# Impact of Corporate Governance on Firm's Performance – A Study of Select Companies in India

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Dated:

This is to certify that I have carried out the research embodied in the present thesis for the full period prescribed under Ph.D. ordinance of the University.

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(Deepti Sehrawat)

# ABSTRACT

Corporate entities do not exist in isolation. They need to build and maintain sound relationship with a wide range of stakeholders to prosper. Good corporate governance practices help improve organisational culture and stakeholders' relationship with the organisation. The core values of corporate governance are fairness, accountability and transparency. Corporate Governance refers to system of rules, practices, and processes to direct and control the organisation based on pillars of accountability, transparency and fairness, focusing on serving every stakeholder. It is both a structure and a well-defined system of relationship that gives directions and paves the way for corporate excellence.

Post-implementation of the Companies Act, 2013, corporate governance guidelines have changed significantly. New guidelines include introducing women directors, empowering independent directors, electronic voting, internal audit committees, and mandatory CSR committee. However, the key question that remains and would come to someone's mind is that: What is the use or need for corporate governance? Does the corporate governance practices of a company impact its performance? Does the corporate governance practices really enable wealth maximization? The answer to these questions provides rationale of the present study. Thus, this study has been conducted to understand how well Indian companies comply with the contemporary corporate governance guidelines after the change in regulatory framework.

The main objective of the present study was to analyse the impact of corporate governance on firms' performance of companies. The study helps to understand the

relationship between corporate governance and firm's performance. In this process, the study has also focused and tried to understand as to how well Indian companies comply with the contemporary corporate governance guidelines. The study has benchmarked corporate governance practices of Indian companies with the international standards and examined the areas of improvement.

For the purpose of the study, secondary data have been collected for NIFTY 100 companies. The data has been collected for three variable i.e Corporate Governance (CG) Practices, Financial Performance (FP) and Corporate Social Performance (CSP). For first variable i.e. corporate governance score data was collected using a comprehensive scorecard. For this, the scorecard designed by BSE, IFC and IiAS (2016) has been used. The corporate governance index has been divided into four broad categories and contained 70 questions. Based on the practices followed, every company (for each question) was allocated a score of 0, 1 and 2. For second variable, Financial Performance, data was collected from the CMIE Prowess database for FY 2015-16 to FY 2018-19.This data was collected for sixteen financial performance variables. To calculate corporate social performance score, data was collected through a scoresheet that is based on  the Global Reporting Initiative for Sustainability Reporting Standards (GRI), which comprises of principles of Business Responsibility Report. The social performance index has been divided into 10 GRI principles and contains 27 questions. Each component has been given a score based on binary coding to calculate social performance score, i.e. Yes=1 and No= 0.

After collection of data, the same has been analysed using SPSS 22, and presented graphically. Analysis was done in three stages, in first stage corporate governance

practices followed by the selected companies has been done comprehensively to answer research questions such as: How much do Indian companies practice corporate governance?; what are the best corporate governance practices followed by sample companies? and what are the international best practices on corporate governance? In second stage, descriptive analysis of corporate governance score, financial performance and social performance scores is done. In this stage, companies data scores were further compared on the basis of age, industry sector and ownership pattern i.e. private versus public, MNC versus nationally-located and promoter, institutional vs. widely held. Statistical tools such as mean, standard deviation, ANOVA were performed to analyse the data. In third stage, analysis is done of know the impact of corporate governance on the financial performance and social performance of companies. Multiple regression was performed to analyze the impact of corporate governance, where corporate governance being independent and financial performance being dependent variable.

Further, Exploratory Factor Analysis (EFA) has also been carried out to simplify the financial data and summarize these financial performance variables, which have been further classified into five factors extracted from EFA. Additionally, a detailed analysis of corporate governance characteristics has been carried concerning nine variables, including board size, board independence, gender diversity, CEO duality, board meetings, audit committee members, and transparency of financial statements.

During the course of analysis, it has been found that companies have scored reasonably well in respect of overall corporate governance practices. However, for category III - Disclosure and Transparency, the companies have scored maximum in this category. Age-wise analysis of companies show that above 75 years age group of companies have

better corporate governance practices. Private sector companies have better CG scores as compared to PSUs. Nationally-located companies have better corporate governance practices as compared to MNCs. Ownership wise, it was found that widely-held companies have the highest corporate governance total scores as compared to promoter-owned and institutional-owned companies. Industrial sector-wise classification shows that the IT sector has a relatively high score than other industries. The healthcare sector, financial and materials have similar kind of corporate governance practices. Company-wise analysis of private sector companies under corporate governance total score (CG) reveals that out of 79 private sector companies, Cipla Ltd. has the highest corporate governance score, whereas, under PSUs categories out of 21 PSUs for corporate governance total score (CG), Oil and Natural Gas Corporation Ltd. has scored the highest. Further, ownership status of companies does impact the corporate governance practices of the companies; corporate governance practices do not influence social performance score. Companies within the 50–75years age group contributed more towards CSR activities than other age groups. PSUs have better social performance scores than private sector companies. MNCs have better CSR scores than nationally-located status. Promoter-owned companies contribute more to social performance. Industrial-sector wise classification shows that CSR scores are higher for the materials, industrials, and consumer staples sectors.

Through regression analysis, it was found that market capitalisation is influenced by corporate governance score, price to earnings ratio, CSR spend, industry sector, enterprise value and return on equity. If companies start performing better in their corporate governance practices, they will do well on return on equity ratio, enterprise

value, earnings before interest and tax (EBIT) and market capitalisation. The social performance of companies does not impact change in the five-year financial performance of companies.

However, the social performance score of companies affects the stakeholder-related factor. Social performance also impact beta, return on equity, return on sales ratio, dividend yield ratio, and CSR spend ratio. Corporate governance does not affect the operating efficiency of the firm. However, it does impact the valuation of the firm and performance of the firm in the capital market. Further, the exploratory factor analysis (EFA) summarised sixteen financial performance variables into five factors which include Return on assets ratio; valuation-related factor; long-term market growth factor; replacement value factor, and stakeholder-related factor. The board independence, gender diversity, board meetings, CEO duality, number of members in audit committee, market capitalisation, Tobin's Q, price-earnings ratio, and Enterprise value are very important variables that influence the firm  financial performance  Also audit committee, CEO duality, gender diversity, board independence, and board size impact firm performance. These corporate governance characteristics have an impact on improving the financial performance of companies along with social performance.

The study suggest that Indian companies need to bring more gender diversity on board as women directors will get more innovative and diverse insights to risk and decision-making and overall improve the business's financial performance. CEO duality will bring better governance in the organisations and help improve productivity, accountability and transparency. Indian companies need to bring more independent directors on board to bring more expertise, transparency and achieve higher governance practices. Good

governance can only be achieved if board meetings are more frequent with the active participation of all members. To improve corporate governance practices, firms should focus on bringing external auditors from respectable firms, focus on internal audit, secretarial audit, and fairness must be adopted in the audit process, companies should learn about better practices on succession planning. Further, Indian companies should contribute to society and adopt CSR practices in letter and spirit as it will help in the long-term sustainability of business, help solve societal problems. It will help India achieve its Sustainable Development Goals.

Also for individual investors, study suggest that when deciding about they should look at independent directors, women directors, CEO duality, members of the audit committee to assess the governance level of the company. Investors should always keep their investment portfolio diversified, which help them manage systematic risk. As investors and shareholders, knowing your rights and privileges is necessary, fundamental analysis is an important technique to decide about long-term investment.

Thus, the study concludes that corporate governance is practiced by all the sample NIFTY 100 Indexed companies is fairly good. But there is a difference in following these practices in letter and spirit. Indian companies are found to be following practices governance norms that are not up to global standards. The reason may be that companies do not realize the benefits good governance practices will offer in terms of improving the financial performance and will make organisations sustainable in the long run. The study found that corporate governance significantly impacts the financial performance of companies. The long-term performance of a company is also considerably affected by corporate governance practices followed by the company.

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# LIST OF ABBREVIATIONS

**BRR** - Business Responsibility Report

**BSE-** Bombay Stock Exchange

**CAGR-** Compound Annual Growth Rate

**CEO-** Chief Executive Officer

**CG-** Corporate Governance

**CII-** Confederation of Indian Industry

**CMIE-** Centre for Monitoring Indian Economy

**CSP-** Corporate Social Performance

**CSR-** Corporate Social Performance

**COSO-** Committee of Sponsoring Organisations

**EFA-** Exploratory Factor Analysis

**EBIT-** Earnings Before Interest and Tax

**EIC-**East Indian Company

**EPS-** Earnings Per Share

**ESOP-** Employee Stock Option

**EY-** Ernst & Young

**FP-** Financial Performance

**FRC-** Financial Reporting Council

**GRI-** Global Reporting Initiative

**ICSI-** Institute of Company Secretaries of India

**ICFR-** Internal Control over Finance Reporting

**ID**- Independent Director

**IFC**- International Finance Corporation

**IFRS**-International Financial Reporting Standards

**IiAS**- Institutional Investor Advisory Services

**KPMG-** Klynveld Peat Marwick Goerdeler

**LODR**- Listing Obligations and Disclosure Requirements

**MCA**-Ministry of Corporate Affairs

**MNC**- Multi National Company

**NASSCOM-** National Association of Software and Services Companies

**NFRA-** National Financial Reporting Authority

**NVGs**- National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business

**OECD-** Organisation for Economic Co-operation and Development

**PCAOB-** Public Company Accounting Oversight Board

**PB-** Price to Book Ratio

**PE**- Price to Earnings Ratio

**PSU**- Public Sector Undertaking

**PWC**- Price Water House Cooper

**ROA**- Return on Assets

**ROE**- Return on Equity

**ROCE**- Return on Capital Employed

**ROS**- Return on Sales

**RPT-** Related Party Transaction

**SEBI**- Securities and Exchange Board of India

**SPSS**- Statistical Package For The Social Sciences

**SOX**- Sarbanes-Oxley Act

**TCS**- Tata Consultancy Services

**SAIL**- Steel Authority of IndiaLimited

# Chapter-1

# Introduction: Corporate Governance - Genesis and Key Variables

Corporate India is a blend of small, large, family-owned and professionally owned companies with investors from both domestic and international realms. Investors provide financial support to these organisations, and in exchange, they expect corporations to offer a good return on their investments. However, to grow in today's competitive world, an organisation needs to gain a competitive advantage over others. Thus, it is important for an organisation to have innovative ideas, strategic planning, and compliance with laws, optimum and cordial relations among directors, shareholders, employees and customers. It is a fact that the corporate sector facilitates faster economic growth and development of a country.

