration to the board of directors, independence (Number of non-executive directors) and Board Ownership (Shareholding pattern of promoter) and the ROA of 30 Indian companies, listed on the BSE, have been collected for the five year period of 01/04/2009 to 31/03/2014 and analysed using SPSS, employing the statistical tools of correlation, regression and Mean.

VI. DATA ANALYSIS AND INTERPRITATION

The pattern of ROA and various corporate governance variables of the 30 companies studied over the five year period has been displayed in Table.1.

Table.1. Trend of ROA and Corporate Governance during 2009- 2014

Variable	Mean	Variable	Mean
ROA	0.89	Board Size	12.69
Total Remuneration	2.13	Independence	8.63
Board Ownership	4.06	Duality	0.31

It can be inferred from Table.1 that the Average Number of directors in Board are 12.69, of which 8.63 are non-executive and independent directors while promoters are 4.06. The positions of Chairman and MD have been held by a single person in the case of 31% of the companies.

The relationship prevalent between the corporate governance variables studied and ROA of the 30 companies have been explored using Correlation Analysis and the results have been displayed in Table.2.

Table.2. Relationship between ROA and Corporate Governance

Variables	ROA	B. Size	Total Remuneration	Independence	Board Ownership	Duality
ROA	1					
B. Size	0.091	1				
Total Remuneration	-0.028	-0.047	1			
Independence	-0.024	0.667*	0.068	1		
Board Ownership	0.217*	0.053	-0.054	-0.180*	1	
Duality	-0.164**	0.182	0.082	-0.003	-0.026	1

It can be inferred from Table.2 that corporate governance variables of Board Ownership and Duality have significant positive and negative relationship respectively with ROA.

The impact exerted by the corporate governance variables on ROA of the 30 companies studied have been explored using Regression Analysis and the results have been displayed in Table.3.

Table.3. Impact of Corporate Governance Variables on ROA

Variable	Coefficients	Standard Error	t	p	F	Sig.	R^2
Constant	0.073	0.018	3.98	0.000	2.750	0.021	0.087
Board Size	0.022	0.002	1.542	0.125			
Board Remuneration	4.16	0.000	0.145	0.885			
Independence	-0.002	0.002	-0.951	0.343			
Board Ownership	2.39	0.000	2.203	0.029			
Duality	-0.033	0.015	-2.204	0.029			

It can be inferred from Table.3 that the independent variables explain merely 9% of variance of the dependent variable. The significance value of 0.021, which is less than 0.05, suggests that the model is significant at 5% level. Furthermore, it can be inferred from the table that Board Ownership and Duality are the two variables exerting significant impact on ROA at 5% level. The former is casting the maximum positive impact while the latter is exerting negative impact. The following Regression model can be arrived at by using the Regression results: ROA = 0.073 + 2.39 * Board Ownership - 0.033 * Duality.

VII. CONCLUSION

Emphasis on corporate governance may or may not have a telling effect on financial performance of a firm. However, if a firm has two different persons as its Chairman and Managing Director, its performance might have an upsurge. Similarly, existence of promoters in board may also enhance the financial performance of firms. Promoters possess higher degree of interest in the growth and prosperity of the firm as they treat the firm as their own child. Hence, more promoters in the board will definitely enhance the performance of a company.

This study explained, the result of corporate governance variables and company outcome of India leading companies. The study was based on the companies in the list of leading companies in two years (2015 and 2017) and in 2015 only.

The financial data of the five years between 2012 to 2016 were taken to investigate the relationship between corporate governance variables such as CEO duality, the board size and the board independence with company performance. Performance is calculated by ROA or in the ratio of net income and total assets.

Corporate governance and firm performance relationship studies in India gained momentum over the last decade. The literature on corporate governance in India examines the efficacy of the various board parameters.

While there is increasing evidence of the failure of certain governance structures, the empirical evidence to date is mixed and gives little coherent evidence for the shape of an optimal governance structure.

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