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Research Article

CORPORATE GOVERNANCE & COMPANY PERFORMANCE: A STUDY ON RELVANCE

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ABSTRACT

This paper focuses on the thorough analysis of concept of corporate governance. Corporate governance is a set of principles, systems and processes governing a company. These principles and systems provide desired guidelines for directing and controlling a company to fulfill its purpose and objectives in a manner which will add value to the company and will also be beneficial to all its stakeholders. Essentially it would include every stakeholder be it employees, shareholders, directors, management customers and also society at large.

Broad objective of this research is to analyze the role of corporate governance in fulfilling corporate commitment to its stakeholders. The essence of good governance is a framework which ensures effective accountability of management towards all its stakeholders'.Corporate Governance is not a new concept but the relevance has increased overtime. This is an analytical study to find out whether corporate governance has any impact on the financial performance of the selected IT companies. Company's performance has been taken as proxy for its commitment to stakeholders and various corporate governance variables like board size, composition of board, frequency of meetings has been chosen along with control variables and an analysis has been conducted to find out the relationship between the two.

Key Words: *Corporate governance, Board, Principles, Stakeholders, Relevance, Performance, Corporate, Management, IT*

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1. Introduction:

The term corporate governance has become integral aspect of business vocabulary in the last decade. Fewer concerns are more central to international / domestic business and its nuances other than corporate governance. Series of corporate fraud and reports of corporate mis-governancecoupled with high profile scandals across the globe have brought issues pertaining to ethical governance practices in the forefront in both developed as well as developing economies.

It is, therefore, appropriate that prior to any analysis of the nuances of the nature of these issues, we should first consider what exactly we mean by the term ‘corporate governance’. The specific concept of corporate governance has cross cutting nature that also defies organizing principles of academia, in that it has implications for law, finance and accounting, general management, leadership, entrepreneurship, etc. and so defies dominance by any single subject area.

From the academic standpoint, corporate governance is seen as one that addresses “the problems that results from separation of ownership from control”. Viewed from this perspective, corporate governance focuses on some structures and mechanisms that would ensure proper internal structure and rules of board of directors; creation of independent committees; rules for disclosure of information to shareholders and creditors; transparency of operations and an impeccable process of decision making and control of management.

OECD defines corporate governance and its Principles say that, “Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure stipulates the rights and responsibilities of various stakeholders of the company and specifies the rules and processes to take decisions on various corporate affairs. It also helps in setting up the board structures in place for objectives setting for the company and also the ways to achieve these objectives with time to time monitoring and follow-up.

Chairman of the Cadbury Committee, Sir Adrian, suitably defined the corporate governance as a touch bearer for balancing economic and social goals and also individuals & common goals. Corporate governance charterhelps encourage the efficient use of resources along with the accountability of those resources as stewardship. The aim is to align as nearly as possible the interests of individuals, corporations and society.”

The OECD also offers a broader definition: “...Corporate governance refers to the private and public institutions, including laws, regulations and accepted business practices, which together govern the relationship in market economy, between corporate managers and entrepreneurs on one hand, and those who invest resources in corporations, on the other.”

Thus, for an organization to grow and establish itself globally, good corporate governance is an essential element. Not only for an organization, but also for an economy to achieve sustainable

growth, its enterprises should be accountable, responsible, and transparent and fair, not only to its shareholders, but also to entire group of stakeholders.

2. Research Objectives & Approach:

2.1 Research Objectives:

- To analyze the role of Corporate Governance in fulfilling corporate commitment to its stakeholders.
- To study select companies related to Corporate Governance practices in Indian Information Technology (IT) Industry.

2.2 Hypothesis:

- Corporate Governance is not playing an effective role in fulfilling corporate commitment of companies
- There is no significant relation between Corporate Governance and for corporate performance

2.3 Research Approach:

For any research to be successful it is imperative to adopt an organized approach to conduct the whole process. A well-defined research methodology is the first step in this regard. Research Methodology is a systematic way of solving a research problem. It does not only mean the research methods but also the logics behind the methods being used in context of the research.

