A Thesis on Influence of Corporate Governance on Post-IPO Performance Across Diverse Firms

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by

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Abstract

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This thesis delves into the effect of corporate governance on the performance of firms after their Initial Public Offering (IPO).The research focuses on different corporate governance elements, including founder's retained ownership, founder-CEO duality, board independence, audit committee independence, board diversity, and institutional ownership, assessing their impact on post-IPO performance in the Indian market context.

The study employs a sophisticated methodological framework, utilizing the Generalized Method of Moments (GMM) to address potential endogeneity in the variables. It analyzes data from 25 publicly-listed Indian companies over six years, sourced from multiple databases and regulatory filings.

The thesis highlights the nuanced role that different governance structures play in shaping firm performance in emerging markets and contributes to the broader discourse on corporate governance's effectiveness post-IPO.

Acknowledgements

We would like to express our deepest gratitude to those who have contributed to the completion of this thesis, a culmination of an enriching academic journey.

First and foremost, we extend our sincere appreciation to our thesis supervisor Professor Abhijeet Chandra for his unwavering support, invaluable guidance, and scholarly insights throughout the research process. His expertise has been instrumental in shaping the trajectory of this work.

Together, we have collaborated extensively to realize the culmination of this research endeavor. Our collective efforts have been characterized by the seamless integration of diverse perspectives, complementing expertise, and a shared commitment to the subject matter. This convergence of insights has significantly contributed to the intellectual ambiance within which this study has unfolded.

We extend heartfelt thanks to our family and friends for their unwavering support, understanding, and patience throughout this academic endeavor. Your encouragement was a constant source of motivation.

Lastly, we would like to acknowledge the shoulders upon which this work stands, recognizing the contributions of researchers and scholars whose work has paved the way for advancements in this field.

This thesis is a testament to the collaborative spirit and support we have received, and we are profoundly thankful for the diverse contributions that have shaped its realization.

Contents

Chapter 1

Theory

1.1 Introduction

How is corporate governance measured? What is the relationship between corporate governance and post-IPO performance of the firm? Why do firms go public? This project sheds light on these questions while taking into account the endogeneity of the relationships among corporate governance, corporate performance, corporate capital structure, and corporate ownership structure.

The post-operating performance of firms following an initial public offering (IPO) undoubtedly garners interest from a variety of stakeholders, including companies contemplating an IPO, potential investors, exchanges, and regulatory bodies. We aim to examine the influence of corporate governance on Post-IPO performance of different firms across different industries. Firms' with good corporate governance protects the interest of all the shareholders and tries to maximise their wealth.On the basis of the fact that strong corporate governance enhances shareholder value and increases interest of the investors, this study examines the relationship between post-IPO long-run performance and board governance quality, captured by board

composition, board leadership, board size and share ownership of different stakeholders.These outcomes are addressed as they are important dimensions of firm.

The structure of the paper is organised as follows: it begins with a literature review and hypothesis development, then proceeds to the data and methodology section, and concludes with discussion and conclusion sections. The literature review critically examines existing studies and formulates hypotheses aimed at bridging research gaps. The data and methodology section details the sample's background and its sources, along with a comprehensive description of the methodologies employed. Lastly, the discussion and conclusion sections interpret the findings and elucidate the contributions of the study.