Lately, Corporate Governance (CG) has been gaining importance. This is to secure a company's efficient and effective functioning and assure stakeholders that the organisation is working towards securing their interests. Corporate governance revolves around "fair and equitable treatment", for various stakeholders, as per their expectations. Thus, corporate governance (with sound principles) is fundamental to promoting economic growth and nation-building. Therefore, to achieve sustainability, while being competitive, in the present scenario, good corporate governance is emerging as a robust instrument. Further, good corporate governance helps organisation to sustain and grow in

international and domestic markets efficiently and transparently as it leads to innovative vision and strategies that deliver value to stakeholders.

The policies and procedures that govern an organisation play the most crucial role in corporate governance, as failure may lead to risk and uncertainty. It should be noted that poor CG is stated to weaken an organization's growth potential. It can even lead to financial difficulties for the Company and also enhance the scope of frauds, among others, to happen. Literature also states that that well-governed company usually outperform companies that have poor corporate governance and are even favoured by investors.

The framework of CG essentially defines "the role and responsibilities" of the BoD, various committees constituted and the management. It enables them to promote a structure for the board's policies. It provides tools such as annual meetings, committee charters, etc., to ensure that all the critical issues are dealt with. Thus, corporate governance fundamentally monitors the board's behaviour in making management decisions that align with stakeholders' interests. The board of management must involve employees of all levels while formulating strategies to maintain their acceptability and flexibility while preparing the organisation against future growth.

Corporate governance has existed since the evolution of corporate entities in various forms. During the Vedic era, kings used to have their council of ministers, tested on their good governance skills, including ethics, values, principles, and knowledge. The success and popularity of a kingdom were directly proportional to good governance practices executed by its ministers.

Before 1991, India was viewed as a closed economy, emphasising broad corporate aims and strategies. However, today, India being a democratic country has laws and

constitution to govern itself; these laws and corporate practices, including corporate governance, help organisations sustain growth. Companies like Infosys, TCS, and Reliance are examples of Indian origin giants who have succeeded and are known for their good corporate governance practices.

With the increasing interdependence and free trade among countries and citizens worldwide, stakeholders worldwide have accepted the paramount importance this concept, specifically for companies that wants to set themselves apart.

Major financial frauds that have happened during the recent past in the corporate sector, including Enron (2001), WorldCom (2002), Satyam (2009), Kingfisher (2016), and Punjab National Bank (2018), Yes Bank (2020), etc., further portray the need for good governance. Companies now need to realise that they are an "integral part" of the society, and the legitimacy of their "existence" will be determined by their acts for the common good and not by activities just for themselves, its shareholders, employees and managers alone **(Sharma et. al. 2009)**

Organisations involved in illegal tactics concerning industrial licensing, import licenses, illegal holding of money aboard, bribery and several other unethical practices given way to scams. Since India is now fully integrated with the international practices and the society is growing impatient towards such issues, good CG has taken center stage for the corporates. Hence, it is need of the hour for the corporations to adopt professionalism and transparency, in functioning. With this background, it becomes crucial to examine the "impact of CG on firm's performance in India" in the current context.

This chapter has been divided into eight subsections covering concept and genesis, major developments, principles, theories, models of CG, significance of good CG, issues and challenges of CG, CG reforms in India and CG key variables.

## 1.1 Corporate Governance - Concept and Genesis

This section discusses the concept of CG and its genesis highlighting the reforms in India, international developments and OECD Principles.

### 1.1.1 The Concept

The major issues concerning the governance of corporate entities revolve around the concept of "Agency Theory" of Management. Owners provide capital and are interested in profit maximisation. They hold the position of the principal and hire agents to manage a business. These agents (executives) are more interested in increased pay and a better working environment. Corporate governance gains prominence to deal with these conflicting interests as it deals with all the issues that arises due to the "separation of ownership from management".

CG relates to achieving corporate objectives to have interaction and involvement of the BoD, the managers, and owners to bring more transparency and protect stakeholders' interest.

Different definitions available on corporate governance are reproduced as hereunder:

The "Cadbury Committee" defined CG as "the system by which companies are directed and controlled".

The *OECD* Principles of Corporate Governance states that "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring performance are determined."

*World Bank* states that "corporate governance is about maximising value subject to meeting the company's financial, legal and contractual obligation from the corporate angle. And from the public point of view, it is about nurturing an enterprise while ensuring accountability in the firm's exercise of power and patronage."

*Institute of Company Secretaries of India (ICSI)* states that "Corporate Governance is the application of best management practices, compliance of laws in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders."

*Standard and Poor (S&P)* defined Corporate Governance as "the way a company is organised and managed to ensure that all financial stakeholders receive a fair share of the company's earnings and assets."

*U.S. Business Round Table* "Paper on CG, September 1997", defined "Corporate governance is not an abstract goal, but exists to serve corporate purposes by providing a structure within which stockholders, directors and management can pursue most effectively the objectives of the corporation." –

*Corporate Governance, Forum of Japan, 1997*, states that "by definition, corporate governance rests with the conduct of the board of directors, who are chosen on behalf of the shareholders."

Thus, from the above definitions, it may be stated that CG relates to the system, practices, and processes to control the organisation based on pillars of accountability, transparency, and fairness, focusing on serving every stakeholder. Further, the analysis of these definitions reveals that corporate governance is both a structure and a well-defined system of relationship that gives directions that could lead to corporate excellence. At the top of the corporate governance lies the BoD, which acts as a connector between the stakeholders' expectations and the governance system.

### 1.1.2 The Genesis

Post-liberalisation, in 1998, the CII introduced Corporate Governance (and had set up a task force, bestowing corporate governance guidelines). These guidelines were influenced by OECD and Cadbury Committee codes. Codes were finalised as "Desirable Corporate Governance: A Code". Following this initiative, intending to protect investors' interest, the SEBI constituted **Kumar Mangalam Birla (K M B) Committee** in 1999**.** This Committee suggested "Clause 49 of the listing agreement". Further, in 2002, the Department of Company Affairs appointed **N C Committee** to "investigate various corporate governance issues". The Committee's report on "Corporate Audit and Governance" acknowledged the suggestions of the K M B Committee. Moreover, SEBI wanted to take forward on the K M B committee's report, since it concluded that there is still a need to establish a robust Corporate Governance Structure because governance

standards are yet evolving. Thus, to serve the twin purpose, they formulated a committee under **Narayan Murthy in 2003,** primarily focused on investors and shareholders. Further, in December 2004, **JJ Irani Committee** was constituted to address changes and bring international best practices. Further, in 2017, SEBI appointed another committee under **Uday Kotak,** aiming to improve the standards of CG of "listed companies in India".

As a result of these committees and recommendations, on the 8<sup>th</sup> of August 2013, the new Companies Act was passed in Rajya Sabha, replacing the 57-year-old Companies Act 1956. Besides the Companies Act, 2013, listed companies must comply with the guidelines laid down by SEBI (LODR). In light of the above, the growth and development of the present framework can majorly be categorised into three phases.

The **first phase** started in1999 with the recommendations of the Birla committee. Even though SEBI, which appointed the Birla committee, was established in 1992, it was only in 1999 when SEBI decided to enhance the corporate governance. Subsequently, SEBI revised its listing agreement (clause 49) and formed the Narayana Murthy Committee (after the Enron scandal in the U.S.) that suggested various reforms, including independent directors and audit committee qualifications. Along with SEBI, this phase also saw a number of initiatives from the MCA that formed the Naresh Chandra Committee, which the J.J. Irani committee followed, to bring in reforms covering all types of companies (unlike SEBI, whose scope is limited to listed entities).

The **second phase** started from the year 2009 and was triggered by the unfolding of the Satyam Scandal. In January 2009, Satyam (awarded the "Golden Peakcock Award") disclosed a huge corporate scandal. The effects of the collapse of the Satyam group were even observed in the IL&FS crises in 2019. The Satyam scandal had triggered a spate of

measures by various industry representative organisations, including MCA, SEBI, CII and NASSCOM. SEBI once again acted and amended its listing agreement in 2010. This phase further led to various committees that recommended various reforms and led the way for the third phase.

The **third phase** (the current phase) marked its presence with a landmark bill to replace the Companies Act, 1956. With the introduction of the Companies Act, 2013, the Corporate Governance Framework got its legal structure and a new direction to move towards international standards. Companies Act, 2013 also introduced various landmark reforms, including provisions for establishing the financial and audit regulatory body, i.e. NFRA (similar to PCAOB in the U.S.), to further strengthen the financial reporting framework and check the audit community.

Likewise, SEBI also issued a set of comprehensive regulations, including the very famous SEBI (LODR) (Listing Obligations and Disclosure Requirements), 2015, establishing minimum required corporate governance ground rules for all the listed entities. ICAI and the Accounting Standard Board of India also issued the Indian Accounting Standards framework aligning the Indian framework closer to IFRS (International Financial Reporting System).

### 1.1.3   International Developments

The historical perspective of corporate governance has been examined since the 16th century, with the East India Company (EIC) formation. The EIC remained in existence as a commercial organisation from 1600 to 1833, and from 1833 to 1857; and the first joint-

stock multinational corporation of the world that functioned as an agency its respective government.

During the initial years, EIC raised money from its stockholders for each voyage and returned proportionate profits that it made from that respective voyage. However, from 1613, the company began financing its operations through money raised on an annual basis rather than per voyage. With its stocks being traded and the unique organisational structure, technically made it the first business to separate ownership (stockholders) and control (managers).

EIC was a perfect example of a modern-day organisation, which was managed by the hierarchy of paid managers for stockholders. The company's design made it possible for the effective control of the head office over its managers. However, with this principal-agent relation, EIC also faced many problems associated with it. The most severe principal-agent problem was between the head office in Britain and managers working in the Indian sub-continent.

Thus, EIC became a complicated organisation, with employees focusing on generating wealth through private trade and also waging wars, and the Board of Directors focusing on maximising the earnings, with no interest in financing battles.

With the beginning of the 19th century, many other developments in the organised sector took place wherein besides companies created by the crown, people started engaging themselves in trade through several different ways like a sole proprietor, partnerships and unincorporated organisations. Whenever any such organisation becomes insolvent, i.e., the owner fails to repay debts, as per the law, it was regarded as an offence, thus leading to debtors' imprisonment. After that, the need for shareholders limited liability sprouted. In

1807, French took the initiative and became the first county to setup a corporation with restricted shareholders liability. Concurrently, the threat of bankruptcy also became a cause of concern in the British Parliament; as a result, in 1855, the British Companies Act was introduced that granted limited liability to all the shareholders.