This research is typically an Analytical research in nature. Secondary data or information already available have been used to make critical evaluation of the same. With regard to this research project, corporate governance norms and practices are available and the researcher intends to conduct an in-depth analysis of the same to deduce logical conclusions from it. The research aims to include a quantitative research design since it aims to analyze the relationship between independent variables of corporate governance (board size, director's composition, meetings and control variables) against the dependent variable that is the financial performance measurement of the companies.
The hypothesis is related to study whether corporate governance have any impact on the financial performance which is an indicator of firm's commitment to its stakeholders. On the basis of parameters chosen the data will be collected from Annual reports of the companies and analyzed using statistical tool to know the relation between firm's performance and corporate governance.

2.4 Sample Size:

As mentioned earlier, this study tries to examine whether corporate governance is an effective tool of fulfilling its corporate commitment to its stakeholders. The scope of the study includes select Indian IT companies. Total 15 IT companies have been selected on the basis of convenience sampling. These 15 companies represent three segment of firm's i.e. large scale, medium scale and small size companies based on the market capitalization. The data used in the empirical analysis was derived from the financial statements of companies quoted on the BSE. Included in this are firms from selected Indian IT Industry. The period covered for the empirical analysis was 2015-2019. The sample companies selected for the study are mentioned below:

S. No.	Company Name	Size
1	TCS	Large Scale Companies
2	Infosys	
3	Wipro	
4	HCL Technlogies	
5	Tech Mahindra	
6	L&T Technologies Services Ltd	Mid-Scale Companies
7	Mindtree	
8	Mphasis Ltd	
9	Hexaware Technologies	
10	Info Edge India Ltd	
11	3i Infotech	Small Scale Companies
12	Aptech Ltd	
13	Quickheal Technologies	
14	Rolta India	
15	Smart Link Holdings Ltd.	

2.5 Data Variables

In order to test hypotheses outlined in the previous section, it is necessary to develop testable proxy variables. The selection of proxy variables is not forthright, as marked by the wide variety of proxy variables used in the previous literature. All the variables chosen for the study are based on thorough study of available literature in the context of corporate governance. There are three types of variables used to study the relevance of corporate governance including dependent variables, independent variables and control variables.

S. No.	Type of Variable	Definition	Measurement
1	Dependent Variable	Return on Assets (ROA)	Profit before interest and taxes divided by total assets
2	Dependent Variable	Board size (BSIZE)	The number of members of the board including executive and non-executive directors.
		Executive directors (EXE)	The number of executive directors on the board of directors.
		Non-executive Directors (N-EXE)	The number of nonexecutive directors on the board of directors.
		Percentage of Independent Directors (%INDDIR)	The proportion of Independent directors on the board of directors.
		Board Meetings frequency per year (MTS)	The number of board meetings per year
		Duality of CEO (DCEO)	Dummy variable taking a value of 1 for firms with a managing director who is also chairman and a value of 0 otherwise.
3	Control Variables	Firm size in terms of total assets (TA)	Measured at 31 March in lakh rupees.
		Age (AGE)	The number of years between the observation year and the firm's date of incorporation

3. Review of work already done on the subject:

Committees / Acts on corporate governance - Last two decades have seen series of events of corporate mis-governance which has lead the corporate think tanks to work on the buzz phrase of corporate governance. Especially after the liberalization of the economy in 1991, corporate in India have become more prone to frauds and illegitimate business practices. Business community at large are gradually realizing the fact that there is no second option than to get the basic business and management system in place in order to maintain a sustainable growth for the business.

Over the years, several committees and acts have been established / implemented across the globe. Some of the landmark committees (in chronological order) and their suggestions have been explained in brief here: -

- Cadbury committee, 1992 – The committee was set up by London Stock Exchange, the Financial Reporting Council & the accounting professions who were concerned at the lack of confidence in reports and accounts and audit statements attached to them. The report is considered benchmark for corporate governance & for ushering in system by which companies are directed and controlled. Recommendations are centered on functioning of boards, role of audit, quality of financial reports and shareholder's rights.

- The Greenbury Committee, 1995 – The objective of this committee was to identify good practices by corporate in determining directors' remuneration and to prepare code for the same. It incorporated Disclosures, remuneration policy, Service contracts & compensation.

- Sarbanes – Oxley Act, 2002 – The act is a landmark attempt to address the issues associated with corporate failures to achieve quality governance and also to restore the confidence of the investors. It was formulated to protect investors by improving the accuracy & reliability of corporate disclosures. "The act calls for protection to those who have the courage to bring frauds to the attention of those who have to handle frauds. But it ensures that such things are not left to the individuals who may or may not choose to reveal them, its better corporations appoint an officer to oversee compliance & ethical issues." (Cynthia A, Commissioner, SEC.)