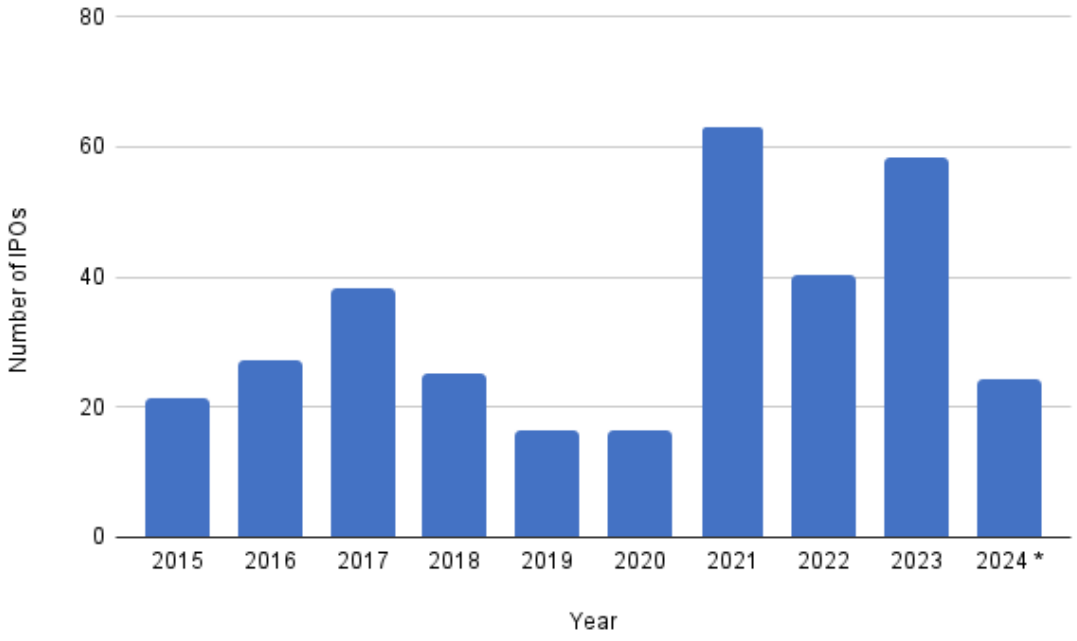


FIGURE 1.1: Number of IPOs vs Year

1.2 Literature Review

Research indicates that in an organisation's life cycle, strategic behaviour is pivotal in shaping a firm's future growth Filatotchev and Wright (2005).Therefore, governance practices are crucial in influencing the performance of firms that have gone public.

Chatterjee et al. (2024)investigates the influence of corporate governance structures on the post-IPO performance of Research and Development-intensive newly public firms. The study emphasises the importance of promoter's ownership and board independence, highlighting that while retained ownership by promoters positively impacts firm performance, their involvement in management could have adverse effects.

Agrawal and Vyas (2020) address the significant gap in studies concerning the Indian market by evaluating the impacts of board characteristics and ownership structures on long-term market performance of IPOs. Their findings suggest that smaller board sizes and greater independence are linked with improved performance outcomes, indicating the importance of efficient governance structures in enhancing shareholder value in emerging markets. Fosberg and Nelson (1999) finds no relation between the proportion of outsider directors and various performance measures (i.e., sales and return on equity). Hermalin and Weisbach (1991) find no association between the proportion of outsider directors and Tobin's Q.In contrast, Baysinger and Butler (1985) and Rosenstein and Wyatt (1990) show that the market rewards firms for appointing outside directors; Brickley et al. (1994) find a positive relation between the proportion of outside directors and the stock market reaction to poison pill adoptions. It is thought that restricting the size of a board can enhance firm performance. This is because the monitoring advantages provided by larger boards

are surpassed by the drawbacks of poorer communication and decision-making that tend to occur in bigger groups Lipton and Lorsch (1992)

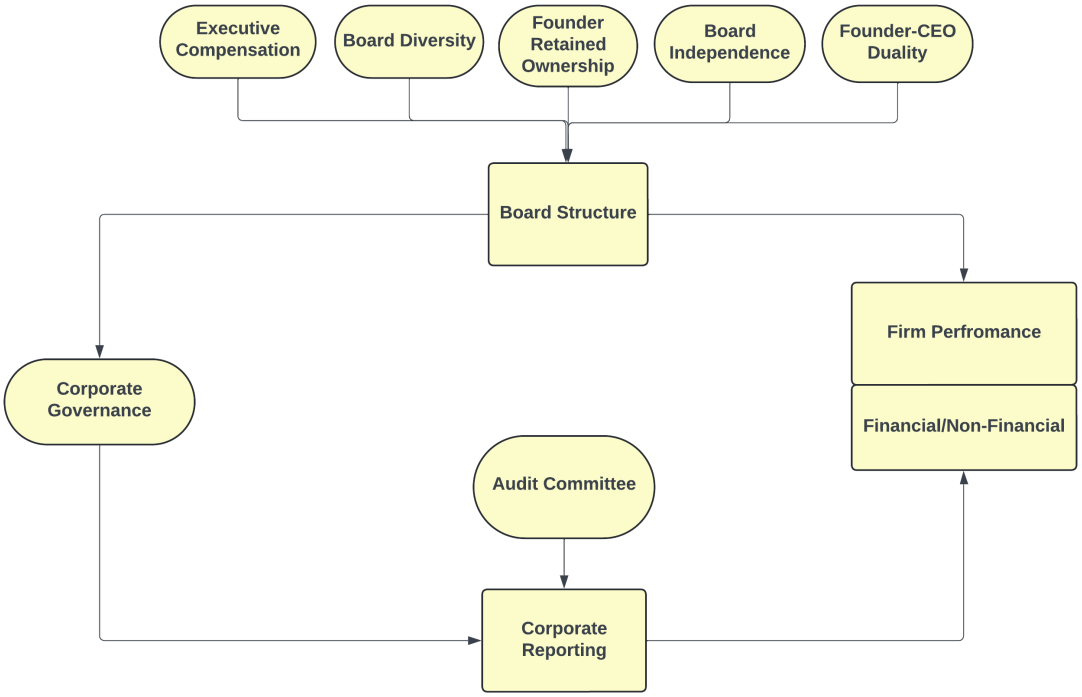


FIGURE 1.2: Corporate Governance Connectedness

Chapter 2

Data Collection and Research Methodology

2.1 Data Collection

This study analyzes six years of post-IPO trading data for firms that went public between April 2015 and March 2017 under the oversight of the Securities and Exchange Board of India (SEBI). Initially, data from 86 newly public firms were collected. However, firms with incomplete data over the subsequent five years were excluded to maintain data integrity. Additionally, Public Sector Units (PSUs), which often have 49% or more of their shareholding controlled by the government, were also omitted. The focus on founders, which is central to this research, does not align well with the structure of PSUs.