In mid 19<sup>th</sup> century, the United States, New York, Financial institutions had become prominent share trading actors to build Railways Wall Street. In these corporations, life span and objectives were evidently defined; however, the state altered its existing laws and introduced limited liability clauses to attract additional wealth. Even though the first joint-stock organisation was registered in Britain post world war II, but it was more popularized in the U.S.A.

In the United States, where shareholders of the bankrupt organisation were trying to get a settlement amount from its management, they also raised questions on accountability. They argued that the board should be held responsible for its stakeholders' decisions. This argument got supported in the United Kingdom also. Consequently, Accounting Standard Steering Committee presented a draft in 1975 that demanded all businesses report publically and admit their accountability towards their stakeholders. Thus, the mid-1970s witnessed three consequential advancements in corporate governance: audit committees, a two-tier model, and corporate responsibility.

In 1985, a couple of high profile business houses collapsed, that disturbed United States. Thus, Tread way Commission was established to trace the main cause, which produced its report in 1987, stating the need for stringent internal control. Based on this report COSO was established.

Meanwhile, the failure of Bank of Credit and Commerce international, Maxwell Mirror Group international, gained the limelight in England, which made U.K. Government realise its inefficiency. After that, London Stock Exchange, FRC, in May 1991, appointed a committee called "**Cadbury Committee**", to "help raise the standards of corporate governance and level of confidence in financial reporting and auditing by setting out clearly what it sees as respective responsibility of those involved and what it believe is expected of them". It submitted its report on the "Code of Best Practices" with nineteen recommendations in Dec1992 that rocked the entire corporate world. These recommendations were related to "Separation of CEO and Chairman", "Independent Audit Committee", "Minimum # of non-executive Directors", "Enhanced role of Institutional Investors", "Remuneration Committee", "Nomination Committee" and "Public Reporting"

However, Cadbury Committee's had flaws regarding director's remuneration, that came into the limelight. After that, **Greenbury Committee** was called in 1995 to strengthen accountability and ascertain remuneration by identifying good practices. Its work was specifically split into four sections, i.e. "Remuneration Committee, Disclosure practices, Remuneration Policy, Service Contracts and Compensation".

Subsequently, in Jan 1998, **Hampel committee,** under Ronnie Hampel, was created that reviewed and enhanced Cadbury report through analysing the role of directors, shareholders and auditors, in corporate governance code. It laid 17 principles that were arranged under four heads – "Directors, Directors Remuneration, Shareholders, Accountability and Audit".

**Sarbanes Oxley Act** in 2002 was signed by former president of USA Gorge W. Bush, which is commonly known as SOX. Lawmakers established it to protect the "shareholders, employees and the public". It has been arranged under two titles, i.e., Section 302 of the Act is related to corporate responsibility for financial responsibility stating that all financial reports must be reviewed and fairly presented by CEO and CFO. Section 404 is connected to management assessment of internal control. A company must publish details about internal account control and financial reporting in the annual financial report.

Considering diversity in the legal and political system, the CG framework is also varied. The U.S. and U.K. systems, often referred to as the Anglo-Saxon system, rely heavily on solid legal protection to stakeholders, while the German and Japanese designs are focus on ownership. But, the need for strengthening corporate governance is felt everywhere despite variations. Further, it is relevant to mention that the Indian framework is more influenced by U.S. and U.K. frameworks.

The U.K. became the first country to give the first code in 1992, called the Cadbury Code of corporate governance. In many other countries, committee reports were submitted and popular among them: Dey Report in Canada (1992), Bosch Report in Australia (1995), Kings Report in South Africa, and others. At the international level, the WTO, World Bank and OECD have also suggested improving corporate governance.

### 1.1.4   OECD Principles

In 1999, OECD issued principles on the subject that act as international standards, which were later revised in 2004 and 2015. The six OECD general principles of corporate governance (2004) are:

i.  "The regulatory, supervisory and enforcement authorities should establish an effective corporate governance framework so that companies operate transparently and markets remain efficient."

ii.  "The corporate governance rules should be able to protect the rights of shareholders and owners."

iii.  "The minority, foreign, and all types of shareholders should get equitable treatment and participation in decision making, and their rights should be protected."

iv.  "The corporate governance framework should protect the rights of all stakeholders."

v.  "The framework should be able to ensure proper disclosure and maintain transparency in financial statement reporting and decision making."

vi.  "The companies' board of directors should be held accountable and responsible for effectively delivering and monitoring shareholder-related value."

## 1.2   Corporate Governance - Theories

There are various theories that cover different dimensions of corporate governance. The following six theories have been discussed in detail hereunder.

### 1.2.1 Agency Theory

In a work environment, all relationships have agency theory in the background. The agent acts as representative of the principal and is expected to deliver the principal's best effort without keeping his self-interest. To support the agency theory, Bengt Holmström and Oliver Hartin 1970s gave insights into contract theory. Bengt Holmström and Oliver Hart were awarded the Nobel Prize in 2016 for their insightful work on Contract theory in the 1970s.

**Berle and Means (1932)** mentioned agency theory in their study. This was the first mention of this theory. According to them, real decision-making power lies with managers and shareholders, who rarely participate in decision-making processes but do not get involved in everyday management. Further, **Fama and Jensen (1985)** discussed that shareholders invest in a business voluntarily and bear risk, whereas managers who hold only a minority interest in the company take all the significant decisions on behalf of shareholders. Thus, this allows managers to misuse their power and position, maximising the agency cost.

**Jensen and Meckling (1976)** further added that agency cost majorly depends upon factors including statutory and common law and human ingenuity of contract between shareholders and managers, for which **Daily et al. (2003)** provided the solution and discussed the importance of structured board, compensation contracts to monitor managers actively.

As per the agency theory, corporations are managed by agents, and they must take decisions by considering shareholders' interests. On the other hand, shareholders should

ensure an effective board and define clear compensation contracts for managers to ensure proper authority and accountability.

Agency theory focuses on finding solutions to principal-agent conflict of interest. The corporate governance framework helps provide solutions to many problems in shareholder management conflict of interest.

### 1.2.2 Stakeholder Theory

Stakeholders are those parties or groups who are associated with organisations' in some form or the other. They may have a variety of stakes and interests in the companies. Stakeholder theory does not state that representatives of all the groups need to sit on governing board, but it simply implies that to create value; one must focus on each stakeholder, as the interest of all groups is towards the same objective. "Stakeholder Theory", according to **Freeman (1984)**, centres around the dilemma of value creation and trade.

Stakeholders can be any group or individual that might affect the organisation's realization of goals. The relationship between stakeholders and the company can be well understood through their expectations. For example, a financial institution who have a stake in the organisation in the form of bonds/loans/financial instruments expect some form of return on their investment in terms of interest payments; employees expect job security, salary and other benefits in return for their services; similarly, customers expect good products and after-sales service, while suppliers expect long term relationship and on-time payments; finally local community that accommodates the firm's expected benefits through taxes, economic and social contribution.

Further, with the rise in globalisation and increased societal awareness about the business impact on society and nation, it has become essential to recognise stakeholders. Based on the stakeholder theory, "business is a set of relationships among various groups that have a stake in the business in creating value". With an economic view, it helps to resolve multiple issues, including ethics, responsibility, sustainability, and answers to questions such as what to teach managers to be successful.

If followed in letter and spirit, these practices will help ensure that organisations' protect the interest of all stakeholders. Adoption of CG will help keep stakeholder's interests in the forefront of the top management.

### 1.2.3   Stewardship Theory

The term "Steward" defines a person whose responsibility is to manage or supervise the needs of others. Stewardship theory suggests that top management or managers should align their interests with the shareholders' interest of achieving the organisation's objectives so that shareholder's wealth is maximized and they are satisfied with the performance of the business.

**Davis et al. (1997)** further explain that "stewardship theory has its roots in psychology and sociology". The theory assumes that if a manager chooses between "self-serving" and "pro-organisational behaviour", then "pro-organisational behaviour" will be selected.

According to the theory, managers behave collectively towards overall organisational objectives, i.e. profit and wealth maximisation. This behaviour of managers will directly help shareholders to prosper. If the interest of shareholders is fulfilled, this will ultimately

satisfy all the other interested stakeholders, as the organisation's wealth have a direct relationship with stakeholders need satisfaction.

Thus, the Stewardship theory propagates that managers make decisions on behalf of shareholders and be good stewards. They will favour the shareholders' interest, i.e. work in the best interest of shareholders, which ultimately help in enhancing stakeholders' interest.

The stewardship theory puts lots of responsibility on the shoulders of top management, and the adoption of corporate governance norms helps them achieve the corporate objectives as stewards of shareholders.

### 1.2.4   Resource Dependency Theory

This theory emphasizes the role of managers in providing the necessary resources to the company. It emphasized the role of managers in securing essential resources through their links with the external environment. These resources help in improving the organization's operations, business performance and survival.

Thus, top management should function transparently and follow ethical practices so that the organisation's stakeholders' interests are protected and they can have a long-term sustainable relationship with the organization.

### 1.2.5   Transaction Cost Theory

**Ronald Coase (1937)** gave transaction cost theory. The difference between agency theories is that it focuses on cost due to individual agents, whereas transaction cost theory relates to individual transactions. It looks at identifying how directors opportunistically

arrange transactions. Transaction cost theory focuses on the effective and efficient achievement of transactions through corporate governance norms.

### 1.2.6 Political Theory

This theory states that an organization must develop voting support and not purchase such votes from shareholders. It draws inferences from the functioning of political parties and how decisions are taken by the Government and ensuring power, profit, and privileges are delivered for all stakeholders.

Thus, all the above theories understand how corporate governance needs to be exercised in the current context. Of these theories, stakeholders' theory seems to be more relevant and exhaustive in the present context of the global business environment.

## 1.3 Models of Corporate Governance

Since all countries have different regulations for corporate governance, these have been defined as models used in various countries. These are classified as under:

### 1.3.1 Anglo Saxon Model

Aka the Anglo-American Model of CG, the model is characterised by outside ownership, i.e. shareholders other than promoters, well defined legal framework and a comparatively straightforward procedure for communication between shareholders and organisation. The model focuses on a single-tier board with particular emphasis on shareholders' interest and assumes separation of ownership. Under this model, owners have power to elect board and direct them altogether. Other essential characteristics of this model are:

- The model revolves around three primary players, i.e. management, shareholder and BoD.