Indian Committees &Guidelines: -

- Working Group on Companies Act, 1996 – In light of the modern –day requirements of the corporate sector and also the aspirations of the investors, the Government of India set up a Working Group for this purpose. Financial disclosures recommended by the Working Group included a form with details of director's remuneration, details of the divisions or other business segments of a listed company, details of debt exposure etc. The report also included several Non-financial disclosures like relatives of directors as part of employees, register with details of interests of directors in company contracts etc.

Apart from the above mentioned committees, there have been several Initiatives by SEBI in this field –

- Kumar Mangalam Birla Committee, 1999 – The Birla Committee is indeed a landmark in evolution of corporate governance in India. The committee's terms of reference were – to suggest suitable amendments to the listing agreement executed by the stock exchanges with the companies. To draft a comprehensive code of corporate practices and to suggest safeguards to be instituted within the companies to deal with Insider information / Trading.

- Naresh Chandra Committee, 2002 – The committee was set up department of company affairs and has taken forward the recommendations of the Birla committee. The report 'Corporate Audit & Governance' focused on several aspects of auditors' role & responsibilities in an organization.

- Narayana Murthy Committee, 2003 – The committee was again set up by SEBI to streamline and expedite the implementation of corporate governance practices in Indian corporate. The key focus of the committee was to review the performance of corporate governance till date and specifically to determine the role of companies in responding to reports in market, of the company, which are price sensitive and might not be authentic at times and also to enhance the transparency together with the integrity of the market.

B}Mckinsey survey report – International management consultant, Mckinsey, conducted a comprehensive survey in emerging markets to determine if there is any correlation between good governance and market valuation of the company. Mckinsey rated the performance of the companies on parameters like accountability of the board, transparent ownership, and timely disclosures. Through the survey, Mckinsey found out that there is a positive correlation between good governance and market valuation. Companies with good governance practices have high price-to-book value and it indicates that investors are willing to pay premium for the shares of such well managed companies.

C} World Bank & OECD Reports – The World Bank has always been amongst the pioneers in the efforts for equitable and sustainable economic growth worldwide. The Bank's report on corporate governance recognizes the complexity of the concept and focuses on the principles on which it is based. Principles such as transparency, accountability, fairness etc are universal in their application. The report firmly suggests that statutory regulations alone cannot promote good governance and it has to be supplemented with self-regulation.

The Organization for Economic Cooperation and Development (OECD) has also, through its laid down principles of Corporate Governance, stressed upon major areas of governance. They call upon the governments to put in place an effective institutional and legal framework to support good governance practices; they call for a corporate governance framework that protects and facilitates the exercise of shareholders' rights; they recognize the role of stakeholders in corporate governance, to name few.

Few research papers have also been analyzed as part of preliminary study on this subject. Following is the summary of few:

Sr. No.	Year	Source	Title	Author
1	2007	Corporate ownership and control/volume 4,Issue 4	Corporate Governance: Shareholders' Interest & Other Stakeholders' Interest	Elena F Parez Carrillo

- **Content:**

a. Much of the traditional Company Law doctrine considers that Corporations must be managed to promote, above all, shareholders' rights. Activities in favor of non-shareholder constituencies such as suppliers, consumers, employees or the Community at large can be perceived as a means of Management to increase its power and personal prestige.

b. In this paper, we argue that Shareholders and Stakeholders interests are compatible and both

contribute to corporate long term efficiency and progress. It is further argued that it is essential to achieve a wide consensus on how to control Management actions in support of Stakeholders interests.

- **Aspects:**

a. Much of the world's public attention of the early years of the 21st century had it origin in failures within Big Multinational Corporations such as Enron or Parmalat, that evidenced that the functioning of certain elements of late 21stcentury Corporate Governance models based on maximization of shareholder's interests, were not able to ensure sustainable development of Corporation activities

b. Corporate governance through the protection of a wider set of interests can be regarded as an alternative way of efficiently conducting Corporate Governance.

c. Corporate Governance deals with Corporations organization and decision making structures. One of its main purposes is to ensure the efficient confluence of otherwise competing interests that are affected by Companies' activities.

d. Balance between the different groups of stakeholders is essential to the long-term viability of the Corporation. Fair and balanced stakeholder's perspective results in long-term shareholder maximization value.

e. Actions in favour or clients, consumers, workers or even communities at large must be placed under control, and are to be exercised by taking into account long term benefit of the Company in accordance with what has been stated by shareholders in their incorporation chart, and internal regulations.