Following the elimination of data a final sample comprising 25 newly public firms was established. This sample formed a longitudinal panel dataset consisting of 125 firm-year observations spanning from March 2015 to March 2022. Data for this study was sourced from the Prowess CMIE database, BSE and NSE websites and

from a primary IPO investment portal Chittorgarh, IPO prospectus from SEBI website, company website, Annual reports, and Exchange filings, a resource utilised for conducting business research in India.

2.2 Research Methodology

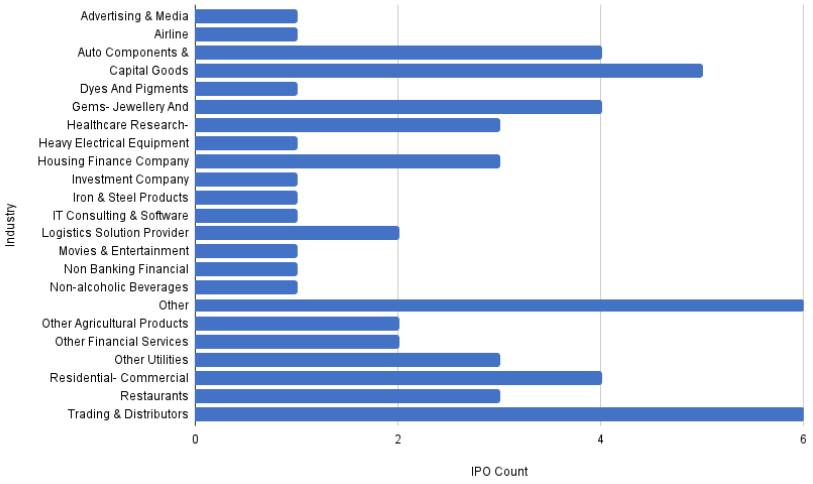
2.2.1 Dependent Variable

In evaluating the post-IPO performance of companies, this study utilizes two principal metrics: financial performance and market performance. Financial performance is assessed through Return on Equity (ROE), a widely accepted indicator that measures a company's profitability relative to its shareholders' equity. The formula for ROE involves dividing the net income by the shareholder's equity. Conversely, market performance is measured by the annual percentage return (APR) on the stock, which represents the variation in the stock price over the specified time frame.

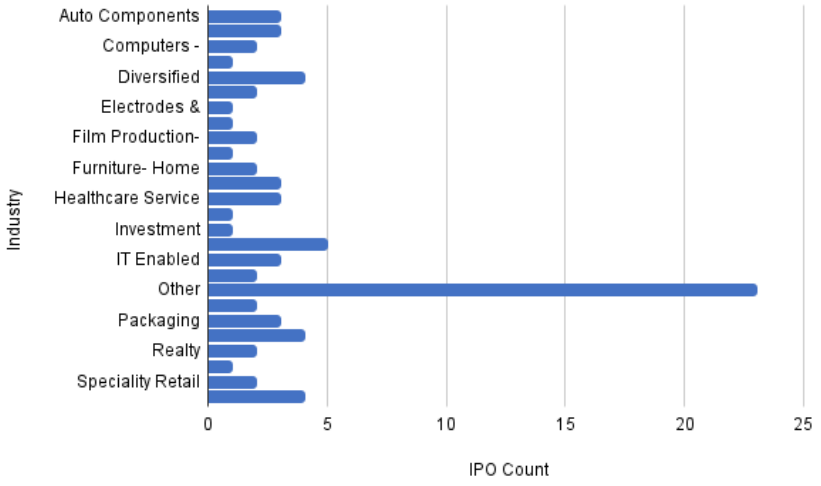
$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

$$\text{Annual Percentage Return (APR)} = \left(\frac{\text{Ending Value} - \text{Beginning Value} + \text{Dividends}}{\text{Beginning Value}}\right) \times 100\%$$

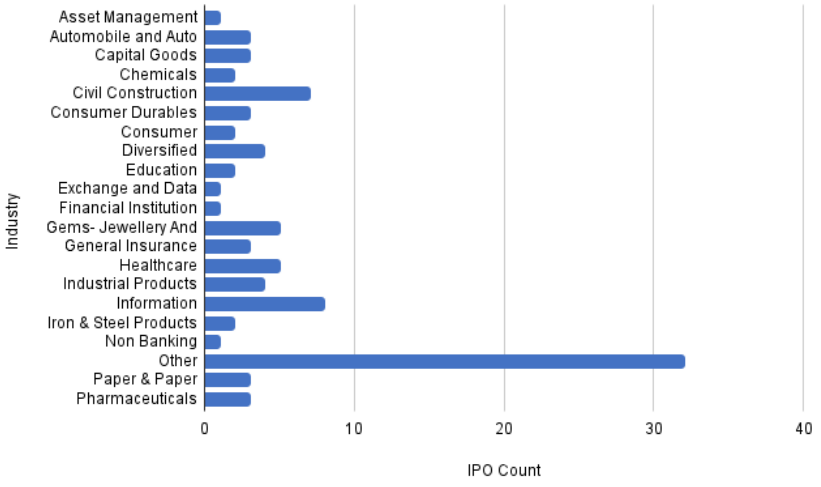
$$\text{Annual Average Return (AAR)} = \left(\prod_{i=1}^{n}(1 + r_i)\right)^{\frac{1}{n}} - 1$$



