

“EMPIRICAL ANALYSIS OF INFLUENCE OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF COMPANIES IN INDIA”

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ABSTRACT

Corporate Governance is a set of process, customs, policies, laws and institutions affecting the way a corporation is directed, administered and controlled. It is concerned with ownership, control and accountability of companies. A number of wider ethical and societal considerations are related to the way corporate tries to achieve its economic objectives. Good Corporate Governance is a key to growing profits and reputations. It represents the relationships among stakeholders that are used to determine and control the strategic direction and performance of organizations. The aim of this paper is to focus on identifying the impact of Corporate Governance Practices on Financial Performance of Companies in India.

Key Words: Sustainability, Corporate Governance, Financial performance, Risk Management, etc.

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INTRODUCTION

Good corporate governance means governing the corporation in such a way that the interests of the shareholders are protected whilst ensuring that the other stakeholders' requirements are fulfilled as far as possible. It means that the directors will ensure that the company obeys the law of the land while carrying out its business.

There are several developments in corporate sector at national and international level which indicate that a detailed study is required in the area of corporate governance. If we look at the history, several attempts were made by trade associations and Government for systematic development of corporate governance. Apart from the above, the study is also important for the two major aspects. Firstly, it can give understanding of practical approach or implementation overview. Secondly, it also gives comparative overview of corporate governance disclosure practices in Indian corporate sector and its impact on financial performance of the corporate sectors. So the significance of the study is very high. Further, some observations may be useful to academicians, industry people as policy maker.

METHODOLOGY AND DATA ANALYSIS:

METHODOLOGY:

SOURCES OF SECONDARY DATA:

For the purpose of secondary data the researcher has used published Annual Reports, websites and other publications of sample companies. For sampling the researcher has used stratified sampling technique. The number of corporate sector is very large and it is beyond the capacity of individual researcher to conduct the study with census. Hence the researcher has considered the survey conducted by "Business Today", published in November 2013 for the selection of sectors. There are 24 sectors in the Top 500 companies in terms of highest market capitalization. Out of 24 sectors the researcher has selected 5 sectors randomly. These are 1) Overall Top 10 companies, 2) Top 10 IT companies, 3) Top 10 Pharma & Healthcare & Healthcare companies, 4) Top 10 Manufacturing companies, 5) Top 10 Automobile companies. Each sector has 10 companies. Thus the researcher has taken total of 50 companies for the study

Table 1 – List of Top 50 sample companies**Overall Top Ten Companies**

SI No	Name of Company
1	Tata Consultancy Services
2	Reliance Industries
3	ITC
4	Oil & Natural Gas Corporation
5	Coal India
6	Infosys
7	Hindustan Unilever
8	BhartiAirtel
9	NTPC
10	Larsen & Toubro

Top Ten IT Companies

SI No	Name of Company
1	Wipro
2	HCL Technologies
3	Tech Mahindra
4	Mphasis
5	MindTree
6	VakrangeeSoftwares
7	Hexaware Technologies
8	Infotech Enterprises
9	NIIT Technologies
10	Zensar Technologies

Top Ten Pharma & Healthcare & Healthcare Companies

SI No	Name of Company
1	Sun Pharma & Healthcare
2	Dr. Reddy's Laboratories
3	Lupin
4	Cipla
5	Glaxo Smith Kline
6	Ranbaxy Laboratories
7	Cadila Healthcare
8	Glenmark Pharma & Healthcare
9	Divis Laboratories
10	Apollo Hospitals Enterprise

Top Ten Manufacturing Companies

SI No	Name of Company
1	Ultratech Cement
2	Hindustan Zinc
3	NMDC
4	Asian Paints
5	BHEL
6	Ambuja Cements
7	BOSCH
8	Tata Steel
9	Jindal Steel & Power
10	Titan Industries

Top Ten Automobile Companies

Sl No	Name of Company
1	Tata Motors
2	Mahindra & Mahindra
3	Bajaj Auto
4	Maruti Suzuki
5	Hero Motocorp
6	Eicher Motors
7	Ashok Leyland
8	Wabco India
9	Amtek India
10	TVS Motor

After selection of the above sample companies, researcher has collected Annual reports of respective companies for the year 2013-14. The researcher has taken questionnaire for rating and evaluating corporate governance practice published in “Chartered Secretary” July 2003. The questionnaire consist of corporate governance related parameters like company’s information, Board composition, Transparency & Disclosures, Safety & Health, Sustainability reporting, CSR initiatives, Risk Management, Internal control systems and their adequacy, Board committees, Investor’s Grievance Committee, Whistle Blower policy and Independent Auditor’s Report.