- **Relevance:**

a. Stakeholders' interests can be interpreted as opposing Shareholders rights to obtain fair revenue for their investment. In this paper, we argue that Shareholders and Stakeholders interests are compatible and both contribute to corporate long term efficiency and progress. It is further argued that it is essential to achieve a wide consensus on how to control Management actions in support of Stakeholders interests.

b. More recently, academic and practical interest for "other constituencies" approach to Corporations' management has evolved in parallel with the critics of Corporate Governance

theories that evolve around the maximization of short-term revenue to shareholders. It has occupied much of the academics works in the last decade.

c. Many Corporations have started to formalize their practices and to publicize them. Most Fortune 500 companies make their Social practices known through their Web sites and Public Relations materials, and have adopted policies and codes and have acted in consonance with the goals of sustainable good governance.

d. It is difficult to decide whether they have acted simply in order to promote their contribution to community development or to gain and sustain a competitive advantage.

Sr. No.	Year	Source	Title	Author
2	2005	VOL. 5 NO. 3 2005, pp. 129-138, *Q* Emerald Group Publishing Limited, ISSN 1472-0701	Finance and accounting Corporate social responsibility and financial performance	Eveline Van de Velde, Wim Vermeir and Filip Corten

- **Content:**

a. This paper aims to investigate the interaction between sustainability and financialperformance. Can socially responsible investors, integrating environmental, social and ethical issues in their investment policy, expect the same return as traditional investors?
b. The aim of the paper is to investigate the interaction between corporate social responsibility and financial performance. We will do this both for overall corporate social performance and for responsibility on specific dimensions, like environmental or social responsibility.
c. Socially responsible investment (SRI) combines investors' financial objectives with their concerns about social, environmental and ethical (SEE) issues. Is the performance of SRI strategies as good as or as bad as traditional investment strategies? A way to investigate the performance of SRI investment strategies is to evaluate the financial performance of so-called ''socially responsible companies'', namely companies that are integrating social and environmental factors into their global strategic decision-making policies and practices.

- **Aspects:**

a. A socially responsible company puts the interests of its shareholders on a par with the

social, community and environmental interests of third parties or stakeholders involved in its activities. By controlling the impact of its activities on stakeholders, it targets a threefold economic, social and environmental performance through which it contributes to the overall objective of sustainable development. That is why socially responsible companies are also called sustainable companies.

b. This paperinvestigates the interaction between the corporate social responsibility of a company and its financial performance. The question is whether this focus on social and environmental issues will have a positive or negative effect on shareholder interests. A negative impact could be explained by the fact that the integration of third party interests could lead to a sub-optimization of shareholders' interests, resulting in an under-performance of the share price. A positive impact could be explained by the fact that an integration of the interests of all stakeholders could create shareholder value by reducing non-financial risk and creating long-term growth opportunities for the company.
c. In order to measure the sustainability of a company, we used the Vigeo corporate social responsibility scores. Vigeo is an independent corporate social responsibility agency that screens European quoted companies on CSR.The scores of Vigeo contain information on five dimensions of corporate social responsibility: Human resources. Environment. Customers and suppliers. Community and society. Corporate governance.

- **Relevance:**

a. The results suggest that investors, especially sustainable investors, could exploit this sustainable effect in order to create out-performance. Our results also indicate that it is a necessary condition to manage style biases because these biases tend to outweigh the impact of the sustainability factor. Our analysis shows that high-sustainability portfolios tend to have a higher market and large-cap exposure, which if not properly neutralized in the portfolio construction process, can offset the positive sustainable alpha. Successful SRI performances result from the integration of high quality sustainable screeningand rigorous risk management, which can be further leveraged by active management

4. Analysis and Discussion

This section of the study purposes to explain the statistical methods adopted for the secondary data analysis. Two types of data analysis is used; namely descriptive analysis and inferential analysis.

4.1 Descriptive Analysis

The first statistical method used in this part is descriptive analysis of data. Descriptive analysis examines the preliminary features of the data. It presents various characteristics of the dataset

applied in the study including number of observations, mean, median, standard deviation, skewness and kurtosis, maximum value and minimum value of dependent, independent and control variables.