(a) Sector Wise IPO for the year 2015



(b) Sector Wise IPO for the year 2016



(c) Sector Wise IPO for the year 2017

FIGURE 2.1: Sector Wise IPO for the years 2015, 2016, and 2017

2.2.2 Independent Variable

2.2.2.1 Founder's Retained Ownership

Researchers have examined the impact of a founder's involvement during and after the Initial Public Offering (IPO) process. Some studies suggest that founders might overvalue their companies at the time of the IPO. This overvaluation often leads to more conservative pricing by anchor investors, subsequently increasing the likelihood of IPO under-pricing.Greater ownership retention by founders can elevate the risk of information asymmetry, potentially diminishing the performance of the Initial Public Offering (IPO) Arora and Singh (2020).

In essence, the founder may function as a steward, mitigating agency conflicts and boosting the value of the business. Nevertheless, the aggregated results of existing research are ambiguous, underscoring the necessity for additional investigation. In emerging economies like India, equity ownership is generally concentrated, with significant shares often held by founders, especially in newly public firms. This results in a prevalent presence of business groups and family-owned companies. Research indicates that this concentration of ownership by founders can negatively impact the performance of these firms. Specifically, in the Indian context, high levels of retained ownership by founders in newly public companies can increase information asymmetry at the time of an IPO, potentially leading to poorer overall IPO performance.Little research has been conducted on the impact of a founder's retained ownership on the long-term post-IPO performance of companies. Given the unique influence of founders on newly public firms across various institutional and industrial contexts, it is crucial to explore how founders affect the performance of newly public companies in emerging economies.

Therefore, we propose the hypothesis that a founder's controlling ownership may positively affect the long-term performance of newly public firms.

H1: The retention of ownership by founders is positively associated with the post-IPO performance of public firms.

2.2.2.2 Founder-CEO Duality

Founder-CEO duality occurs when the founder of the company also serves as its CEO. Founder-CEO duality can impact decision-making processes within the company. Studies on the role of founder-CEOs in public firms, drawing from psychological ownership and stewardship theory, indicate that these leaders often act as stewards for their companies.Some studies suggest that founder-CEOs may have a deeper understanding of the company's values and long-term goals, which could positively influence firm performance.While on the other hand, the role of a founder-CEO in newly public firms is subject to debate. Such firms frequently face significant hurdles, including the challenges of market adaptation and fierce competition from established players. Furthermore, founders might not have the necessary expertise to successfully lead a public company. As a result, the market performance of these firms may suffer during the post-IPO period under the leadership of a founder-CEO.We hypothesize that in the institutional contexts of emerging economies, where conflicts between principals may exist, the presence of founder-CEOs in newly public firms can still enhance firm performance. This variable is binary, taking a value of 1 when the founder is the CEO and 0 otherwise. So, we propose the second hypothesis:

H2: The dual role of founder-CEO positively influences the post-IPO performance of public firms.

2.2.2.3 Board Indepenedence

Board independence is the ratio of independent board members to the total number of board members. Independent board members are those who do not have any significant relationship with the company other than their board position.A higher level of board independence is often associated with better governance practices. Independent board members can provide unbiased oversight and strategic guidance, potentially leading to improved firm performance. The role of independent directors has primarily been examined as a means to signal to the capital market, thereby reducing information asymmetry.The advisory function of board members highlights their focus on strategy development, while their expansive network enables them to serve as facilitators, providing valuable resources to top management.The impact of board independence may vary depending on whether the companies are industrial or institutional. Independent board members play a crucial role in creating stable connections between a company and its external environment. Their extensive network of connections can be vital for the firm in formulating reliable and resilient external linkages Gabrielsson and Huse (2005) Based on the preceding discussion, it is evident that board independence can yield a positive impact on the performance of public firms. Jain and Shao (2017) The hypothesis under consideration is outlined as follows:

H3: Increased board independence positively influences the post-IPO performance of public firms.