- The BoD includes "executive and non-executive directors" and no CEO duality.

- Strong regulatory environment with federal agencies governing the entire capital market.

- Comprehensive disclosure environment.

- Equity financing is the most common method of raising funds under this model.

- Shareholder approval for majority of corporate actions.

- Strong communication by the players with availability of proxy voting rights.

## 1.3.2 Japanese Model

Being a multi-faceted model, it majorly revolves around banks and the financial network termed as *Keiretsu*. The organisation is managed by a bank, keiretsu (affiliating company) and management. Under this model, the board of directors are jointly appointed by the bank and Keiretsu. There is low level of input from outside shareholders. Following are the other characteristics of this model:

- Banks being the shareholders are deeply involved in the matters of corporation.

- The top governance layer is majorly comprised of insiders, i.e. executive members/heads of major divisions. However, the main bank and Keiretsu members can remove directors and appoint their candidates.

- Strong regulatory framework through government ministries and regulatory bodies including Securities Bureau of Ministry of Finance, Securities exchange Surveillance Ministry.

- Stringent disclosure requirements on semi annual basis.

- Appointment of directors and dividend decision is taken for shareholder approval in annual meetings.

### 1.3.3   German Model

Also known as European Model, the model is two-tier, as the company is managed through two boards, i.e. "Management Board" and the "Supervisory Board". The "Management Board" comprises insiders and is represented by the employees and labour. The "Supervisory Board" is defined by the Government and cannot be changed at the shareholders level.

It becomes essential to note that the German model is similar to the Japanese model as wealthy families and foreign investors usually finance business houses. However, the feature of restrictive voting distinguishes the two. The German model against the Japanese model, irrespective of shareholding held by the individual/institution, enables restrictions over the voting rights held by an individual/institution for decision making.

### 1.3.4   Indian Model of Governance

The sociocultural and economic milieu of India is critical in the development of an Indian corporate governance model. Since India is the oldest and richest heritage globally and has contributed significantly in terms of art, culture, scientific knowledge, spiritualism, yoga, etc., Indian traditions, philosophy of life, governance systems are unique and need to be incorporated into the corporate governance system.

Ethics have always been an essential part of Indian traditional knowledge. It does not merely help determine what actions need to be performed but also serves as a vital tool to resolve business dilemmas. Based on Indian ethics, an ethical organisation will permanently save the interest of society and flourish based on its fairness and integrity towards the benefits of stakeholders. Ethics incorporate a personal sense of value and social value of a business which help in preventing harm to the society and improve brand image.

Further, in India, the quality of corporate governance is identified by the decisions of top management, for example how the management hands out financial resources between themselves and stakeholders. The stakeholders' expects that such decisions are taken with integrity, honesty and transparency. Moreover, to succeed in this competitive world, the board of directors of an organisation must have efficient leadership traits and run the organisation with ethical values and principles.

The concept of CG is not new even in India. Its essence can be observed through ancient books. Karma Yoga advocates performing your duties without expecting the fruits of your actions. Sama Shatro cha Mitre Cho talks about equality. Kautilya's Arthasasthra supported economic advancements through good governance, presented few thoughts regarding board size, and reduced corruption and penalties for fraud. Upnishads also contributed by outlining leadership traits as Vasudhaiva Kutumbakam enlightens that healthy and fair competition can be maintained by following ethics and morality. It must be noted here that ancient Indian scriptures did not just mention the concept of corporate governance theme but also incorporated political, economic and ethical views and the theories that modern management is now being adopted.

Similarly, in the 19<sup>th</sup> century, Mahatma Gandhi encouraged Ramrajya through his trusteeship theory. He believed that wealthy people are the trustees, and they should look after the welfare of society. Further, Nehru's Satatic model thought that Indian culture was rich but static at the same time as the crowd's attitude is complex. He believed that present resources were not being utilised to the fullest. Hence, he contributed towards human development and economic development by shaping Indian policies.

In 1913, Company Act was incorporated in India, thereby introducing the concept of the Board of Directors. However, initial moves did not yield satisfactory results/outcomes. In 1956 amendments were made in the Companies Act to deal with managing agencies operating in India.

Finally, in the late 20<sup>th</sup> century, India witnessed liberalisation. To optimally reap the benefits of LPG policy and attract FIIs, it became necessary to introduce corporate governance. Thus CII, in 1998, introduced this reform as a voluntary measure.

Indian corporate governance framework, consisting mainly of the Companies Act, 2013, which draws provisions to facilitate good corporate governance, SEBI-LODR, MCA, the ICAI, ICSI and the recently formed NFRA to meet international standards.

## 1.4   Significance of Good Corporate Governance (CG)

Companies now adopt CG practices as a matter of compulsion, but the following good governance norms highlights its significance to the business. These are discussed hereunder:

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- **Inculcating Participative Attitude**- Top Management should create clear lines of communication within the organisation. They should be responsive and inculcate participation in the organisation.

- **Reducing the k0 -** The implementation of good governance practices can reduce a company's cost of capital. Companies can generate funds at a low cost.

- **Better decision-making –** Good governance ensures that decision making is more transparent, democratic, has open communication and decisions are acceptable to all. This will help improve the performance and long term sustainability of organisations.

- **Better internal controls –** Implementing internal and external controls become more effective with good governance practices in place. The chances of frauds reduce and accountability improves.

- **Effective strategic planning-** Better communication, access to full information in management will automatically lead to better strategic planning, which will help optimum utilisation of resources and capital. A strong framework will help understand the regulatory environment better, discussing points of view with each other etc.

- **Attracting Human Resource-** Bringing in talented NED with required skills help drive organization towards sustainability.

## 1.5 Issues and Challenges of Corporate Governance

The issues and challenges which Indian corporations face related to following Corporate Governance (CG) norms are discussed hereunder.

- **Oversight**- Effective CG means the BoD should be aware of daily work in the company and if the objectives are being achieved.

- **Conflict of Interest-** Avoiding conflicts of interest is necessary, but sometimes the board members, controlling team, or the company officers have different vested interests that can create a challenge in fulfilling the company's goals. The role of agency costs comes into play to safeguard these.

- **Accountability**- Each level and department should be accountable and should give the regular working report a whole company can be in problem if even one person fails to account for its performance.

- **Transparency -** A company should be transparent and accurate in showing their profits and losses, figures and should not try to cheat or hide the actual standing of the company. If the company is found to be guilty, hiding its actual position can seriously damage its image and its relationship with stakeholders.

- **Ethics**- A company has a moral obligation to protect the social welfare of customers, stakeholders and others, and it should not misuse the resources and environment and fulfil its responsibility with its best efforts.

## 1.6 Corporate Governance Reforms in India

This section highlights the major provisions of Companies Act and SEBI guidelines.

## 1.6.1 Provisions of the Companies Act, 2013

This regulates the Companies from incorporation to dissolution of an organisation, including responsibilities of directors, appointment of auditors, transaction with related parties among others. The Act lays down provisions for governing all the listed as well as unlisted organisations in India. Under this Act, for the first time, duties of directors and policy of whistle-blower are addressed.

Table 1.1 – Comparison of **Companies Act**, **1956 and Companies Act**, **2013**

| Comparison | Analysis |
|---|---|
| **Maximum limit of Directors on Board -** <br> Companies Act, 1956 fixed the upper limit for # of directors to 12 or lower. <br> Companies Act, 2013 increased # to 15. It further allowed the company to appoint a higher number of directors through a special resolution. | Allowed flexibility to the company in appointment of directors, to take benefit of more experience and competence to the Board of Directors. |
| **Academic Qualifications of Director members of the Audit Committee (AC) -** <br> Companies Act, 1956 had not specified educational norms for the BoD. <br> Act, 2013 provides that majority of the AC members should understand financial reports and statements. | Ensures that members are qualified to lead the organization effectively. |
| **Woman Director -** <br> Companies Act, 1956 did not have any provision in this regard. <br> Companies Act, 2013 has specified minimum 1 female member on the Board of Directors companies as may be prescribed. | Makes the BoD more gender-sensitive. |
| **Residential Status of Directors -** <br> Companies Act, 1956 did not have any provision in this regard. <br> Companies Act, 2013 provides that at least 1 director should have put up in India for majority days during the previous year. | Ensures that the BoD remains in India to provide adequate time to Companies operations/affairs. |
| **Independent Directors -** <br> Companies Act, 1956 did not have any provision in this regard. <br> Companies Act, 2013 provides for "at least 1/3$^{rd}$" of the total strength of the BoD registered on the exchange. | Act, 2013 has made the Act compatible with the regulatory provisions of SEBI. |
| **Board Meetings -** <br> Companies Act, 1956 did not have any provision with regards to providing notice period for convening a board meeting. <br> Companies Act, 2013 provides "at least 7 days' notice" to | Provides sufficient time to the Board members. <br> Increases the importance of Independent Directors, since a |

| | |
|---|---|
| convene a Board meeting. To transact an urgent business, the Act relaxes the requirement and, requires a minimum of one Independent Director should attend the meeting. However, independent director should ratify decisions taken at a meeting convened without an independent diretor. | minimum of one ID is required to either attends the meeting or ratify the decisions. |
| **Audit Committee -**<br>Companies Act, 1956 required constitution of Audit Committee for every public company (whether listed or not) with paid up capital > five corers.<br>Companies Act, 2013 makes it compulsory "for all listed companies and other prescribed to form Audit committees". This also provides that the majority of directors in the Committee should be IDs. | The new act recognizes Audit Committee as the most important pillar of CG. The New Act also enhances their duties and powers. |
| **Nomination and Remuneration Committee -**<br>Companies Act, 1956 did not have any provision in this regard.<br>Companies Act, 2013 makes it compulsory requirement for "all companies listed on stock exchanges and other prescribed companies" to have such a committee. The Committee should comprise 3 or more NED, and at ½ of the BoD should be ID. | Brings professionalism and transparency in selecting and remuneration of directors, KMPs and other employees. |
| **Stakeholder Relationship Committee -**<br>Companies Act, 1956 did not have any provision in this regard.<br>Companies Act, 2013 requires a company with over 1,000 security holders to constitute such a committee. | The new Act broadens the scope by bringing in more stakeholders other than shareholders in the ambit of the BoD. |
| **Independent Directors -**<br>Unlike 1956 Act, 2013 Act provides a comprehensive definition of "Independent Directors". | 2013 Act places a great deal of responsibility on Independent Directors. |
| **Insider Trading -**<br>Companies Act, 1956 did not have any provision in this regard.<br>Companies Act, 2013 has introduced provisions relating prohibition of such trading and penalties. | This tries to level the stage for minority/retail shareholders. |
| **Related Party Transactions -**<br>2013 Act has made the law with regards to conduct of RPTs more stringent. One of the biggest difference form Companies Act, 1956 is that Companies Act, 2013 has broaden the scope of the term related parties to include shadow directors and relatives of managerial persons as well. | Objective is to broaden the concept of the related parties and makes the nature of RPTs more clear. |

## 1.6.2 SEBI Guidelines (LODR)

In 1992, SEBI was formed under the Securities and Exchange Board of India Act. The main objectives of SEBI are to keep a check on corporate frauds such as late payments, lack of transparency, insider trading, price manipulation, violation of stock exchange and listing requirement rules and regulations. SEBI has the right to investigate cases and terminate such organisations from the securities list if found guilty.