Table 4.1 below reports descriptive statistics for the financial performance, corporate governance, and company specific variables for the full period of study (2015-2019) for all 15 companies selected for the purpose.

The mean value for ROA for all the firms is 12.38 with a standard deviation of 12.08. This indicates that the companies in the sample are top players from IT sectors and are financially stable. Further, the average number of directors comes to 9 and standard deviation was only 1.67.

This result is quite close to the findings of Mak and Kusnadi (2005) and Nguyen and Nguyen (2016), who have reported the number of seven directors in terms of board size. The board size has a large range with the lower and upper limit of five and thirteen respectively. Although the range of number of directors is not stated specifically in the Code, but it is still recommended that the company should consider the nature of business operations, firm's size while deciding about the board size in order to enable effective decision making. The board size should not be too large to be unwieldy. The Cadbury Committee (Cadbury, 1992) recommends an ideal board size of 8–10 members, with an equal number of executive and non-executive directors

Board composition including executive and non-executive directors is also a significant characteristic of board structure. It helps in reducing manager–shareholder conflicts in stock ownership by board members. Executive board members develop shareholder-like interests as they own part of the company and are less likely to engage in activities that are detrimental to shareholders.

As far as Independence of directors is concerned most of the companies have more than 55% independent directors on the board with a deviation of 11.97. Maximum percentage for independent directors is 80% among the sample companies. This result is fairly compatible with the findings of Nguyen and Nguyen (2016) study, whose result for independence ratio is around 61%. As per Company Act 2013, one-third directors should be independent directors for listed companies. This statistic also supports the strong element of independence in corporate governance structure, contributing to the high transparency index in this context. Board meetings had mean of 6 with minimum of 4 and maximum of 12 meetings in a year. The mean value for CEO duality is

.21 with deviation of .41 signals that majority of the companies in the sample don't had CEO and chairperson as same the persons on the board. This indicates that a majority of companies in Indian IT sector follows the mechanism of role separation between CEO and Chairman.

Talking about the company specific variables, the mean of total assets of the companies is recorded as 19978.50 with a minimum of 236.53 and maximum of 1498387.45. This shows that companies belong to large cap, mid and small cap size. Average age of the companies comes out to be 29 years with a deviation of 15.50. The maximum age of companies is 79 and a minimum of as low as 7.

Lipton and Lorsch (1992) recommends a number of board members between seven and eight, however, board size recommendations tend to be industry-specific. According to Adams and Mehran (2003) large boards could provide the diversity to help companies to secure critical resources and reduce environmental uncertainties (Prefer, 1987; Pearce and Zahra, 1992; Goodstein et al., 1994)

	ROA	BSIZE	EXE	NON-EXE	% INDDIR	BMTS	DCEO	TA	AGE
Mean	12.38	9.36	2.25	4.67	55.13	6.09	0.21	19978.50	29.49
Median	13.16	10.00	2.00	4.00	54.55	6.00	0.00	3723.35	25.00
Standard Deviation	12.08	1.67	1.07	3.12	11.97	1.76	0.41	28569.33	15.50
Kurtosis	4.30	0.26	0.54	-1.24	-0.32	0.95	0.04	0.58	3.59
Skewness	-1.62	-0.49	0.64	0.23	0.05	1.10	1.43	1.41	1.87
Minimum	-36.25	5.00	1.00	0.00	33.33	4.00	0.00	236.53	7.00
Maximum	30.53	13.00	6.00	10.00	80.00	12.00	1.00	99500.00	79.00
Sum	928.22	702.00	169.00	350.00	4134.46	457.00	16.00	1498387.45	2212.00
Count	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00	75.00

4.2 Regression Analysis

In order to test the problem of multicollinearity which may arises among independent variables Pairwise Correlation analysis is used. Multicollinearity problem arises in case two or more independent variables are highly correlated with each other, which may mislead the results of regression (Hair et al.., 2010). To put it differently, high correlation amongst independent variables might lead to untrustworthy and distorted findings. .80 is the critical value for deciding the problem of Multicollinearity. Table 4.2 below displays the correlation among all the variables of the study.

