Abstract

A Firm is an organization formed through the association of a group of people, who have come together to conduct an activity after obtaining registration from the State. Thus, how a Firm conducts its activities is important and accordingly corporate governance has received a lot of attention in recent years, both in developed and developing countries. The recent financial scandals in some firms & the resultant failures of such firms is an outcome of the governance practices adopted by such firms. The direct consequence of these events is a series of measures adopted by various countries in strengthening corporate governance systems & practices. The effects of corporate governance on the performance of firms is different in each country & is dependent on the socio- economic factors in each country. The advent of the 21st century has witnessed a focus on the developing nations & consequently much of the current research now focusses on exploring corporate governance from the point of view of the developing countries.

The main objective of this research is to understand the nature and extent of the development of

corporate governance & its effects on the firm performance in the Indian socio-economic

environment. Emphasis has been placed on the association between corporate governance

principles and mechanisms with firm performance in the Indian business environment. The

research will focus on the development of a model of corporate governance in India, on the basis

of select models adopted by some countries & stakeholder’s perceptions concerning corporate

governance in India.

The conceptual framework of this research delineates the effect of corporate governance principles

& mechanisms on the performance of the firms in India. The broad corporate governance

principles are depicted as conduct of the Board of Directors, the rights & treatment of shareholders,

role of stakeholders in corporate governance & measures adopted for disclosures & transparency.

The broad corporate governance mechanisms are composition of the Board of Directors,

committees of Board of Directors, financial statements, auditors & audit committee independence.

The firm performance has been considered as the dependent variable and includes the

financial performance & market value. The theoretical framework of the research considers the

agency theory and the stakeholder’s theory to assess corporate governance and the effect of

corporate governance on the performance of firms in India.

The research objectives are achieved through a quantitative research method (primary data –

Questionnaire & secondary data). The main intention of the self- administered Questionnaire

survey was to explore the perceptions of the respondents regarding corporate governance,

significance of the implementation of corporate governance practices & the perceived barriers and

enablers for the implementation of corporate governance. The secondary data, meant to measure

the corporate governance mechanisms & firm performance variables were obtained from

annual reports of 50 companies (excluding banks) listed on the NIFTY-500 index & representing

diverse industries. The study covers the 5-year period from 2013 to 2018. The data were analyzed

using the Statistical Package for the Social Sciences (SPSS) to obtain quantitative measures of

descriptive statistics, Pearson and Spearman correlations, and non-parametric tests (Kruskal–

Wallis and Mann–Whitney tests). In terms of the role of corporate governance principles and

mechanisms in improving firm performance, two empirical models were constructed and a set of

hypotheses were formulated. Ordinary least squares (OLS) and generalized least squares (GLS)

multiple regression tests were performed with the help of the Stata 13 statistical package.

The findings of the questionnaire indicate that corporate governance is important for all stakeholders, and corporate governance based on the stakeholder view is appropriate for the Indian business environment. The results of this study reveal that corporate governance principles have been implemented in listed companies, the culture of the Indian community is regarded as possibly the main barrier, while the wide adoption of international accounting standards is considered the most effective enabler. The significant differences between certain items in the questionnaire represent the variance in levels of agreement. Descriptive statistics resulting from the analysis of the secondary data show that good corporate governance mechanisms have been adopted in listed companies in the India. This evidence confirms that most listed companies have complied with the code of corporate governance in the country.

The results of the correlation test and regression analysis indicate the effects of corporate governance principles and mechanisms on firm performance. This study supports the argument that when firms implement good corporate governance, the result is improved firm performance (financial performance and market value). This study provides support for the agency theory perspective that corporate governance mechanisms may mitigate agency problems, leading to an improvement in the performance of the company. In addition, the findings can be interpreted in line with the stakeholder theory, which complies with the clause 49 of SEBI Listing Obligations & Disclosure Rules (LODR) 2015, as good corporate governance can facilitate a good relationship between management and stakeholders, thereby enhancing the firm’s performance.

The findings from this study will extend the existing literature by identifying major challenges for ascertaining the effectiveness of corporate governance practices and the effect of these practices on the firm performance. The study also adds to the limited evidence on the challenges faced in the implementation of corporate governance standards & would have policy implications for key policy makers and managers. Further, the study with its emphasis on the corporate governance model, will make a significant contribution to the existing knowledge on corporate governance in emerging economies like India.