Comparison of 2013 Act and the SEBI (LODR), 2015, is highlighted in below table.

**Table 1.2 – Comparison of SEBI clause 49 and SEBI (LODR)**

| Basis of difference. | Clause 49 (October 2004) as amended | Amendments to Clause 35B (April 2014) since rescinded and forming part of SEBI(LODR) September 2015 |
| --- | --- | --- |
| **Woman Director** | Not Required | BoD shall necessarily have atleast one woman director. |
| **Proportion of Independent Directors** | Atleast one third of BoD | If the chairman of the Board is a NED, the proportion should be at least 1/3$^{rd}$. If the Company has a chairman who is a promoter, the board should have at least ½ of its strength as ID. |
| **Independent Director** | Only had a few provisions, including appointment, # of ID and meaning of ID. | Following Companies Act, 2013, SEBI has introduced appointment of ID along with their duties, and code of conduct |
| **Meeting of ID** | Not Required | Minimum one meeting of ID in a year where all such members should be present. |
| **Formal letter of appointment to Independent Directors, its display on website and information to stock Exchange** | Not Required | Required |
| **Detailed provisions regarding Performance Evaluation and continuation of Independent Directors on the basis of Performance Evaluation** | Non-mandatory requirements. | Mandatory requirement. |
| **Tenure and Rotation of Independent Directors** | Non-mandatory requirement (Not exceeding nine years). | Mandatory requirement with detailed provisions. |
| **Stock options to Independent Directors** | Allowed | Not Allowed |
| **Scope of Audit Committee** | Scope was restricted | Scope has been broadened in light of the 2013 Act. |
| **Nomination and Remuneration Committee** | Non Mandatory requirement. | Mandatory requirement, with a compulsion of appointing an ID as Chairman. |
| **Stakeholder Relationship Committee** | Provision of a Shareholder Committee to address the grievances of the shareholders. | Enhanced scope and role with 2013 Act |
| **Risk Management** | Few Provisions | Detailed provisions. Further, for the top 100 listed companies determined, it is mandatory to set up such a Risk Management Committee. |
| **Whistle-Blower** | Non Mandatory requirement. | Mandatory requirements. |

| Related Party transactions | No specific approval was required. | Approval for all RPTs. |
| --- | --- | --- |

## 1.7 Corporate Governance - Key Variables

Good governance practices followed by companies help in long term sustainability of organisations. CG norms are now compulsory to follow for every company. But each company can vary in terms of CG characteristics. This sub section discusses main CG key variables in terms of their relevance for firm performance.

### 1.7.1 Board Independence

The BoD of companies formulates strategy and keeps an eye on their operations. The purpose of board is to bring a balance in various interests vested in the board. Independent directors can bring objectivity in the board processes and protect the minority interest of small stakeholders. It helps small shareholders voices being heard on the board. Independent directors (IDs) are supposed to take care of those stakeholders who are not represented in the board in terms of their interest, needs and aspirations being conveyed and protected. Independent directors have to see that their performance is not influenced by the management. The concept of IDs is created to monitor the EDs. They may challenge CEOs and management about their decisions and functioning by asking questions about product lines, operations, market segmentation, and other decisions.

Thus, board independence improves firm performance by bringing unbiased decision-making, making sure interest of all stakeholders are protected, bringing objectivity to the board, keeping a check on executive directors' decisions, and improving effectiveness of the decision-making and business performance.

### 1.7.2   Gender Diversity in the Board

The philosophy of business is to ensure high standards of ethics and fairness to stakeholders. The corporate culture should have transparency, integrity, accountability and professionalism. All this is possible by bringing board diversity to achieve higher performance. A diverse board gets advantages from diverse knowledge, skill set, industry experience, culture, gender, thought, and perspective, which helps a business gain a competitive advantage. Gender diversity on the board enhances board effectiveness. Having women directors on the Board has been made mandatory in the present Companies Act. The women director on the board brings more corporate credibility and also improves governance standards in the organisations. Gender diversity brings the diversity of thought, actions and brings a different perspective to the overall scenario. Companies may think of bringing diversity to match the required skill set.

Diversity on board can only come when members' perspectives are valued and listened to. There is more need to bring open communication to the board, and the CEO or chairman should allow a participatory approach to ensure that benefits of diversity can be taken. The board effectiveness will be achieved if the diverse boards have a more egalitarian culture, allowing integrating contrasting insights. Boards can create collegial boards to motivate acceptance and integrating differences of opinion.

If gender diversity and board diversity are implemented with an egalitarian culture, then board effectiveness can improve, which will improve firm performance and make a more socially responsible and sustainable business environment.

### 1.7.3 Board Meetings

**Coles et al., 2008** states that the BoD performs two functions – advising and monitoring. They should create a balance between both functions to improve firm performance. Advising function relates to strategic decision making, and monitoring function is towards observing the day-to-day operations and decisions. The advising role leads to value creation by helping the top management with strategic decisions. The monitoring function reduces agency problems and ensures proper accountability of the board. This is achievable through a higher frequency of meetings and the intensity of the discussion on the agenda. Meetings of the BoD also have a important role in ensuring the proper functioning of the business. The board's composition, board activities represented by board meetings enhance monitoring. The intensity and frequency of board meetings is a crucial factor for "good governance". The firm performance will be impacted by the number of meetings, the portion of members attending those meetings, intensity of their discussion, objectivity followed by independent directors.

### 1.7.4 Audit Committees (AC)

Effective corporate governance can be implemented with an independent committee. The role of AC is to have an oversight of the auditing process, specifically. They need to function with objectivity and independence to bring fairness to the financial statements. They have a vital role in protecting investors. One member of the committee is a subject expert. The role of management is to prepare financial statements, establish ICFR. The independent auditor is responsible for ensuring that all laws are followed, and the financial

statement shows a fair picture of the financial health. The AC works in cohesion with these auditors and tries to identify the chances of any frauds likely to happen.

Thus, effective corporate governance is possible with the help of the transparent functioning of an independent committee. This also improves the financial performance of the business and builds sustainable organisations.

### 1.7.5 Financial Performance

Corporate Governance impacts firm performance in many ways. It impacts the financial and operational efficiency of business. It has an impact on social responsibility and the long term sustainability. The main financial performance indicators which have impact on corporate governance includes: market valuation, profit and returns, stakeholder related value, replacement value, solvency and sustainability, asset growth and market growth.

### 1.7.6 Social Performance

Its strategies and operations influence the performance of a corporation in a market or non-market setting. Traditionally, a firm's performance is measured from an accounting perspective, where financial statements and reports portray a firm's status. With increased awareness among stakeholders, organisations realise the importance of non-market strategies. One of the significant components that fall into the non-market environment is corporate environmental and social responsibility performance.

They are drawing from agency theory and stewardship theory, the manager act as a steward of the owner, who has the right to know how managers are utilising his property. Similarly, as the organisations use society's resources, it is the management duty to act as

a steward of society and timely justify their actions towards society's welfare. Further, drawing from stakeholder's theory of corporate governance that portrays an ethical approach to management, i.e. various parties who hold a stake in the organisation need to be identified as business parameters and have some responsibilities. It is essential to create a balance between shareholder and stakeholders' interests.

Corporate social performance (CSP) is considered an integral component of CG. Sometimes CSP and CSR are used interchangeably. Although CSR deals which the obligation that organisation has towards stakeholders and CSP is related to the outcome of CSR, i.e. the actual results achieved from CSR activities. Therefore, Corporate Social Performance (CSP) can be defined as the outcome of the company's action and relationship with various stakeholders such as consumers, Government, etc.

In the early 20th century, CSR was considered as an act of "repaying" the society, noble favour. But with time, it was realised that it is not about repaying instead, it is about reducing the negative externalities of an organisation or rectifying the consequences of business activities. However, business houses by themselves were not contributing enough towards CSR activities. Thus, under U.N. Global Compact, WTO established rules of conduct that bind organisations to contribute towards social and environmental welfare.

Similarly, in India, with an amendment in the Companies Act, establishing a CSR committee (sec. 135) for companies has been mandated. It applies to all listed entities above a defined threshold. MCA released a circular stating that the CSR committee should constitute 3 or more directors, with at least one ID, and "spend at least 2 percent of the avg. net profit of the last 3 years on CSR."

In 2011, Business Responsibility Reporting (BRR) was mandated "for the top 100 listed entities" to promote transparency and accountability towards stakeholders and increase the need for sustainability. In 2015, it was extended to "the top 500 Companies as per market capitalisation". BRR are disclosures in line with "National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business" (NVGs) issued by the MCA. These disclosures are about the environment, social and governance issues linked to Global Reporting Initiatives (GRI), sustainability reporting standards globally accepted standards.

CSR is a self-regulatory paradigm that allows a firm to be responsible towards the society. By practicing CSR, the Company or the corporate citizenship, companies can have positive impact on environment that includes both economic and social.

CSR as a concept can take many forms, and is dependent upon the company and its industry. Through CSR programs, organizations can benefit society and increase their brand value. CSR enables organization to make stronger bond within the organization as well.

To be socially responsible, Company needs to be first be accountable to itself and its shareholders. Therefore, often it is observed that only large enterprises that have grown to a certain level engage in CSR.

## 1.8  Concluding Remarks

The chapter discusses the genesis of corporate governance, recent developments, theories of Corporate Governance (CG), framework and models adopted by various countries, key variables and relationship of CG with financial performance and social performance.