DATA ANALYSIS

I. ANALYSIS OF INFLUENCE OF CORPORATE GOVERNANCE ELEMENTS ON THE FINANCIAL PERFORMANCE OF THE COMPANIES

This paper focus on Influence of the twelve independent variables namely Board and management structure, board committees, transparency and disclosures, risk management, internal control system, whistle blower mechanisms, Independent auditor’s report, CSR Initiatives, Investor’s grievance committee, safety and health, board process, sustainability on the dependent variable performance of the companies brought through linear multiple regression analysis as follows

1. ANALYSIS OF INFLUENCE OF CORPORATE GOVERNANCE ELEMENTS ON THE PERFORMANCE OF THE OVERALL TOP TEN COMPANIES

The influence of twelve independent variables corporate governance elements on the dependent factor namely performance of the overall companies is measured in the following model summary table.

Table 1.1 - Model Summary – Influence of corporate governance elements on financial performance of overall top ten companies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.690 ^a	.476	.449	.30965

a. Predictors: (Constant), Board and management structure, board committees, transparency and disclosures, risk management, internal control system, whistle blower mechanisms, Independent auditor's report, CSR Initiatives, Investor's grievance committee, safety and health, board process, sustainability

Source: Computed data

The analysis of the Table 1.1 reveals that R-value = 0.690, R-Square =.476, adjusted R-square is 0.449 are statistically significant and the independent variables are 47.6% variance over performance of the overall companies. This leads to the further verification of regression fit of unique dependent and multiple independent variables.

Table 1.2 – Result of Regression analysis of corporate governance elements on the financial performance of overall top ten companies

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	34.011	1.701	17.735	.000 ^a
	Residual	37.395	.096		
	Total	71.406			

Source: Computed data

The Table 1.2 shows that F-value 17.735, P-value = 0.000 are statistically significant at 5 percent level. This implies the regression fit is significant and the independent variables appropriately explain the dependent factor performance of the overall companies. The individual influence of

all the twelve independent variables of corporate governance elements as independent variables are presented in the following co-efficient table

Table 1.3 – Total score classification for Model determination of corporate governance elements on financial performance of overall top ten companies^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.565	.247		14.427	.000
	Board and management structure	-.227	.039	-.475	-5.866	.000
	Board committees	.056	.050	.105	1.119	.264
	Transparency and disclosures	.056	.046	.117	1.212	.226
	Risk Management	.076	.057	.128	2.158	.358
	Internal control system	-.223	.061	-.459	-3.652	.000
	Whistle blower mechanism	.197	.060	.385	3.277	.001
	Independent auditor's report	.050	.075	.117	.668	.505
	CSR Initiatives	-.033	.039	-.060	-.867	.387
	Investor's Grievance committee	-.433	.053	-.675	-8.158	.000
	Safety and Health	-.162	.035	-.362	-4.628	.000
	Board process	-.039	.041	-.086	-.950	.343
Sustainability	.167	.045	.429	3.704	.000	

a. Dependent Variable: Performance of the overall companies

Source: Computed data

It is apparent from Table 1.3, that Board and management structure ($t=-5.866$, $p=0.000$), Internal control system ($t=-3.652$, $p=0.000$), Whistle blower ($t= 3.277$, $p=0.001$), Investor's Grievance committee ($t=-8.158$, $p=0.000$), safety and health ($t=-4.628$, $p=0.000$), sustainability ($t=3.704$, $p=0.000$) are statistically significant to explain the

performance of the overall companies. Therefore, it can be concluded that out of twelve elements of corporate governance, board and management structure and internal control system played over all role in the performance of overall companies. Investors' grievance committee, employees' safety and health policies and sustainability make all the organizations to perform well in the long run.

2. ANALYSIS OF INFLUENCE OF CORPORATE GOVERNANCE ELEMENTS ON THE FINANCIAL PERFORMANCE OF THE PHARMA & HEALTHCARE COMPANIES

The influence of twelve independent variables corporate governance elements on the dependent factor namely performance of the Pharma & Healthcare companies is measured in the following model summary table.

