

ROLE OF CORPORATE GOVERNANCE IN INVESTORS DECISION MAKING

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Abstract

The purpose of this study is two-fold: first to examine to what extent the investors are aware of the concept of Corporate Governance and secondly to find out whether the information disclosed by the companies as a part of Corporate Governance Practices is motivating the investors to make better investment decision. In order to achieve this objective an empirical method of research is employed. A questionnaire from Credit Lyonnaise Securities Asia (CLSA), a brokerage firm, was adopted with necessary modifications to suit the requirement of this study. The sample consists of equity shareholders only. The respondents are equity investors. They are those people who have invested in a particular company for over one year as on March 31, 2021. This is done intentionally to ensure that they would have attended at least, one Annual General Meeting. Although, they may hold shares of more than one company, the respondents were advised to focus on any one of the companies in which they had been the shareholders for over a year, while answering the questionnaire. The reliability of the questionnaire was 0.847. This paper is covered in three sections. Section- A discusses the Review of Literature, section-B focuses on the research methodology followed and section-C dwells on the analysis.

Keywords

Corporate Governance, shareholders, investors, Investment decisions

1. Introduction

When outside investors finance a firm, they may do it either as a shareholder or as a creditor to the company in the form of debenture holder. It is often commented that the shareholders are the real and residual owners of the company. Since, the shareholders are the residual owners of the company, it is very essential that they monitor the actions of the management so that the management can channelize their hard-earned money most productively. Lack of accountability on the part of management and the ignorance of the shareholders about their rights and duties have in a way accounted for a series of scandals that had led to the emergence of the Corporate Governance. It is essentially a method to monitor the actions of the management. It is quite necessary that the investors have a thorough understanding of Corporate Governance practices at their investee firm. A complete grasp of the Corporate Governance practices enables the investor to choose well -

governed firms for investment. Such firms are a better option to invest the hard-earned money.

2. Review of Literature

Jensen and Fama (2015), focused on conflicting interest between top level managers and shareholders. He conducted a study in U.K and U.S and established the positive affect of corporate governance on the alignment of interest of top-level management with shareholder's interest. He observed that the issues related to compensation, selection and appointment of higher echelons of the managerial hierarchy, organizational structure and its performance are the causes of conflicting interest.

Panchali and Baid (2016) observed that for the success and sustainability of the business for a long period it is essential that there exists optimization of the interests of both shareholders and stakeholders. They observed that the real owners of the company are the shareholders' and the management acts as an agent for effectively channelizing their investment.

Bhasa (2017), according to him, wealth maximization strategy should be carefully planned. It should benefit not only the shareholders' but also the stakeholders. Further, the element of providing compensation either in pecuniary or non - pecuniary terms, should not be neglected.

Byrne (2018), is of the view that those shareholders' who own 5% of issued shares, comparatively, exert more influence on the managerial agents than those companies which are run by good governance mechanism.

Maheswari (2019), held that the regularities in Company's Act 1956 adversely affected the corporate governance system, in India. The Board of Directors should own more responsibility than the shareholders' and the focus should be on the board structure and its size. The board of directors shall take decisions which are best suited to the shareholders' instead of linking it to the extent of pecuniary interest in the company.

3. Objectives

To find out whether the information disclosed by the companies as a part of Corporate Governance Practices is motivating the investors to make well-informed investment decision.

4. Methodology

Data sources: The secondary data source is obtained from the Company websites, ICICIdirect.com, NSE India.com, CMIE prowess. The primary data source is obtained from 400 respondents, being investors, living in Hyderabad and Secunderabad.

Selection of Sample: The primary data is collected from the equity investors who are living in Hyderabad and Secunderabad. It includes questionnaire adopted from Credit Lyonnaise Securities Asia, a brokerage firm. The criterion for investor selection is, he/she should hold the shares for at least one year. It is because that the investor will get an opportunity to attend at least one Annual General meeting. While answering the questionnaire the respondents should focus on only one company in which he/she was a shareholder.

Sample Size: 400 respondents living in Hyderabad and Secunderabad have been considered for the

study.

Sampling method: Purposive sampling is followed

Period of Study: The period of study is from 2020-2021

Variables considered: The result of the demographic questions is presented in the form of Pie-Chart and the psychographic questions are represented by Bar- Charts.