2.2.2.4 Audit Committee Independence

Audit Committee Independence refers to the autonomy and impartiality of the audit committee within a company's board structure. An independent audit committee is

composed of members who are not directly affiliated with the management or operations of the company. These members are typically external directors or individuals with no significant financial or personal ties to the company or its executives. The audit committee holds significant importance in corporate governance due to the presence of independent directors. These independent members play a crucial role in overseeing managerial conduct through various monitoring mechanisms. Cohen and Olsen (2015) emphasized that the independence of the audit committee is integral to its effectiveness in fulfilling its responsibilities. A lack of independence in the audit committee could raise concerns about the reliability of the company's financial statements. The audit committee plays a critical role in corporate governance by overseeing the financial reporting process and the company's internal controls. Effective governance can lead to better decision-making and risk management, which are vital for sustained performance Bansal and Sharma (2016). This variable assesses the independence of the audit committee from the company's management. It is binary, taking a value of 1 if there are no family members or relatives of the promoter group in the audit committee and 0 otherwise. So,we propose the fourth hypothesis:

H4: The presence of audit committee independence doesn't have any effect on a firm's long term performance.

2.2.2.5 Board Diversity

Board diversity has been linked to improved decision-making and performance. Diverse boards are thought to bring a wider range of perspectives and experiences, leading to more innovative and effective strategies.

Board diversity is measured by the percentage of female members on the board. It reflects the gender diversity within the board of directors. Several empirical studies

have found correlations between diverse boards and various measures of financial performance, such as return on assets (ROA), return on equity (ROE), and overall profitability Brahma et al. (2021).Particularly, the presence of women on boards introduces a dimension of risk consideration that contrasts with the more risk-seeking tendencies typically associated with male board members.

Research suggests that women are generally perceived as more risk-averse than their male counterparts. This perception stems from a range of studies indicating that women tend to exhibit a more cautious approach in financial decision-making scenarios. The integration of such risk-averse perspectives can lead to more conservative financial strategies, which might involve thorough risk assessments and potentially more sustainable long-term planning.

This dynamic can affect a firm's decision-making by balancing inherent risk-taking tendencies with a more measured, risk-aware approach. Such a balance is crucial in strategic decision-making, ensuring that decisions are not only innovative and bold but also judicious and well-evaluated. Consequently, the incorporation of women into corporate boards is likely to contribute to more comprehensive governance and improved oversight, potentially leading to enhanced corporate performance and stability. So we propose the fifth hypothesis:

H5: A diverse board has a positive effect on the long run performance of a firm.

2.2.2.6 Institutional Ownership

Institutional ownership is the percentage of a company's stock held by institutional investors, such as mutual funds and pension funds. The findings from Daryaei and Fattahi (2020) indicate that institutional ownership exerts a positive influence on firm performance. This ownership is categorized into domestic and foreign institutional ownership, with both categories demonstrating a favorable impact on

firm performance. The results suggest that institutional investors, irrespective of their domestic or foreign status, effectively monitor managerial actions and decisions, thereby enhancing firm performance. Additionally, the analysis acknowledges the endogeneity in the relationship between institutional ownership and firm performance, indicating a bidirectional influence where firm performance may also affect the degree of institutional ownership Nashier and Gupta (2016) Institutional investors are often seen as long-term, sophisticated investors. High institutional ownership may indicate confidence in the company's future prospects, which could positively impact firm performance. Additionally, institutional investors can influence corporate governance practices through their voting power, potentially leading to better governance and performance. So we propose the following hypothesis:

H6: Institutional ownership a positive effect on the long run performance of a firm.

2.2.2.7 Executive Compensation

Large organizations have implemented executive compensation systems to elicit positive market responses and incentivize executives. Complex compensation schemes are designed by Boards of Directors using strong pay-performance incentives that explain high levels of executive pay along with company size, demand for management skills and executive influence. Studies on the effectiveness of performance-based compensation have shown mixed results Rasoava (2019). While some studies indicate that such compensation schemes can positively impact firm performance, others find little to no effect. The effectiveness can vary based on the industry, the specific design of the compensation package, and the metrics used for performance evaluation

H7: Stock based executive compensation has a positive effect on long term performance of the firm

2.2.3 Control variable

Control variables are variables that are hold constant in order to minimize their influence on the outcome of an experiment. This is done to ensure that any changes in the dependent variable can be attributed more confidently to the independent variable , rather than to some other external factor. By controlling these variables, we have isolated the relationship between the independent and dependent variables. **Firm Size** is assessed using the logarithm of total assets.

$$\text{Firm Size} = \log(\text{Total Assets})$$

Firm Age is considered to capture its potential impact on performance.