Table 2.1- Model Summary – Influence of corporate governance elements on the financial performance of top ten Pharma & Healthcare companies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
dimension0	1	.732 ^a	.536	.512	.71183

a. Predictors: (Constant), Board and management structure, board committees, transparency and disclosures, risk management, internal control system, whistle blower mechanisms, Independent auditor's report, CSR Initiatives, Investor's grievance committee, safety and health, board process, sustainability

Source: Computed data

The Table 2.1 revealed that R-value = 0.732, R-Square = .536, adjusted R-square is 0.512 are statistically significant and the independent variables are 53.6% variance over the performance of Pharma & Healthcare companies. This leads to the further verification of regression fit of unique dependent and multiple independent variables.

Table 2.2 – Result of Regression analysis of corporate governance elements on financial performance of top ten Pharma & Healthcare companies

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	228.316	11.416	22.529	.000 ^a
	Residual	197.616	.507		
	Total	425.932			

Source: Computed data

It is evident from Table 2.2, that F-value 22.529, P-value = 0.000 are statistically significant at 5 percent level. This implies the regression fit is significant and the independent variables appropriately explain the dependent factor performance of Pharma & Healthcare companies. The individual influence of all the twelve independent variables of corporate governance elements as independent variables are presented in the following co-efficient table.

Table 2.3 – Total score classification for Model determination of corporate governance elements on financial performance of top ten Pharma & Healthcare companies^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.802	.568		6.693	.000
	Board and management structure	.017	.089	.015	.194	.847
	Board committees	-.522	.115	-.402	-4.538	.000
	Transparency and disclosures	.663	.107	.565	6.211	.000
	Risk Management	.798	.098	.487	3.479	.547
	Internal control system	.109	.141	.091	.772	.440
	Whistle blower mechanism	.006	.138	.005	.041	.967
	Independent auditor's report	-.173	.172	-.166	-1.005	.316

CSR Initiatives	.229	.089	.170	2.587	.010
Investor's Grievance committee	-.113	.122	-.072	-.928	.354
Safety and Health	.808	.080	.739	10.046	.000
Board process	-.298	.095	-.267	-3.147	.002
Sustainability	-.179	.104	-.188	-1.728	.085

a. Dependent Variable: performance of Pharma & Healthcare companies

Source: Computed data

The analysis of Table 2.3 revealed that board committees ($t=-4.538$, $p=0.000$), transparency and disclosures ($t=6.211$, $p=0.000$), CSR initiatives ($t= 2.587$, $p=0.010$), safety and health ($t=10.046$, $p=0.000$), board process ($t=-3.174$, $p=0.002$) are statistically significant to explain the performance of Pharma & Healthcare companies. The transparency in the board committees of corporate governance and the disclosure norms are very vital in deciding the performance of Pharma & Healthcare companies. The CSR initiatives, employees safety and health, board process methods in the Pharma & Healthcare companies continuously help them to sustain with good performance.

3. ANALYSIS OF INFLUENCE OF CORPORATE GOVERNANCE ELEMENTS ON THE FINANCIAL PERFORMANCE OF TOP TEN AUTOMOBILE COMPANIES

The influence of twelve independent variables corporate governance elements on the dependent factor namely performance of the automobile companies is measured in the following model summary table.

Table 3.1- Model Summary – Influence of corporate governance elements on financial performance of top ten Automobile companies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.814 ^a	.662	.645
				.27921

a. Predictors: (Constant), Board and management structure, board committees, transparency and disclosures, risk management, internal control system, whistle blower mechanisms, Independent auditor's report, CSR Initiatives, Investor's grievance committee, safety and health, board process, sustainability

Source: Computed data

The Table 3.1 shows that R-value = 0.814, R-Square =.662, adjusted R-square is 0.645 are statistically significant and the independent variables are 66.2% variance over the performance of automobile companies. This leads to the further verification of regression fit of unique dependent and multiple independent variables.

Table 3.2 – Result of Regression analysis of corporate governance elements on financial performance of top ten Automobile companies

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	59.557	2.978	38.197	.000 ^a
	Residual	30.404	.078		
	Total	89.961			

Source: Computed data

The Table 3.2 exhibits the regression analysis of top ten Automobile companies. The F-value 38.197, P-value = 0.000 are statistically significant at 5 percent level. This implies the regression fit is significant and the independent variables appropriately explain the dependent factor performance of automobile companies. The individual influence of all the twelve independent variables of corporate governance elements are presented in the following coefficient table.