Statistical technique: The various techniques used to analyze the data and test the hypotheses is Chi- Square. The Statistical Package for Social Science Research software is used to perform calculations.

Scope of the Study

The scope of the study is from the point of view of the interest of investors' belonging to Hyderabad and Secunderabad region. The study focuses on the following:

Investors' preference for well-governed companies for investment.

5. Research Hypotheses

H1: Firms' Corporate Governance practices influence the investment decisions of the investors.

6. Analysis & Results

The study aims to focus on whether sound corporate governance practices of company influence the investors in making better decisions. To check the reliability of the questionnaire, Cronbach's alpha is run and the value obtained is 0.84.

Table 1: Case Processing Summary

		Sample Size	%
	Valid	400	100.0
Cases	Excluded ^a	0	.0
	Total	400	100.0

a. List wise deletion based on all variables in the procedure.

The above Table1 gives the information about the number of respondents chosen for the study. N= 400, represents number of respondents.

Table 2: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
.839	.840	25

The column No. of items represents 25 Psychographic Questions based on Likert's Scale; the Chronbach's alpha indicates reliability of the questionnaire. Based on the answers of 400 respondents, Chronbach's alpha is 0.840, which is considered good.

Table 1a: Level of education

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Graduation	208	52.0	52.0	52.0
	Post-Graduation	192	48.0	48.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

52% of the total respondents are graduates and 48% are post - graduates. All respondents are educated

Table 2a: Advise for investment

		Frequenc y	Percen t	Valid Percent t	Cumulativ e Percent
Valid	Own research	168	42.0	42.0	42.0
	Expert tips	200	50.0	50.0	92.0
	Seeks advice from friends and family	32	8.0	8.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

50% of the respondents seek expert tips mostly available on T.V. channels for making investment. 42% wish to do their own research before making investment. 8% of the respondents seek the advice of friends and family while making investment decisions. All respondents do research before making investment decision.

Table 3a: Preferred newspaper

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Economic times	360	90.0	90.0	90.0
	Business standard	16	4.0	4.0	94.0
	Financial express	24	6.0	6.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

90% of the respondents read Economic Times, 4% and 6% read Business standard and financial express respectively.

The respondents would like to keep themselves abreast with the latest changes taking place

Table 4a: Frequency of reading Economic Times

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	regularly	48	12.0	12.0	12.0
	occasionally	96	24.0	24.0	36.0
	very often	156.0	64.0	64.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

64% of the respondents read Economic Times very often. 24% of the respondents read it occasionally and 12% of the respondents read it regularly. All respondents read newspaper and find it the most authentic source of information.

Table 5a: Relationship with the corporate world

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	investor/shareholder	400	100.0	100.0	100.0

Source: Primary Data

100% of the respondents are investors/ shareholders. All respondents are retail participants in the stock market.

Table 6a: Criteria for investment

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Market share	80	20.0	20.0	20.0
	Stock performance	176	44.0	44.0	64.0
	Sound corporate governance	128	32.0	32.0	96.0
	Competitive position	16	4.0	4.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

44% of the respondents agree to stock performance to be a feature for making investment, 32% of the respondents agree sound Corporate Governance to be criteria for investing in stocks, 20 % of the respondents look at market share while buying stocks of the company and 4% would look at the competitive position to buy stocks. All respondents invest based on their own opinion regarding the criteria for investment.

Table 7a: Reports read

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
	Nil	112	28.0	28.0	28.0

Valid	Lessthan5	264	66.0	66.0	94.0
	Between5-10	24	6.0	6.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

66% of the respondents have read less than 5 Corporate Governance reports, 6 % of the respondents have read between 5 - 10 Corporate Governance reports and 28% of the respondents have not read Corporate Governance report. Most of the respondents read Corporate Governance reports.

Table 8a: Adequacy of information

		Freque ncy	Perce nt	Valid Percent	Cumulative Percent
Valid	Can't say	176	44.0	44.0	44.0
	Agree	224	56.0	56.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

56% of the respondents agree that the Corporate Governance reports disclose the company information adequately, 44% of the respondents are not sure and hence replied can't say. Most of the respondents find information given in Corporate Governance reports adequate.