Firm Leverage is represented by the debt-to-equity ratio.

$$\text{Firm Leverage} = \frac{\text{Total Debt}}{\text{Equity}}$$

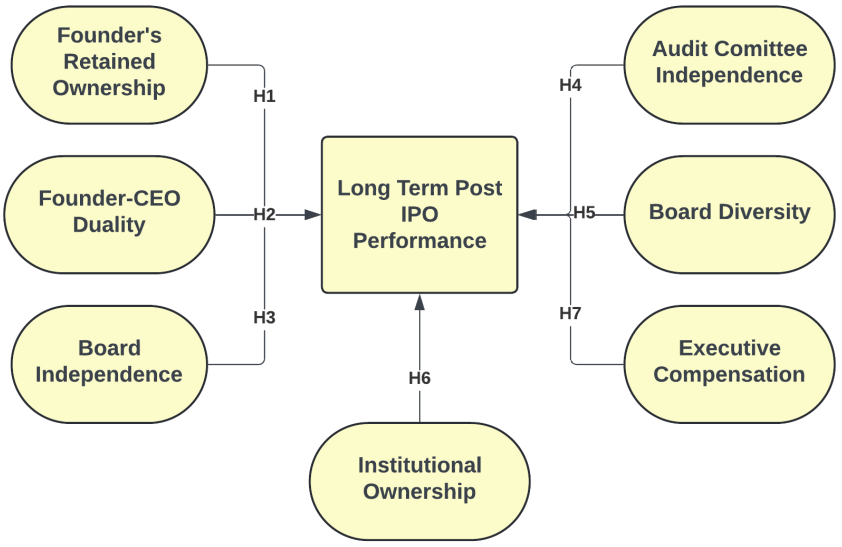


FIGURE 2.2: Research Model proposed

Dependent variable	**Variable name**	**Construct**
Operating performance	ROE	Return On Equity
Market performance	AAPR	Average Annual Percentage Returns
Independent Variable	**Variable name**	**Construct**
Founder's retained ownership	FOUNDER_OWNRSH	Percentage of founder's shareholding
Founder-CEO duality	FOUNDER_CEO	If the duality is present, the dummy code is 1, otherwise it is 0.
Board independence	BOARD_IND	Ratio of number independent members to total number of members in the board
Audit Committee Independence	AUDIT_IND	If there are no relatives or family members of the promoter group on the audit committee, the dummy code is 1, and if there are, it is 0.
Board Diversity	BOARD_DIVERSITY	Percentage of female members on the board
Institutional Ownership	INSTI_OWNRSH	Percentage of a company's stock held by institutional investors
Executive Compensation	EXECUTIVE_COMP	Dummy coding of 1 if compensation is stock-based, 0 otherwise
Control Variable	**Variable name**	**Construct**
Firm age	AGE	Firm age; adjusted based on year of establishment
Firm size	SIZE	Firm size as log value of total assets
Firm leverage	LEVERAGE	Debt to equity ratio

Table 2.2: Details of variables.

2.2.4 Descriptive Statistics

Table 2.3 represents the descriptive statistics The mean value of ROE is 0.169, while AAPR has a mean of 0.183 and a median of 0.14. AAPR displays right skewness and notable leptokurtic behavior, suggesting a higher likelihood of observing small

values compared to mesokurtic distributions. The average age of the sample firms is 21.34, with a standard deviation of 12.21, indicating a mix of newer and older firms. Promoter's ownership concentration averages at 0.412, with a high standard deviation, implying varying degrees of promoter ownership across firms. Board independence averages at 0.42, with a standard deviation of 0.13. FOUNDER_OWNRSH exhibits mesokurtic behavior, while BOARD_IND is close to leptokurtic. Negative skewness values for both independent variables suggest a higher probability of observing extreme small values than extreme large values. In line with Gupta and Bedi (2020), descriptive statistics for the dummy coded variable (FOUNDER_CEO) are not provided.

Variable name	**Mean**	**Median**	**Min**	**Max**	**Std Deviation**	**Skewness**	**Kurtosis**
ROE	0.169	0.18	-0.05	0.35	0.054	0.94	3.32
AAPR	0.183	0.14	-0.081	0.331	0.87	0.67	6.78
FOUNDER_OWNRSH	0.412	0.46	0.056	0.898	0.2614	-0.35	2.89
BOARD_IND	0.42	0.30	0.00	0.60	0.13	0.15	3.71
AUDIT_IND	0.53	0.50	0	1	0.13	-0.27	2.36
BOARD_DIVERSITY	0.45	0	0	1	0.51	-0.27	-2.65
INSTI_OWNRSH	0.53	0.50	0.0007	0.92	0.13	-0.27	2.36
EXECUTIVE_COMP	0.556	1	0	1	0.496	-0.11	-3.71
AGE	21.34	16.000	4.000	35.00	12.21	3.23	8.18
SIZE	2.89	3.78	1.85	5.66	0.78	-1.42	1.78
LEVERAGE	21.01	9.87	0.27	204.48	21.22	3.21	24.87

TABLE 2.3: Descriptive Statistics

Chapter 3

Regression Analysis and Results

3.1 Equations of GMM Model

The study addresses endogeneity concerns by employing a lagged dependent variable in the estimation model, a common approach recommended in corporate governance scholarship Filatotchev and Wright (2017) However, introducing a lagged variable in a static model can lead to various issues such as the presence of both exogenous and endogenous variables, autocorrelation of lagged variables, correlation between error terms and regressors, and bidirectional causality. To mitigate these problems, the instrumental variables (IV) estimation method is employed.The dynamic panel model is estimated using the SYSTEM GMM estimator developed by Arellano and Bover (1995) and Blundell and Bond (1998), ensuring robustness to serial correlation, stationarity, and multicollinearity

Validity of the system GMM estimator is assessed through diagnostic tests such as the Sargan–Hansen J test for over-identified restrictions and the Arellano-Bond test for second-order serial correlation in the first-differenced residual Arellano and Bond (1991) These tests confirm the validity of instruments and absence of second-order

serial correlation. Robust standard errors are reported, and the number of instruments is kept less than the number of groups to comply with Roodman (2009) recommendation. Addressing endogeneity concerns is crucial in corporate governance scholarship, particularly in the context of concentrated ownership prevalent in Indian firms, which mitigates potential endogeneity concerns and ensures long-term investment perspectives.