Table 3.3 – Total score classification for Model determination of corporate governance elements on financial performance of top ten Automobile companies^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.677	.223		16.502	.000
	Board and management structure	-.074	.035	-.138	-2.123	.034
	Board committees	.013	.045	.022	.286	.775
	Transparency and disclosures	-.144	.042	-.266	-3.429	.001
	Risk Management	-.153	.055	-.281	-2.784	.006

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
	Internal control system	-.213	.054		
Whistle blower mechanism	.495	.068	1.031	7.325	.000
Independent auditor's report	-.057	.035	-.092	-1.651	.099
CSR Initiatives	-.203	.048	-.281	-4.236	.000
Investor's Grievance committee	-.235	.032	-.467	-7.436	.000
Safety and Health	-.160	.037	-.311	-4.293	.000
Board process	.017	.041	.038	.411	.682
Sustainability	-.268	.048	-.531	-5.568	.000

a. Dependent Variable: Performance of automobile companies

Source: Computed data

It is evident from Table 3.3 shows that Board and management structure ($t=-2.123$, $p=0.000$), Transparency and disclosures ($t=-3.429$, $p=0.001$), Risk management ($t=-2.784$, $p=0.006$), Whistle blower ($t=7.325$, $p=0.000$), CSR initiatives ($t=-4.236$, $p=0.000$), Investor's grievance ($t=-4.236$, $p=0.000$) investor's grievance ($t=-7.436$, $p=0.000$), safety and health ($t=-4.293$, $p=0.000$), sustainability ($t=-5.568$, $p=0.000$) are statistically significant to explain the performance of automobile companies. In the case of automobile companies, board and management structure give them good governance with performance orientation. Risk management, whistle blower and CSR initiatives are very important for the automobile companies for the futuristic and prudential performances. Investor grievance, employees' safety and health issues and sustainability strategies ensure good performance oriented corporate governance.

4. ANALYSIS INFLUENCE OF CORPORATE GOVERNANCE ELEMENTS ON THE FINANCIAL PERFORMANCE OF TOPTEN IT COMPANIES

The influence of twelve independent variables corporate governance elements on the dependent factor namely performance of the IT companies is measured in the following model summary table.

Table 4.1 - Model Summary – Influence of corporate governance elements on financial performance of top ten IT companies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1 .867 ^a	.751	.739	.25543

a. Predictors: (Constant), Board and management structure, board committees, transparency and disclosures, risk management, internal control system, whistle blower mechanisms, Independent auditor's report, CSR Initiatives, Investor's grievance committee, safety and health, board process, sustainability

Source: Computed data

The Table 4.1 shows that R-value = 0.867, R-Square = .751, adjusted R-square is 0.739 are statistically significant and the independent variables are 75.1% variance over performance of IT companies. This leads to the further verification of regression fit of unique dependent and multiple independent variables.

Table 4.2 – Result of Regression analysis of corporate governance elements on financial performance of top ten IT companies

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	76.924	3.846	58.948	.000 ^a
	Residual	25.446	.065		
	Total	102.370			

Source: Computed data

The analysis of Table 4.2 reveals that F-value 58.948, P-value = 0.000 are statistically significant at 5 percent level. This implies the regression fit is significant and the independent variables appropriately explain the dependent factor performance of IT companies. The individual influence of all the twelve independent variables of corporate governance are presented in the following co-efficient table.

Table 4.3 – Total score classification for Model determination of corporate governance elements on financial performance of top ten IT companies^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.086	.204		.421	.674
	Board and management structure	.041	.032	.072	1.284	.200
	Board committees	.057	.041	.089	1.378	.169
	Transparency and disclosures	.156	.038	.270	4.059	.000
	Risk Management	-.155	.050	-.266	-3.074	.002
	Internal control system	-.180	.049	-.295	-3.643	.000
	Whistle blower mechanism	.167	.062	.325	2.695	.007
	Independent auditor's report	-.144	.032	-.217	-4.526	.000
	CSR Initiatives	-.018	.044	-.023	-.402	.688
	Investor's Grievance committee	-.006	.029	-.011	-.200	.842
	Safety and Health	.098	.034	.180	2.887	.004
	Board process	-.121	.037	-.259	-3.247	.001
Sustainability	.122	.044	.226	2.768	.006	

a. Dependent Variable: Performance of IT companies

Source: Computed data

It is evident from Table 4.3, Transparency and Disclosure ($t=4.059$, $p=0.000$), Risk management ($t=-3.074$, $p=0.002$), Internal control system ($t=-3.643$, $p=0.000$), Whistle blower mechanism ($t=2.695$, $p=0.007$), Independent auditor's report ($t=-4.526$, $p=0.000$), Safety and Health ($t=2.887$, $p=0.004$), Board process ($t=-3.247$, $p=0.001$), Sustainability ($t=2.768$, $p=0.006$) are statistically significant to explain the factor of performance of IT companies. It is concluded that the IT companies have their corporate governance with the

transparency and disclosure norms, strategic risk management, efficient internal control system to reach high target of performance. Whistle blower mechanisms found the corporate governance structure, report of independent auditors, employee's safety and health issues and board process also with sustainability support the IT companies to have best performance amid competition.