Table 9a: Importance of mission statement

		Freque ncy	Perce nt	Valid Percent	Cumulative Percent
Valid	Strongly disagree	55	13.8	13.8	13.8
	Disagree	16	4.0	4.0	17.8
	Can't say	47	11.8	11.8	29.5
	Agree	151	37.8	37.8	67.3
	Strongly Agree	131	32.8	32.8	100.0
	Total	400	100.0	100.0	

Source: Primary Data

33% of the respondents strongly agreed to have placed priority in the disclosure of mission statement of the investee company, 37% agreed to the aforesaid statement,12% of the respondents are not clear about the information and 18% of the respondents disagree with the statement. All respondents agreed that mission statement is vital for the existence of the company

Table 10a: Core business activity

		Freque ncy	Perce nt	Valid Percent	Cumulative Percent
Valid	Strongly disagree	72	18.0	18.0	18.0
	Disagree	23	5.8	5.8	23.8
	Can't say	56	14.0	14.0	37.8

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Agree	150	37.5	37.5	75.3
Strongly Agree	99	24.8	24.8	100.0
Total	400	100.0	100.0	

Source: Primary Data

25% of the respondents have strongly agreed that the investee company should define its Core Business activities, 37% of the respondents agreed to the statement, 18% of the respondents strongly disagreed, 6% of the respondents disagreed and 14% of the respondents have expressed a neutral opinion. The respondents find their investee company to have clearly stated its core business activity.

Table 11a: Details of resolution passed in AGM

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Strongly disagree	69	17.3	17.3	17.3
	Disagree	15	3.8	3.8	21.0
	Can't say	31	7.8	7.8	28.8
	Agree	137	34.3	34.3	63.0
	Strongly Agree	148	37.0	37.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

37% of the respondents have strongly agreed that the details of the special resolution passed should be disclosed to the shareholders of the company, 34% of the respondents agree to it, 17% of the respondents have strongly disagreed and 4% of the respondents have disagreed with the statement and 8% of the respondents are not clear about it. Respondents stress upon the disclosure of details regarding the special resolution passed by the investee company.

Table 12a: Information access to the shareholders

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Strongly disagree	69	17.3	17.3	17.3
	Disagree	26	6.5	6.5	23.8
	Can't say	63	15.8	15.8	39.5
	Agree	126	31.5	31.5	71.0
	Strongly Agree	116	29.0	29.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

29% of the respondents have strongly agreed that timely disclosure of material information to the shareholders is mandatory, 32% of the respondents agree to the afore mentioned statement, 17% of the respondents strongly disagreed with the statement, 6% of the respondents have disagreed with the statement and 16% of the respondents are neutral about it. Timely disclosure of the information is necessary so as to be accessed by the shareholders.

Table 13a: Corporate Governance as a separate section in the Annual reports

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Strongly disagree	78	19.5	19.5	19.5
	Disagree	16	4.0	4.0	23.5
	Can't say	48	12.0	12.0	35.5
	Agree	127	31.8	31.8	67.3
	Strongly Agree	131	32.8	32.8	100.0
	Total	400	100.0	100.0	

33% of the respondents strongly agreed to inclusion of Corporate Governance as a separate section in the Annual reports of the company,.32% of the respondents agree to it, 19% of the respondents strongly disagreed with the statement,4% of the respondents disagree with the statement,12% of the respondents are clueless about it.

Table 14a: English language website

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Strongly disagree	54	13.5	13.5	13.5
	Disagree	17	4.3	4.3	17.8
	Can't say	48	12.0	12.0	29.8
	Agree	151	37.8	37.8	67.5
	Strongly Agree	130	32.5	32.5	100.0
	Total	400	100.0	100.0	

Source: Primary Data

32% of the respondents have strongly agreed and 38% agreed to the investee company having an English language web-site, 13%of the respondents strongly disagreed and 4% disagreed with the statement and 12% are clueless. It is mandatory to have English language website as all the respondents are educated.