CG is a mechanism that ensures that investors and shareholders get satisfactory return on investment and equitable treatment. It also aligns top management interest with the stakeholder's interest. However, in the past a number of corporate collapses that have been witnessed despite regulatory framework, the relevance of good corporate governance in modern organisations has increased manifold.

The main objectives of corporate organizations are wealth maximization and long term sustainability. However, to have these both it is important that organizations are governed by policies and procedures that have transparency, fairness and accountable and responsible management. Thus, it has become essential to have a broader perspective in measuring the firm's performance i.e. incorporating financial and social performance parameters while evaluating the organisation. Also, CG and its relationship with a "firm's performance" have been discussed in the present study.

# Chapter-2

# Review of Literature

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Corporate governance is a widely researched topic on its different aspects, components, principles and norms formulated from time to time. The subject has gained importance in India after the Companies Act, 2013, as detailed guidelines were issued related to the code of CG. There have been numerous research on CG that have utilised various scorecards and indices to understand and analyze the association between "CG" and "Firm Performance". This chapter discuss the significant ones, that were used in identifying the research gap and formulating the methodology.

## 2.1   Review of Related Studies

Literature review uses existing literature to summarize ideas, identify the gaps and problems for future research. The literature review done in the present study includes review of the concept and corporate governance principles, corporate governance index, scorecard, governance variables, demographic characteristics, financial performance and social performance.

***Concept of Corporate Governance***

The following studies/ papers highlight the various perspectives on the concept of CG.

**Kama and Chuku (2010)** CG as a concept is related to processes, practices, and systems which guide the top management with rules and guidelines which, when implemented,

determine the relationships and nature of those relationships. **Arora and Bodhanwala (2018)** Corporate governance aims to bring fairness, more disclosure, and transparency in the system so that stakeholder's interest is protected. It creates effective controls in the system. **Shivani et al. (2017)** Corporate governance helps improve decision making in the organization. **Freeman and Evan (1990)** A stakeholder approach to corporate governance requires creating stakeholder groups as a responsibility centre to make sure that business objectives are achieved **(Barter, 2011; Clarkson, 1995). Kaufman and Englander (2005)** concluded that companies should have such members on the board from various stakeholder groups who add some value have taken some risk and carry strategic information related to the company with them. **Ayuso et al. (2011)** added that stakeholders and shareholders, mainly present on corporate boards, promote CSR activities and increase the company's capital, leading to better financial performance. Through their study, **Srinivasan and Srinivasan (2012)** suggested the top five variables that have a relationship with corporate governance including company performance, CSR, governance origins and models, corporate disclosures, and regulatory procedures. **Abid et al. (2014)** compared the various theories of CGand held that a general theory of CG should be developed, which should be integrated with the legal system. **Korent et al. (2014)** stated CG is a critical aspect in the success of Croatian businesses, according to research. Corporate governance, according to the author, could successfully explain performance variances. **Balasubramaninan (2014)** traced the various developments that led to 2013 Act and helped strengthen CG through various guidelines.

### 2.1.1 Corporate Governance Principles

The four principles of CG, namely disclosure, transparency, board management, and shareholders' rights, have also been widely studied. **Bhattacharyya and Rao (2005)** considered the impact of "Clause 49" on the capital markets. The findings showed that increased information and a better corporate governance mechanism have a negative impact on the cost of equity. **Botosan (2006)** verified through a literature review that CG practices and increased disclosure help lower the cost of equity capital. **Brahmbhatt and Patel (2012)** and **Subramanyam and Dasaraju (2014)** noted the disclosure practices in "IT companies in India". They further studied the impact of such disclosures on profitability and overall performance. They found that corporate governance disclosure improves firm performance. **Ezhilarasi and Kabra (2017),** through a sample data of 177 Companies for a period of 6 years (2009-10 to 2014-15), evaluated the impact of corporate governance attributes on environmental disclosure practices. They found that foreign institutional ownership has a significant influence on firms to disclose environmental issues. The study recommends that SEBI ensure that companies make disclosures of monetary and non-monetary environmental data**. Qiu et al. (2016)** did not find any relation between environmental disclosures and profitability. **Bagh et al. (2017)** found a direct relationship between "CSR", "ROA", "ROE" and "Earnings Per Share". **Aggarwal and Singh (2018),** through an index incorporating 80 items, concluded that in India, only the top one-third of companies published standalone CSR reports and observed a significant difference between quality and quantity of CSR disclosure. **Najundaswamy (2018)** asserts that social disclosures by Indian companies have significantly improved. However, there is still a wide gap compared to GRI standards. **Sharma and Singh (2019)**

concluded that companies with high disclosure standards have relatively better performance.

## 2.1.2  Corporate Governance Index

The studies relating to the construction of CG index are summarised as under:

**Gompers et al.(2003**), made a composite CG index by taking a sample of over fifteen hundred United States firms from the "G index". They analysed 24 provisions related to anti-takeover and classified them into groups. **Brown & Caylor (2004),** constructed corporate governance indexes by combining 51 factors, encompassing eight corporate governance categories. The corporate governance features used for index construction were classified into external features and internal firm-level features. **Larcker et al. (2005),** created a governance index using 39 measures and identified 14 governance indicators. **Bebchuk et al. (2009)**criticized the GIM index related to hostile takeovers and shareholders rights, selected six out of the twenty-four features from the G index, and studied data from 1990 to 2003. The index constituted by Bebchuk et al. is popularly known as the Entrenchment index (E index). They found that these six features are more important than other corporate governance features. **Mohanty (2002)** created a corporate governance index using SEBI committee reports ad identified companies with good and poor governance. **Sarkar et al. (2012)**identified four important components for CG, including "ownership", the "board size", "audit committee" and "external auditors". **Aguilera and Desender (2012)** constructed a C.G Index taking a sample of 500 companies for seven years from 2003 to 2008. They concentrated on four important corporate governance factors. These factors are the company board, structure of

ownership, audit committee, and statutory auditor. **Monda and Giorgino (2013)** designed a multidimensional index named disclosure index comprising of 39 variables and four dimensions: Board, Remuneration, Shareholder Rights. **Halder and Rao (2015)** developed a CG index (CGI) for largecap listed Indian firms using six important governance mechanisms covering 44 factors affecting the governance of Indian companies. **Shahwan (2015)** designed a CGI comprising of "disclosure and transparency", "board composition", "rights of shareholders and ownership" and "control". **Fernandez (2016)** created a social behavioural index using four dimensions like "GRI participation", "Dow Jones Sustainability Index" for firm inclusion, "Good Corporate Governance compliance", and "Global Compact signed by firms". **Quesada (2018)** studied commonly used internal CG variables such as "board size", "CEO duality", "outside directors", "CEO compensation" and "board meetings" to construct an index. External variables like audit committee and ownership structures were not included in the index.

The approach for index construction varies greatly depending on the features chosen, data gathering, and scoring mechanism. The features chosen for index creation are determined by the study's aims. Survey methods, data gathered from state or advisory businesses, or chosen data from "annual reports" are all examples of data gathering models. In research, estimate approaches, binary methods with weightage, and binary methods without weightage are used. As a result, the index varies greatly depending on how different components of corporate governance are covered and how data is collected and scored, which can lead to varied outcomes. As a result, construct validity is critical in corporate governance studies. The GIM/G-index and Entrenchment/E-index act as a base for other

corporate governance indexes. Later on, these indexes have been formulated for American corporations, acting as a base for other indexes.

In the present study, corporate governance index constructed by BSE, IFC and IiAS have been used to study the CG practices followed by Indian companies

### 2.1.3   Corporate Governance Scorecard

Many researchers have created a scorecard to measure various aspects of corporate governance. **Strenger (2004**) suggested a two-step process, i.e., established a code of practices and then developing a scorecard. A scorecard facilitates the work of analysts and investors through a systematic and easy overview and enables companies to assess their governance situation easily. At the same time, **Das (2007)** formulated a scorecard based on the Indian scenario to do an intra-industry comparative analysis of corporate governance practices. Later, few researchers have used this scorecard to compare corporate governance practices between public and private sector banks. **Callaghan et al. (2010)** created a balanced scorecard that measured non-traditional dimensions of management performance, including social contract obligations. **Brahmbhatt and Patel (2012)** and **Subramanyam and Dasaraju (2014)** used corporate governance scorecard developed by S&P to study disclosure practices of Indian companies**. Maheshwari (2018)** created a scorecard with 18 parameters and assigned weights as per the importance of a variable to measure governance parameters. Besides these, many regulatory and corporate organisations and international agencies like ADB, ACM and IFC, CIGI, CPSE and BSE have created their scorecards to study the CG practices in specific countries.

The CG index formulated by BSE, IFC and IiAS has further provided the scorecard methodology to compute the corporate governance scores, which has been adopted to derive the CG scores of the sample.

## 2.1.4 Corporate Governance Variables

In this sub-section, the main CG variables which various researchers have studied have been compiled. These include "board size", "independent director", "gender diversity", "CEO duality", "board meeting", "audit committee" and "remuneration".

### 2.1.4.1 Board Size

**Makand Kusnadi (2005)** In Malaysia and Singapore, researchers investigated the impact of corporate governance on firm value. "Size of BoD" is adversely correlated with the business value assessed by Tobin's Q in both nations. **Rashid et al. (2010)** did not find a meaningful relationship of "board size with firm performance". **El Bannan and El Bannan (2014)** stated that the "size of the BoD" has little bearing on bank's performance. Smaller boards, on the other hand, are a crucial indicator of increased customer service and employee efficiency. **Malik and Makhdoom (2016)** concluded that small board size companies perform better than big board sized companies. **Kelsie. A. et al. (2016)** studied the connection between "board size" and "firm performance". The study discovered that the "larger the board", the "better the firm's success". It went on to say that the size of the BoD is linked to the size and age. **Shivani et al. (2017)** commented that large boards negatively impact firm performance. **Dang A.(2017)** studied Vietnamese companies and found that "board size" does not affect performance. **Orozoco et al.(2018)** categorized board size into 3 categories, i.e., low, medium and high. Results concluded that companies

that have large boards have better reputations but low financial performance. The summary of few more studies is shown in Table 2.1

Table 2.1- Review of Literature on Board Size and Corporate Governance

| Author and Year | Results |
|---|---|
| Ujunwa. A., (2012) | "Negative correlations" with performance |
| Kumar and Singh (2013) | "Negative correlations" with the firm value and performance. |
| Duru et al. (2016) | "Negative impact" on firm performance |
| Ali. M. (2017) | "Positive co-relation" with the organization performance. However, this relationship is conditional on the industrial sector to which it belongs. BoD size also has a +ve relationship with organization size in the manufacturing industry. |
| Buachoom. W (2018) | "+ve association" with the firm's performance. Further, board size influence is strong only on blue-chip companies. |
| Eluyela et al. (2018) | In Nigerian companies, board size "positively impact firm performance" |

## 2.1.4.2 Independent Director

**Rashid et al. (2010)** revealed that independent directors do not affect organization performance and contribute to economic value addition. However, outside independent directors do contribute to bringing transparency. **Roodposhti and Chashmi (2010)** board's independence earning have a negative association with corporate governance. **Masulis et al. (2012)** examined the costs of having "foreign directors" in the USA. Organizations with foreign directors report high absenteeism in the board meeting, likelihood of financial misreporting, higher CEO compensation. The author concludes that firms with foreign independent directors have relatively poor performance. **Malik and Makhdoom (2016)** support that board independence improves transparency in the board decision-making process. **Dang A.(2017)** reveals that independent directors negatively impact business performance. Table 2.2 highlights review of important literature on BoD independence and CG.