	ROA	BSIZE	EXE	NON-EXE	% INDDIR	BMTS	DCEO	TA	AGE
ROA	1								
BSIZE	0.590951	1							
EXE	-0.23399	-0.07485	1						
NON-EXE	0.23899	0.421772	-0.34421	1					
% INDDIR	0.165196	0.202557	-0.07838	0.113577483	1				
BMTS	0.153698	-0.14955	0.094981	-0.276911332	0.176583	1			
DCEO	-0.38597	-0.46743	0.059802	-0.08060973	0.094669	-0.04631	1		
TA	0.470465	0.30813	-0.04768	0.215002721	0.528582	0.345617	-0.20103	1	
AGE	0.156006	0.164178	0.084694	0.316466258	0.373796	0.080807	-0.07375	0.746534	1

It is clearly visible that there is no significant relation among explanatory variables. All the coefficient of correlation values is below the critical level of .80 which means that the model does not contain any multicollinearity. 0.74 is the maximum coefficient of correlation matrix between total assets and age of the companies. It does happen that as the age of the company's existence increases total assets may increase given the expansion and growth of the company.

Also, the next highest correlation is between return on assets and board size with a figure of 0.59 and also between returns and total assets which could be explicated that firms with high returns and higher assets be likely to have correspondingly larger board size to manage. In addition, it is found that both CEO duality and ROA are negatively related to each other. This indicates that the companies adopting the separation of role between CEO and Chairman have more chances of higher returns or the CEO duality plays negative role in the returns of the company.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.740436365
R Square	0.548246011
Adjusted R Square	0.493487952
Standard Error	8.594483377
Observations	75

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	8	5916.392416	739.549052	10.01215197	5.17948E-09
Residual	66	4875.099539	73.86514453		
Total	74	10791.49195			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-8.952033467	10.70144314	-0.836525817	0.405877775	-30.31815408	12.41408715	-30.31815408	12.41408715
BSIZE	3.491268179	0.82986978	4.207007246	7.97708E-05	1.834379703	5.148156655	1.834379703	5.148156655
EXE	-1.935332954	1.067258416	-1.813368651	0.074321855	-4.066183133	0.195517226	-4.066183133	0.195517226
NON-EXE	-0.070009916	0.424469372	-0.164935142	0.869499164	-0.917490362	0.777470529	-0.917490362	0.777470529
% INDDIR	-0.152526858	0.103736035	-1.470336295	0.146222171	-0.359642535	0.054588819	-0.359642535	0.054588819
BMTS	0.600001993	0.690492529	0.868947842	0.388024667	-0.778610823	1.978614809	-0.778610823	1.978614809
DCEO	-1.171400288	2.940103343	-0.398421467	0.691605544	-7.041506011	4.698705436	-7.041506011	4.698705436
TA	0.000240801	6.94774E-05	3.465893193	***0.0009340422	0.000102085	0.000379517	0.000102085	0.000379517
AGE	-0.219407262	0.111957583	-1.95973561	***0.0542517217	-0.442937788	0.004123264	-0.442937788	0.004123264

Table 4.3 above depicts the panel data regression analysis model examining the relationship between corporate governance and firm performance. Coefficients which differ significantly from zero at less than the 0.05 level are marked with asterisks. BSIZE is representing board size means the total number of board members. EXE and NON-EXE is showing the number of executive and non-executive directors on the board. %INDDIR variable is symbolized for percentage of independent directors out of total directors in the board. BMTS is the board meetings happened in a particular financial year. DCEO is a dummy variable presenting CEO duality, where 1 represents the case of CEO and Chairman is the same person and 0 otherwise. TA is the value of total assets in crore rupees. AGE is the number of years of existence of the company since its inception to the year of analysis.

Interpretation of Results

4.2.1 Impact of Board Size (BSIZE) on Company Performance

Board size is an important element of corporate governance and used by majority of the studies related to measuring impact of corporate governance on company's performance. These studies have shown mix results about the significance of board size for company's performance. Eisenberg, Sundgren and Wells (1998) in their study concluded that board size has a negative relationship with company's performance reporting the probability of having communication and coordination problems present in companies with bigger boards. Some studies have shown positive relation between board size and company's performance. Other studies reporting the similar results were VO and Phan (2013); Samuel (2013); Arosa et al. (2013); Bhagat and Bolton (2013); Uchida (2011); Guest (2009); Haniffa and Hudaib (2006), Mak and Kusnadi (2005).
The present study shows positive coefficient with a p value of less than .05 which is significant value at 95% level which means there is significant correlation between size of the board and company's performance. This indicates that larger boards improves the performance owing to different expertise and skills of the members.