The following is the base specification for estimating the dynamic panel regression models in this study:

$$ROE_{it} = \beta_0 + \delta ROE_{it-1} + INDEPENDENT\_VARIABLE_{it}\beta_1 + INTERACTION\_TERM_{it}\beta_2 + CONTROL\_VARIABLE_{it}\beta_3 + \varepsilon_{it} \tag{3.1}$$

$$AAPR_{it} = \beta_0 + \delta AAPR_{it-1} + INDEPENDENT\_VARIABLE_{it}\beta_1 + INTERACTION\_TERM_{it}\beta_2 + CONTROL\_VARIABLE_{it}\beta_3 + \varepsilon_{it} \tag{3.2}$$

y_{it} : Dependent variable at time t for firm i

α : Intercept term

i : Firm identifier

t : Time identifier

Δ : Regression coefficient of the lagged level value of variables

β_k : Regression coefficient corresponding to the kth explanatory variable

$x_{i,t,k}$: Explanatory variable k for firm i at time t

ε_{it} : Conventional error term in the original equation

The original equation is first differenced to obtain the transformed equation as given below:

$$\begin{aligned}\Delta ROE_{it} &= \delta \Delta ROE_{it-1} + \beta_1 \Delta \text{INDEPENDENT VARIABLE}_{it} \\ &\quad + \beta_2 \Delta \text{INTERACTION TERM}_{it} + \beta_3 \Delta \text{CONTROL VARIABLE}_{it} + \Delta \varepsilon_{it} \\ \Delta AAR_{it} &= \delta \Delta AAR_{it-1} + \beta_1 \Delta \text{INDEPENDENT VARIABLE}_{it} \\ &\quad + \beta_2 \Delta \text{INTERACTION TERM}_{it} + \beta_3 \Delta \text{CONTROL VARIABLE}_{it} + \Delta \varepsilon_{it}\end{aligned}$$

The system GMM estimator is an extension of the difference GMM estimator developed by Arellano and Bond (1991). Additionally, the GMM modelling technique can handle the other characteristics of data present in this sample such as serial correlation, stationarity, and multicollinearity. The system GMM estimator builds upon the difference GMM estimator pioneered by Arellano and Bond (1991), offering an expanded framework to accommodate the unique characteristics of the dataset. Moreover, this modelling technique is equipped to address various data attributes prevalent in the sample, including serial correlation, stationarity, and multicollinearity, ensuring robustness in the estimation process.

3.1.1 GMM Results

Table 3.1 presents the estimation results, indicating positive and significant relationships between founder ownership and firm performance (ROE and AAPR), partially supporting the hypothesis on board independence, and rejecting the hypothesis on founder-CEO duality. Table 3.1 shows that these impacts remain significant in the long run, suggesting the enduring influence of these variables on firm performance.

Table 3.1: GMM Results

Variable	ROE (Model 1)	AAPR (Model 2)
Lagged ROE	0.221 (0.182)	-
Lagged AAPR	-	0.323 (0.068)
FOUNDER_OWNRSH	0.0003 (0.00017)	0.002 (0.0018)
BOARD_IND	0.001 (0.003)	0.345 (0.023)
AUDIT_IND	0.0007 (0.0002)	0.009 (0.0018)
BOARD_DIVERSITY	0.06 (0.008)	0.085 (0.005)
INSTI_OWNRSH	0.115 (0.09)	0.215 (0.043)
EXECUTIVE_COMP	0.095 (0.008)	0.071 (0.003)
FOUNDER_CEO	-0.093 (0.008)	-1.25 (0.160)
AGE	0.001 (0.00009)	-0.004 (0.0026)
SIZE	0.028 (0.006)	0.235 (0.102)
LEVERAGE	0.0002 (0.0001)	-0.009 (0.0019)
Year Dummy	YES	YES
AB AR (1) test p value	0.0014	0.0032
AB AR (2) test p value	0.21	0.267
Sargan Hansen p value	0.387	0.291

Chapter 4

Result and Conclusion

This study aimed to explore various governance and ownership structures and their impact on the long-term performance of firms. By considering both institutional and industrial contexts, this research sheds light on governance practices within Indian newly public firms.