**Table 2.2- Review of Literature on Board Independence and Corporate Governance**

| Author and Year | Results |
|---|---|
| Baysinger and Butler (1985) | "+ve relationship with firm performance" |
| Rosenstein and Wyatt (1990) | More independent directors lead to an "improved market capitalization" of the firm. However, the occupation of outside directors had no impact on management effectiveness. |
| Ezzamel and Watson (1993) | IDs "+vely impact" profitability |
| Dulewicz, and Herbert (2004) | "no relationship" of independence with overall performance |
| Gurusamy.P. (2017) | "no relationship" of independence with overall performance |
| Duru et al. (2016) | Board independence significantly "positively impact the operating efficiency of business" |
| Rutledge et al. (2016) | "Inverse relationship" with financial performance |

## 2.1.4.3 Gender Diversity

**Smith (2006)** attempts to study the association between "business performance" and "board diversity" through a panel analysis of 2500 Danish firms (women directors). The findings show that women in senior management have a beneficial impact on company success. The qualifications of women directors, on the other hand, have positive link. **Khan et al. (2012**) evaluate whether firms managed by female CEO is more profitable or firm managed by male CEO. It was concluded that firms governed by female CEO perform better as in these firms performance is high and risk level is small. According to **Triana and Asri (2017)**, female directors has a "considerable favourable impact" on the firm's success. The report backed the IFC's efforts to boost the number of female directors on Indonesian company boards of directors. According to **Jiron and Gomez (2018)**, there is a link between "women directors" and "corporate performance". Furthermore, family enterprises are said to have fewer gender-diversified businesses. **Ali et al. (2020)** state that female directors on board positively impact performance. Also, CSR moderates the relations b/w the "presence of female directors" on the BoD and firm FP. Few studies

found that "gender diversity with women directors" on board helps firms perform better, and some research has discovered an inverse relationship between the two (Table 2.3).

Table 2.3- Review of Literature on Gender Diversity and Corporate Governance

| Author and Year | Results |
| --- | --- |
| Shrader et al. (1997) | "Negative relationship" of women directors on financial performance |
| Williams (2003) | More gender-diverse boards have more CSR activities |
| Webb (2004) | More women are on the boards of socially responsible companies. |
| McKinsey (2012) | Companies with women directors perform best. |
| Catalyst (2007) | Organizations with a high female director representation perform better financially than companies that do not allow women to be directors. |
| Ujunwa. A., (2012) | Gender diversity has a "–ve relation" with the overall performance |
| Duru et al. (2016) | "negative impact" on the company's success. |

## 2.1.4.4 CEO Duality

**Elsayed K. (2007)** explored the "impact of board leadership on corporate performance", it was found that "CEO duality" did not effect high-performing companies, but it had a favourable effect on low-performing ones.. However, the impact of "CEO duality" varies with industry sectors. **Roodposhti and Chashmi (2010)** identified a "negative relationship" b/w CEO-Chairman duality and CG. **Ujunwa. A. (2012**) 122 studied Nigerian enterprises for CG traits and their impact on financial performance. The author discovered that CEO dualism is associated with poor company performance. **El Bannan and El Bannan (2014)**found that CEO/Chairman duality is unrelated to banks performance. **Malik and Makhdoom (2016)** said that "CEO compensation has an inverse relationship" with firm performance. **Dang A.(2017)** studied that CEO dualism had a inverse relationship with FP that is irrespective of business profitability. Table 2.4 summarises studies on CEO duality and its impact on corporate performance.

**Table 2.4- Review of Literature on CEO Duality and Corporate Governance**

| Author and Year | Results |
|---|---|
| Baliga.et al.(1996) | "Weak link" between CEO dualism and Company performance. |
| Gurusamy.P. (2017) | "Strong relationship" between CEO dualism and Company performance |
| Gill and Mathur (2011) | CEO duality impacts firm value positively |
| Duru et al. (2016) | There is "no link between CEO/Chairman duality and corporate performance". |
| Rutledge et al. (2016) | There is "no link between CEO/Chairman duality and corporate performance". |
| Tang. J. (2016) | "negative impact" on firm performance |
| Shrivastav. S.M. (2016) | "Negative relationship" |

## 2.1.4.5 Board Meetings

The amount of meetings of the BoD held each year should have an impact on business efficiency and, in turn, firm performance. **Gurusamy.P. (2017),** studied that the board meetings and business performance are unconnected. **Malik and Makhdoom (2016)** found that number of such meetings have an "inverse association" with business performance. **Eluyela et al. (2018)** studied Nigerian businesses and their financial performance. The findings of the study revealed a link between board meetings and company performance. **Sharma and Singh (2019)** hold that firms having a higher level of board activism have shown better performance financially during the period under study. Related papers on "board meetings" and "firm performance" are summarised in Table 2.5.

**Table 2.5-Review of Literature on Board Meetings and Corporate Governance**

| Author and Year | Results |
|---|---|
| Vafeas (1999) | "Negative impact" of board meetings frequency on corporate performance |
| Francis et al. (2012) | The number of "board meetings negatively impacts" the firm performance |
| Lai and Choi (2014) | Studied German and UK and found a "–ve association" between board meetings and ROA |
| Chou et al (2013) | "Positive impact" on firm performance |
| Collins (2011) | Examined South African companies and found a "positive relationship" |

| Hanh et al. (2018) | an "inverse relationship" from Ho Chi Minh Stock Exchange |

## 2.1.4.6 Audit Committee (AC)

The AC determines the quality and transparency of financial statements and thus should impact firm performance directly or indirectly.

**Rezaee (2003)** examined the "top 100 fortune companies" on the basis of disclosure made by the audit committee, it was revealed that complete sample firms had adopted the latest audit committee charter, disclosure was adequate and correct, and no concerns were raised. **Zhang (2007)** states that organizations in which audit committee members have the less financial knowledge and auditor are more independent than those organizations are referred to as organizations with weak internal control. More financial expertise and independence of ACs bring "direct relationship" with corporate performance. **Choi et al. (2014)** reveal that as the frequency of appointments in the ACincreases, stock prices go up, and if members switch audit committee, then stock price reduces. However, the financial literacy and independence of audit committee members have a direct relation. Thus, improving the effectiveness of the ACs. **Al-Rassas and Kamardin (2015)** conducted a study on 508 Malaysian firms and found that well-defined and structured internal audits and the fees of the statutory audits are positively related to earning quality. Also, "audit committee size" and "number of committee meetings" are inversely associated with earnings quality. Table 2.6 summarizes the related papers.

**Table 2.6-Review of Literature on Audit Committee and Corporate Governance**

| Author and Year | Results |
|---|---|
| Thiruvadi (2011) | Female director on an audit committee have "negative impact" on earning management. |
| Inaam (2016) | Audit committee independence, size, meetings, and financial expertise have "negative associations" with profit or earning management. |

| Sharma and Singh (2019) | found a "+ve relation" between a corporates performance and an active audit committee |
| Musallam (2020) | Audit committee skills and frequency of meetings are "positively correlated with performance and risk management". However, audit committee "size have a negative impact" on performance. |

### 2.1.4.7 Remuneration of Directors

**Combs (2003)** analysed CEO salary with social goals of stakeholders and shareholders' profit goals. The study advocated that the stakeholder management approach has a negative relationship with CEO compensation, i.e. to increase financial performance; the reward of the CEO should be reduced. **Callan (2012)** analysed pay for performance with financial performance and social performance. The study summarized that CEOs are compensated by the financial performance, and social performance positively affects CEO remuneration. **Conyon and He (2012)** studied the board determines CEO equity ownership and equity awards, and ownership structure and CEO pay in "state-owned enterprises" are less than in foreign-owned firms, according to a study that used dynamic wage theory to examine the relationship between CEO salary and company performance. Further, CEO compensation has a direct correlation with firm performance. Through his study, **Aggarwal and Gosh (2014)** concluded that the managerial remuneration and "Tobin's Q" ratio are negatively correlated. However, the company's profitability (EPS and PAT) is positively correlated with the director's remuneration. **Elsayed and Elbardan (2018)** studied the association between executive compensation and firms performance using two perspectives, i.e., agency theory and tournament theory. The author concluded that CEO compensation and board executives are positively associated with firm performance, thus, supporting tournament theory. Further, it was also advocated that higher debt results in low compensation. **Francis et al., (2015)** found that companies

with directors from academic backgrounds show higher performance. Results show that the presence of "academic directors" is associated with greater "acquisition performance", a higher number of "patents and citations", higher "stock price in formativeness", lower "discretionary accruals", more "inferior chief executive officer (CEO) compensation", and higher "CEO forced turnover performance".

## 2.1.5 Demographic Variables-Company Characteristics

This sub-section covers the review of related literature on studies that have analysed the relationship of company demographic characteristics like age of the company, industry sector, ownership structure to identify differences in corporate governance practices.