4.2.2 Impact of Executive Directors (EXE) on Company Performance

As per Rule 2(1) (k) of the Companies Rules, 2014 under the provisions of Companies Act 2013, executive directors mean director in the whole-time employment of the company. He should an employee of the company. This follows the stewardship theory of management. Table 4.3 shows

negative coefficient for executive directors but the p value is .074 which is above the acceptance limit of significance. So it may be concluded that executive directors don't have significant impact on the performance of the company.

The impact of inside (executive) and outside (non-executive) directors on company performance has been tested by Hermanlin and Weibach (1991) with many control variables and the result indicated that there is no relationship between board composition and company performance.

4.2.3 Impact of Non-Executive Directors (NON-EXE) on Company Performance

A non-executive director is a member of a company's board of directors who is not part of the executive team. A non-executive director does not involve himself/herself in the day-to-day operations and management of the organization but is involved in policymaking and planning exercises. He is not employee of the company.

The summary table depicts negative coefficient with a p value of .86 which is more than .05 significance level leading to a conclusion of non-significant relation of company's performance with this variable. Number of non-executive directors on the board does not impact the company's performance. On the contrary, Jensen and Meckling (1976), recorded that boards dominated by non-executive directors may help to lessen the agency problem by monitoring and controlling opportunistic behavior of management. Previous studies show mixed results on the relationship between board composition and company performance. Our results are in line with Laing and Weir (1999) that non-executive directors are more likely to compete against corporate strategies which they believe are not in the best interests of the stakeholders. Several other studies like Chaganti, Mahajan and Sharma (1985), Zahra and Stanton (1988), Fosberg (1989), Hermalin and Weisbach (1991), Grace, Ireland and Dunstan (1995) and Dalton et al. (1998) do not discover any relationship between non-executive directors and company performance. According to Bhagat and Black (1999) one of the reasons as to why independent nonexecutive directors do not have a positive effect on performance may be the minimal financial rewards for non-executive directors giving them little or no motivation to be earnestly involved in a firm's strategy.

4.2.4 Impact of Board Independence (% INDDIR) on Company Performance

This study fails to provide any evidence to support the relationship between % of independent directors and firm performance. The p value of .14 is above the acceptance level of .05. The result

of this study differs from previous studies including Eisenberg, Sundgren and Wells (1997) which confirmed the presence of negative correlation between board size and firm performance. Muth and Donaldson (1998) emphasized the role of independent board in the internal and external business environment. Empirical studies have shown strong results supporting the existence of an optimal size of board depending on the particular circumstance in each company. They argued that independent directors are the good complement between inside and outside directors.

The finding of our study is parallel with Bhagat and Black (1999) who established that there is no persuadable evidence to conclude that an increase % of independent directors enhances firm performance.

4.2.5 Impact of frequency of Board Meetings (BMTS) on Company Performance

As far as the frequency of board meetings to performance is concerned there are two different schools of thought. One view places the higher meeting frequency a reason to increase performance. Conger et al. (1998) institute that board meetings can be used to make the company more effective with the condition of board being committed to managing and is not distracted by any other issues.

The second school of thought assumes that meetings are not valuable and do not contribute in enhancing performance. Most of the time non-executive directors are not part of setting the agenda for these meetings and that is why not able to raise the issues they think of importance for performance of the company. Vafeas (1999), reports a negative relationship between the board meeting numbers and company performance and higher board meetings can result in poor performance.

The null hypothesis for this variable was that number of board meetings does not impact company performance in any way. The p-value for this variable is .388 which is above the significance level helping us in accepting the null hypothesis and deriving the fact that frequency of board meetings does not decide the company performance.