Table 15a: Disclosure of performance reports

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Strongly disagree	70	17.5	17.5	17.5
	Disagree	25	6.3	6.3	23.8
	Can't say	55	13.8	13.8	37.5
	Agree	151	37.8	37.8	75.3
	Strongly Agree	99	24.8	24.8	100.0
	Total	400	100.0	100.0	

Source: Primary Data

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25% of the respondents strongly agreed to the disclosure of performance reports, 37% of the respondents have agreed to the disclosure of performance reports, 17% and 7% of the respondents have strongly disagreed/disagreed with the statement, 14% of the respondents have not commented upon. Disclosure of performance reports are important as investors are keen to know about the performance of the company.

Table 16a: Date and Venue of Annual General Meeting

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Strongly disagree	79	19.8	19.8	19.8
	Disagree	17	4.3	4.3	24.0
	Can't say	32	8.0	8.0	32.0
	Agree	128	32.0	32.0	64.0
	Strongly Agree	144	36.0	36.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

36% of the respondents have strongly agreed that their investee company has informed them about the Date and Venue of the AGM well in advance, 32% of the respondents have agreed with it, 20% of the respondents strongly disagreed with it and 4% of the respondents have not commented upon it. Information on date and venue of the annual general meetings should be announced well in advance so as to facilitate the respondents to attend it.

Table 17a Clarity on Corporate Governance report

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
	Strongly disagree	72	18.0	18.0	18.0
	Disagree	25	6.3	6.3	24.3
Valid	Can't say	56	14.0	14.0	38.3
	Agree	135	33.8	33.8	72.0
	Strongly Agree	112	28.0	28.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

28% of the respondents strongly agreed that the corporate governance reports are clear and informative. 34% of the respondents agreed that the corporate governance statements are informative and clear, 18% of the respondents strongly disagreed and 7% of the respondents disagreed with it, 14% replied can't say. The respondents wish to have information in clear and understandable form.

Table 18a: Grievances on share transfer

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
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Valid	Strongly disagree	93	23.3	23.3	23.3
	Disagree	8	2.0	2.0	25.3
	Can't say	56	14.0	14.0	39.3
	Agree	129	32.3	32.3	71.5
	Strongly Agree	114	28.5	28.5	100.0
	Total	400	100.0	100.0	

Source: Primary Data

29% of the respondents have strongly agreed that the information on grievances of share transfer is stated, 32% of the respondents agreed to the aforesaid statement, 23% of the respondents strongly disagreed with the statement, 2% disagreed with it, 14% have replied can't say. Disclosure of grievances redressed should be made available as this will exhibit responsible behavior of the company. Statement of disclosure of material gains made by the Top Management at the expense of Lower and Middle level management:

Table 19a Disclosure of controversial gains

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Strongly disagree	63	15.8	15.8	15.8
	Disagree	15	3.8	3.8	19.5
	Can't say	40	10.0	10.0	29.5
	Agree	154	38.5	38.5	68.0
	Strongly Agree	128	32.0	32.0	100.0
	Total	400	100.0	100.0	

Source: Primary Data

32% of the respondents have strongly agreed that the investee company should disclose if it has made any material gain at the expense of Lower and Middle level management, 38% of the respondents agreed to the aforesaid statement, 19% of the respondents have disagreed with the statement, 10% of the respondents have replied can't say. Any controversial gains made by the investee company should be clearly stated as this will exhibit transparency on the part of the company.

Table 20a: Constitution of Ethics Committee

		Frequenc y	Percen t	Valid Percent	Cumulative Percent
Valid	Strongly disagree	79	19.8	19.8	19.8
	Disagree	24	6.0	6.0	25.8
	Can't say	55	13.8	13.8	39.5
	Agree	144	36.0	36.0	75.5
	Strongly Agree	98	24.5	24.5	100.0
	Total	400	100.0	100.0	

Source: Primary Data

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25% of the respondents have strongly agreed to constitution of an Ethics Committee to look into unfair practices. 36% of the respondents agreed to it, 20% of the respondents have strongly disagreed to the said statement, 6% disagreed with it and 14% replied can't say. Ethics committee formed by the investee company builds a reputation for closely monitoring the internal activities of the company.

H01: There is no impact of firms Corporate Governance practices on the investment decision

Ha1: Firms' Corporate Governance practices influences the investment decisions of the investors.

For the data collected Chi- Square is executed to test the hypothesis. The following is the output derived for the test conducted.