5. INFLUENCE OF CORPORATE GOVERNANCE ELEMENTS ON THE FINANCIAL PERFORMANCE OF TOP TEN MANUFACTURING COMPANIES

The influence of twelve independent variables corporate governance elements on the dependent factor namely performance of the manufacturing companies is measured in the following model summary table.

Table 5.1- Model Summary – Influence of corporate governance elements on the financial performance of top ten Manufacturing companies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension	.707 ^a	.500	.475	.85547

a. Predictors: (Constant), Board and management structure, board committees, transparency and disclosures, risk management, internal control system, whistle blower mechanisms, Independent auditor's report, CSR Initiatives, Investor's grievance committee, safety and health, board process, sustainability

Source: Computed data

The Table 5.1 shows that R-value = 0.707, R-Square = .500, adjusted R-square is 0.475 are statistically significant and the independent variables are 50% variance over the performance of manufacturing companies. This leads to the further verification of regression fit of unique dependent and multiple independent variables.

Table 5.2 - Result of Regression analysis of corporate governance elements on the financial performance of top ten Manufacturing companies

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	285.796	14.290	19.526	.000 ^a
	Residual	285.416	.732		
	Total	571.212			

Source: Computed data

The analysis of Table 5.2 reveals that the F-value 19.526, P-value = 0.000 are statistically significant at 5 percent level. This implies the regression fit is significant and the independent variables appropriately explain the dependent factor performance of manufacturing companies. The individual influence of all the twelve independent variables of corporate governance elements as independent variables are presented in the following co-efficient table.

Table 5.3 – Total score classification for Model determination of corporate governance elements on the financial performance of top ten Manufacturing companies^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.065	.683		-1.560	.120
	Board and management structure	.863	.107	.637	8.055	.000
	Board committees	-.273	.138	-.182	-1.977	.049
	Transparency and disclosures	.286	.128	.210	2.228	.026
	Risk Management	-.009	.169	-.007	-.055	.956
	Internal control system	.455	.166	.315	2.745	.006
	Whistle blower mechanism	-1.940	.207	-1.603	-9.368	.000
	Independent auditor's report	-.333	.107	-.213	-3.124	.002
	CSR Initiatives	.087	.147	.048	.593	.553
	Investor's Grievance committee	.167	.097	.132	1.726	.085
	Safety and Health	.562	.114	.435	4.930	.000
	Board process	-.003	.124	-.003	-.023	.981
	Sustainability	.416	.148	.327	2.819	.005

a. Dependent Variable: performance of manufacturing companies

Source: Computed data

The Table 5.3 shows that Board and management structure($t=8.055$, $p=0.000$), Board committees($t=-1.977$, $p=0.049$), Transparency and disclosures($t=2.228$, $p=0.026$), internal control system ($t=2.745$, $p=0.006$), whistle blower mechanism ($t=-9.368$, $p=0.000$), independent auditor's report ($t=-3.124$, $p=0.002$), safety and health ($t=4.930$, $p=0.000$), sustainability ($t=-2.819$, $p=0.005$) are statistically significant to explain the factor performance of manufacturing companies. The performance of manufacturing companies leans upon the corporate governance with board and management structure, board committees and transparency and disclosure norms. Internal control system in the corporate governance, whistle blower mechanism and independent auditors report are found to support the performance of manufacturing companies. These organizations with their aim of employees safety and sustainability also showed better performance in the recent years.

CONCLUSION

The effectiveness of corporate governance in difference sectors of companies depends upon the confidence building of board of CG and their managerial abilities in governing the corporates effectively. The best performance of board members leads to consistent growth of the companies which stands testimony for effectiveness of corporate governance.

This study validated the relationship between financial performance and corporate governance practices of top ten companies in five different sectors. It is concluded that effective CG Index is positively related to financial performance of companies.

The study has also identified that effective CG is 100% ensures best performance but it is not the necessary condition for ensuring best performance. The researcher proved that the best CG is only a sufficient condition for the best performance of any companies.

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