4.2.6 Impact of CEO Duality (DCEO) on Company Performance

For CEO duality a binary expression of 1 and 0 is used where 1 represents CEO and chairman as one person and 0 shows the separation of both the roles. As per Cadbury (1992) the role of chief executive officer and chairman should, in principle, be separate; combining these two may lead to

considerable concentration of power within the decision-making process of a company. There are different views as regards to company performance and duality of CEO is concerned. The first view supports the agency theory and believe that separation of CEO helps the board in better monitoring. The second view is on lines of stewardship theory and sees the CEO duality as successful since the managers may be good stewards of the company's resources. The third view concludes that there is no substantial relationship between CEO duality and performance. It advocates that a company may be successful despite its board leadership

Table 4.3 reports the CEO duality has negative correlation with firm performance measured by ROA, though the relationship is not showing significant result being p-value at .69. This result is totally opposite to the stewardship theory in which the role of CEO as chairperson is emphasized to control firms more effectively. The duality of CEO and chairman is in interest of the company so that the agency problem can be ruled out. The result of the study denies any relation between CEO duality and company performance, hence advocates for separation of these two roles for better efficiency. Companies with CEO & chairman separation are expected to minimize bankruptcy risk on the one hand and boost the chances of raising additional capital because of stakeholders' confidence in them on the other hand.

4.2.7 Impact of Total Assets (TA) on Company Performance

Total assets of the company have been taken as a control variable for the study. It represents the size of the firm. The results show that there is a significant impact of size of the company on its performance. The coefficient for total assets is positive and the value of p is .0009 which is below .05 hence the null hypothesis is rejected stating that total assets does not have impact on performance.

4.2.8 Impact of Company's Age (AGE) on Company Performance

Another control variable used for the study is the age of the company. For all the companies of sample year of company's inception is taken as a base for calculating this variable. Age is defined as the difference between the year of analysis and year of establishment of the company. The result is significant at 95% level with p-value of .05 but the coefficient is negative indicating inverse relationship between the age and performance of the company. This result is suggesting that new companies have more chances of good performance as against the old companies. The hypothesis was framed that there is no significant relation between the age and performance which will be

rejected but at the same time it cannot be concluded the greater the age of the company better will be the performance.

5. Conclusions and Implications

The main objective of the study was to evaluate the relevance of corporate governance as a tool for measuring the company's commitment to its various stakeholders. To test this pooled regression analysis was used. The foremost commitment of any business organization towards its stakeholders is to run business efficiently. The basic purpose of any business is to sustain and grow itself. If business is able to earn enough returns on its employed assets, it may be concluded that company has fulfilled its commitment. Thus, financial performance of the company is a proxy variable for its commitment to stakeholders. Now the second part of the study is related to corporate governance which is fulfilling all the legal requirements mentioned in Company Act 2013 related to various parts of governance of company like have particular board size with proper composition of executive, non-executive & independent directors to ensure smooth functioning of the company, having regular board meetings to bring transparency in the activities and decisions taken, duality of CEO to rule out agency problem etc.

This study aimed to find out that whether fulfilling all these corporate governance requirements have any bearing on the performance of the company. So the impact of corporate governance indicators has been studied on the performance of the company which was indicated by the returns on assets. The null hypothesis was that there is no significant relation between company performance and corporate governance. This relationship was tested by applying multivariate regression analysis.

ROA has been taken as an independent variable and various variables like board size, composition of board including executive, non-executive and independent directors, frequency of board meetings was taken as proxy for corporate governance along with total assets and company age as control variables.

The result of the analysis clarifies that for these independent variables the p-value is not significant at 95% level so the null hypothesis is accepted and it is concluded that there is no significant relationship between corporate governance and performance of company. Corporate governance is not a relevant tool to measure company performance. All the sample companies are listed

companies and ensures the adoption and fulfillment of corporate governance principles but even then we cannot say with surety that each company following corporate governance norms can perform better.

The main findings of this study presents the effects of corporate governance on company performance. First, the length of board size has a negative impact on company's performance. Second the p-value for executive and non-executive directors is above the acceptance limit of .05 indicating that there is no significant relationship between company performance and the number of executive and non-executive directors in the board. Next the research supports a agency theory and confirms the role of CEO duality in which the CEO also serves as chairperson does not help in improving company performance. Furthermore, the impact of %of independent directors on firm performance is also not significant. So the availability of more independent directors does not ensure better performance of the company. Next, this study fails to provide an experiential evidence to confirm the significant relationship between the frequency of board meetings and company performance. Final, the most attention-grabbing finding of this study is that the control variable of age has significant negative impact on the company performance and total assets of the company has significant positive impact on its performance.

So we conclude that the result of most of the independent variables of corporate governance on the dependent variable of performance is not significant and we accept the null hypothesis which says that corporate governance does not have any significant impact on company performance. It leads us to the supposition that corporate governance cannot be used as a relevant tool of measuring company's commitment to its stakeholders.

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