Our analysis indicates that firms where founders retain a significant ownership stake exhibit positive long-term performance. This suggests that founder involvement could contribute beneficially to the strategic direction and continuity of the firm. The study also found that the independence of the board positively correlates with firm performance, underscoring the role of independent directors in enhancing governance by mitigating conflicts of interest and improving oversight. Contrary to expectations, the hypothesis that Founder-CEO duality positively impacts the post-IPO performance of newly public firms was not supported. This finding implies that the roles of CEO and chairman might be more effective when held by different individuals in newly public firms.

The study found that the presence of an audit committee does not have a significant impact on the post-IPO performance of firms.Interestingly, the presence of an audit

committee did not show a significant impact on post-IPO performance, indicating that while audit committees are essential for compliance and oversight, their role might not directly translate into performance outcomes. This finding suggests that firms may need to enhance strategic audit functions beyond compliance to see a performance impact.

Furthermore, board diversity was positively correlated with improved firm performance and a risk-averse approach. This reveals that diverse boards contribute effectively to decision-making and risk assessment, supporting diversity initiatives as a strategic business advantage. Similarly, institutional ownership was found to enhance firm performance, highlighting the stabilizing influence of institutional investors which likely leads to better management practices and strategic decisions.

Lastly, the analysis supported the positive effect of executive compensation on firm performance, reinforcing the notion that well-structured compensation packages that align executives' interests with those of shareholders can drive performance, emphasizing the need for carefully designed compensation strategies to ensure long-term value creation.

These findings provide valuable insights for policymakers, investors, and corporate managers aiming to optimize governance structures to foster enduring success and stability in the corporate sector.

Moreover, our study aligns with prior research on corporate governance life cycle theory, emphasizing the evolving objectives of governance practices across different stages of a firm's life cycle. Furthermore, considering the global significance of the Indian economy, our findings contribute to the ongoing discourse on corporate governance practices in new public firms.

Chapter 5

Limitations of the work and Future Scope

5.1 Limitations

- A notable constraint of this study pertains to its focus on the context of an Asian country, specifically India. Nonetheless, given the scale of the Indian and broader Asian economies, the findings are anticipated to benefit a substantial number of companies across the region.

- Another limitation arises from the temporal scope of the data, which encompasses companies established between 2003 and 2012. While our analysis spans the five years following the IPO, concluding in 2017, future investigations could extend the timeline to cover the period from 2018 to 2023, thereby providing a more contemporary perspective on firm performance.

- Furthermore, the limited number of data points represents a significant methodological constraint in this research endeavour. While efforts were made to mitigate this limitation through methodological adjustments, as outlined in the Methodology section

5.2 Future Work

- During the COVID-19 pandemic, there was a particular focus on assessing the governance of firms within that specific period, analyzing the decisions made by governance bodies and their subsequent impact on firm performance. The pandemic necessitated rapid adaptation and decision-making from governance bodies to navigate the challenges posed by the crisis. Evaluating governance during this time is crucial as it sheds light on the effectiveness of governance practices in managing extraordinary circumstances and maintaining firm viability.

  Firms faced unprecedented challenges during the COVID-19 period, including disruptions to supply chains, shifts in consumer behavior, and economic uncertainty. Governance bodies were tasked with making crucial decisions to ensure business continuity and mitigate risks. These decisions ranged from strategic shifts in operations to financial management and employee welfare initiatives.

  The impact of governance decisions during this period on firm performance is significant. Effective governance practices, such as transparent communication, robust risk management, and agile decision-making, are associated with better performance outcomes even in times of crisis. Conversely, poor governance decisions can exacerbate the negative effects of the crisis and lead to deteriorating financial performance, reputational damage, and stakeholder dissatisfaction.

- Incorporating Environmental, Social, and Governance (ESG) parameters into the evaluation of corporate governance can provide valuable insights into a firm's governance quality and its subsequent impact on performance. ESG scores serve as indicators of a firm's commitment to sustainable practices and responsible management. These scores are used to assess various aspects of a firm's operations, including its environmental impact, social responsibility, and governance structure.Firms with more sustainable practices are expected to outperform others in the long run due to several factors

- The construction of a Corporate Governance Index (CGI) involves creating a comprehensive metric to quantitatively measure a firm's effective corporate governance. This index is developed by selecting relevant variables and assigning appropriate weights to them. By doing so, governance can be evaluated in a systematic and quantitative manner.

  Once the variables and weights are determined, the CGI is calculated for each firm by aggregating the weighted scores across all relevant variables. This results in a single numerical value that represents the firm's overall governance quality. A higher CGI score indicates stronger governance practices, while a lower score suggests areas for improvement. The CGI provides a standardized measure for comparing corporate governance across firms and industries

- Comparing firms across different industries allows for an examination of the dependence of governance practices on industry type. Understanding how governance varies across industries provides insights into the specific challenges and priorities faced by firms within each sector.

  Each industry operates within a unique regulatory environment and faces distinct market dynamics, which influence governance structures and practices.In conclusion, comparing firms across industries provides valuable insights into the dependence of governance practices on industry type.

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