Chi-Square Tests

	Value	Df	Asymp. Sig. (2 sided)
Pearson Chi-Square	1108.525 a	16	.000
Likelihood Ratio	846.911	16	.000
Linear-by-Linear Association	219.549	1	.000
N of Valid Cases	400		

Chi- square test reveals that the Pearson Chi- Square p-value for 16 degrees of freedom is < 0.05 , which is 0.00 hence the research hypothesis is not rejected: which means that there is an impact of Corporate Governance on investment decisions.

7. Findings

On the basis of the Demographic questions, it is revealed that all respondents whose minimum qualification is graduation, mostly in Commerce discipline, are regular investors. While making an investment, the respondents either listen to experts in the relevant field or do their own research. All respondents are investors with high hopes that their hard-earned money is in safe hands and expect a steady income from their investment. Majority of the respondents rate their knowledge and experience of investment as good. Basically, the respondents are market driven and are motivated to do as much research as possible before taking a decision to invest. Majority of the respondents invest an amount ranging from Rs. 1,00,000/- to Rs.5,00,000/-. The respondents are of the opinion that the "Corporate Governance" is investor friendly and it is designed to protect the interest of shareholders. Their level of taking risk and business goals is conservative in nature. Majority of the respondents agree to the fact that their motivation to go for investment is historical performance of the stock as well as sound Corporate Governance practices followed by the investee firms. The respondents, though not prolific readers of Corporate Governance reports, they firmly believe that Corporate Governance is an "Investor Protection Mechanism". More than half of the respondents are of the opinion that the Corporate Governance reports disclose the prescribed information adequately. Most of the respondents agree that the Corporate Governance reports disclose reliable information. About 1/3rd of the respondents strongly agrees

with the proposition that they give priority in the disclosure of mission statement of the investee company. Majority of the respondents agree with the fact that Investee Company has clearly stated its core business activity. Majority of the shareholders agree that the investee companies do give importance to the disclosure of the details of the special resolution passed by these companies. While, more than 1/4th of the respondents strongly agree that timely disclosure of material information of the company to the shareholders is mandatory, more than 1/3rd of the respondents agree that the investee companies make timely disclosure of their companies' information to the shareholders. Majority of the respondents strongly agree that the Corporate Governance report should be included as a separate section in the Annual Report. More than 3/4th of the respondents agree to the fact that investee company should have an English language website. 1/4th of the respondents lay importance on the necessity of disclosure of performance reports. However, majority of the respondents agree that the investee companies necessarily disclose performance reports. Majority of the respondents agree that the investee company did make official announcement of date and venue of the Annual General Meeting. Majority of the respondents wish to have information about Corporate Governance reports with utmost clarity and comprehension. Nearly 1/3rd of the respondents strongly agree that statement of redressal of grievances on share transfer will reflect the companies' responsible attitude. Majority of the respondents agree that the company should clearly state if any controversial gains are made by it, so that maximum transparency is achieved. More than 1/3rd of the respondents agree that Ethics Committee, if formed by the investee company, builds a reputation for closely monitoring the internal activities of the company. Chi-Square test reveals that there is an impact of Corporate Governance on the investment decisions.

8. Recommendations

The following recommendations are made: Shareholders should also take utmost interest in attending the Annual General Meetings. They should also make suggestions wherever necessary and monitor the changes brought about in the meetings. To take steps to reward suitably the employees who have followed ethical code that has resulted in enhancing the image of the company.

9. Limitations

The study is restricted to Hyderabad and Secunderabad regions and may not represent the general population.

10. Conclusion

Those corporations that invest their manpower, resources, experience, skills and expertise to take care of the interest of a wide range of constituents and communities with which they interact in accordance with the legislative enactments, widely recognized customs and traditions and high level of ethical practices, are considered to be following the principles of Good Governance. Corporate Governance is about commitment to values and about ethical conduct of business. This includes its corporate policies, its culture and the manner it deals with various stakeholders. Accordingly, timely and accurate disclosure of information regarding the financial performance of the company, institutional ownership and governance of the company constitute important components of Corporate Governance. Despite having rules and structures in place it is imperative to focus on the

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growing need and significance of softer aspects of governance mechanism namely, behavioral, cultural and ethical issues and to assign greater attention to these aspects. Proper governance mechanism brings greater benefits not only to the firms and the markets but also to the investors who prefer well- governed firms for investment.

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