### 2.1.5.1 Age of the Company

Researchers have examined the relationship of age with CG practices. **Majumdar S.K. (1997)**conducted an empirical investigation to study the impact of firm age on profitability. The study used a sample of 38 family-owned businesses on which ordinary least square methodology was employed. The results confirm that a non-linear relationship exists between firm age on profitability. Established that older Indian firms are less productive but have better profitability, and firm performance improves with age and leverage decreases. **Gurbuz et al. (2010)** studied 164 real estate companies to analyse the relationship of age with "ROA" taken as a proxy of "company's/entities' performance". There was no discernible link between age and company performance in the study. Through research on firm performance and board characteristics, **Ujunwa. A. (2012)** discovered a positive relationship between company age and performance, with young organisations having lower profitability than older organisations. **Kipesha (2013)**

investigated Tanzania and discovered a link between age and microfinance institution performance. **Bianco et al. (2013)** studied the impact of age and size on financial decisions made by family-owned firms. The financial performance of a corporation falls with age, however older companies do better than younger enterprises in certain areas. Age was also revealed to be a major determinant by **Osunsan et al. (2015)**. **Capasso et al. (2015)** support this claim by looking at the Italian wine sector and finding that older wineries do better financially than newer wineries. It also suggests that the firm's financial performance is a key factor of its going-concern assumption. SMEs and mature businesses struggle to survive due to poor performance and growing competition (**Kucher et al. 2018**). The research on the age of the company and CG methods are listed in Table 2.7.

**Table2.7-Review of Literature on Company Age and CG**

| Author and Year | Results |
|---|---|
| Basti et al. (2011) | analysed Turkish companies and found that age "significantly impacts firm performance". |
| Coad et al. (2013) | investigated "the Spanish manufacturing sector" and supported the argument that older companies have better productivity, sales, and profits. |
| Dogan (2013) | revealed that age had a "negatively significant" result on firm performance. |
| Ghafoorifard et al. (2014) | revealed that "older firms have better performance" by analysing 96 companies of Tehran. |
| Legesse's (2018) | Ethiopian economy - found "no link between the age of a company and its financial performance (sales)". |

## 2.1.5.2 Industry Sector

According to specific studies, there are "statistically significant" variances in performance depending on the industry. **MacKay and Phillips (2005)** discovered a strong link between industry sector and financial decision-making. **Prajogo (2006)** adds that process and product innovation are crucial to improvement in financial performance. Innovation and financial performance were strongly correlated for 194 Australian firms from the

manufacturing sector compared to the service sector. **Seo et al. (2016)** looked at Korean businesses and discovered distinct patterns for service and manufacturing industries. According to **Hande (2017)**, no strong link between industry sector and performance is identifiable. The purpose was to assess and examine the relationship between age, industry sector, and company performance. **Esteve-Pérez et al. (2018)** hold that age has a relationship with the industry (sector) life cycle and impacts firm's survival. **Li et al. (2018**) analysed age, business sector, ownership and leverage and found that manufacturing and services firms operate differently, so their performance also varies. **Zaborek and Mazur's (2019)** measured financial performance using the Polish companies' return on investment (ROI). The study reveals significant differences in the services and manufacturing sector, and the service sector doing better than the manufacturing one. Table 2.8 discusses literature related to the industry sector and corporate governance practices.

Table2.8-Review of Literature on Industry Sector and CG

| Author and Year | Results |
|---|---|
| Elsayed K. (2007), | CEO duality has a "positive correlation" with corporate performance in "Textiles and Clothing, Gas, Paper, Packaging and Plastic, Oil and Mining, Food and Beverage and Housing and Real Estate". However, "CEO duality is negatively related to corporate performance" in the Cement industry |
| Ping and Hsien (2008) | Insider ownership has an "inverse relationship" with corporate performance. However, government organizations have positive correlation. |
| Bagh et al. 2017 | The author examined 30 banks (2006-2015) and found that in the financial sector, CSR and financial performance have a positive relationship. |
| Din et al. 2021 | Studies 146 Pakistani manufacturing companies, institutional ownership have a positive relationship with ROE. Promoter ownership "positive relationship is with ROA,ROE and Tobin's Q". Further, and Government companies have positive association with ROA and ROE |

## 2.1.5.3 Ownership Structure

**Bhagat et al. (2010)**suggest no single measure of corporate governance to evaluate a firm's corporate governance quality as measures vary according to its characteristics.

However, if one measure is to be selected, it should be board members' stock ownership as it has a positive relationship with future operating performance and disciplinary management turnover. **Yang et al. ( 2011**) stated that most of the efficient governance instruments in developed nations are less effective in China. Ineffectiveness to the significant stake of the state in listed firms, secure political connections between listed firms and the government, and the lack of a genuinely independent judicial system are the reasons for the ineffectiveness of the governance instruments. **Bae and Goyal (2012)** analysed the relationship of CG practices followed on benefits of liberalisation. The study found that CG adopted by Korean companies help improve equity performance and more FIIs. **Kumar and Singh (2013**) analysed 176 firms listed on BSE, revealed through their study that small companies which are owned by the promoter have a positive correlation with performance. **Sharma and Singh (2019)**foreign ownership has shown better performance financially during the period under study. However, no relationship is noted between "board structure" vis-a-vis "firm performance". The performance of widely held companies ranked below the performance of concentrated companies. Table 2.9 shows the review of literature on "ownership structure" and "CG".

Table2.9-Review of Literature on Ownership Structure and CG

| Author and Year | Results |
|---|---|
| Elsayed K. (2007) | Institutional ownership has a "significant +ve relation" on firm performance |
| Chou et al. (2013) | Institutional owned companies have a "strong direct impact on performance". Widely held companies have no relationship. However, family-owned companies have better relationships than widely held. |
| Madhani (2014) | "No significant difference" was found between private and public sector companies w.r.t to CG disclosure. |
| Mishraandkapil (2017) | Promoter ownership have a "negative relationship" with firm performance |
| Vagnoni et al. (2020) | "Private companies perform better" than public sector companies and mixed ownership companies. |

### 2.1.6 Financial Performance

Financial performance has been used as an essential variable to understand the benefits of corporate governance. Different studies have used different ratios as an indicator of financial performance. This sub-section explains literature related to different financial ratios used and their main findings.

**Kowalewski (2008)** compared pre and post-Global financial crisis periods. The study found that financial performance (as measured by "Tobin's Q") had a positive association with corporate governance before 2008. It also found that during the "crisis period", "better-governed companies" have distributed lesser dividends. **Bhagat and Bolton (2008)** found that corporate governance has no association with stock market performance. However, results verify the positive relationship between performance and ownership. **Cheung et al. (2010)** claim that firms with better governance mechanisms in the Hong Kong stock market reflect better risk-return trade-offs for investors. The result of the study states that firms with improvement in the quality of corporate governance show an increase in market valuation. **Samontaray (2010)** studied whether and how the corporate governance factors influence the closing price of listed companies on the NIFTY index. The sample consisted of 50 companies listed on the NIFTY 50 Index in 2007-08. Variables such as Share Prices, ROCE, EPS, D/E, P/E, and the score of Corporate Governance performance were evaluated in the light of the Narayan Murthy Committee report. Study revealed a relationship of the closing price with independent variables. **Ofurum and Lezaasi (2011)**studied 10 Nigerien companies by examining the CG data and three firm performance indicators, namely "ROE, Net profit margin (NPM) and Dividend Yield". The results showed a positive association between CG and the

selected financial variables. It was concluded that better-governed organizations have better ROE, NPM, and Dividend Yield. **Smith et al. (2011)** studied to build a corporate governance model for Australian organizations. They used financial ratios, company size, corporate governance, and conservatism can successfully predict corporate performance. **Kouser et. al.(2012)** through sample of non financial organizations that are listed in Karachi stock exchange authors have made an attempt to study the association between firm size, growth and profitability. It was advocated that profitability and growth have strong and positive relationship however, study revealed negative association between firm size and profitability of the firm. **Varshney (2012)** supports that CG and performance are positively related. **Akinyomi and Olagunju (2013)** revealed that total assets and total sales positively impact firm's profitability. However, with inventory, a negative correlation was observed. **El Bannan and El Bannan (2014)** determined that the governance framework improves performance. **Malik and Makhdoom (2016)** found a link between CG and firm performance. **Elsayed and Elbardan (2018)** focused on financial variables, using "ROA" along with "Tobin's Q" for the study as a proxy for financial performance. Table 2.10 summarizes the important variables used for studying the relationship with corporate governance.

**Table 2.10-Review of Literature on Financial Performance Variables and CG**

| Financial Performance Variables | Author and Year |
|---|---|
| Return on Assets ratio | Baligaet al.(1996),Elsayed K. (2007)**,**Kogan and Tian, (2012), Richard et al.(2009), Gilchris (2013), Babalola, (2003), OwolabiandAlu, (2012), Ujunwa. A. (2012),Oladele and Olagunju(2013), Lai and Choi (2014),Elsayed and Elbardan (2018), AnjalaKalsie. A. et al. (2016), Duru et al. (2016), Shivani et al. (2017), Palaniappan G. (2017), Dang A.(2017),Bagh et al. (2017) ,Mishra and kapil (2017), Rahman et al., (2018),Orozoco et al.(2018)**,**Hanh et al. (2018) |
| Return on Capital Employed | Kogan and Tian, (2012), Liargovas and Skandalis, (2008), Akhavein et al. (1997), Smirlock (1985), Richard et al., (2009), Varshney (2012), Gilchris |

| | |
|---|---|
| | (2013), AnjalaKalsie. A. et al. (2016),Eluyela et al. (2018) |
| Return on Equity ratio | Baligaet al.(1996),Richard et al. (2000), Gilchris, (2013), Babalola, (2003), OwolabiandAlu, (2012), Ujunwa. A. (2012),Oladele and Olagunju, (2013),Duru et al. (2016), Shivani et al. (2017), Palaniappan G., (2017), Bagh et al. (2017), Rahman et al., (2018),Orozoco et al.(2018),Hanh et al. (2018) |
| Return on Sales ratio | Kogan and Tian (2012), Richard et al. (2009), Ujunwa. A. (2012), Gilchris (2013),Duru et al. (2016), Hanh et al. (2018), Vagnoni et al.(2020) |
| Market Capitalization | McKnight and Weir (2008), Subrahmanyam and Titman (2001), Liargovas and Skandalis (2008), Akhavein et al. (1997), Smirlock (1985), Richard et al. (2009) |
| Enterprise Value | Baliga et al.(1996), Acharya (2013) |
| Earnings Before Interest and Tax (EBIT) | McKnight and Weir (2008), Subrahmanyam and Titman (2001), Richard et al.(2009), Babalola (2003), OwolabiandAlu, (2012) Oladele and Olagunju (2013), Vagnoni et al.(2020) |
| Debt Equity ratio | Kogan and Tian (2012), Omondi and Muturi (2013), Booth et al. (2001), Wald (1999), Rajan and Zingales (1995), Marsh (1982), Tang. J. (2016) |
| Earnings Per share | Ujunwa. A. (2012), Chou et al. (2013), Bagh et al. (2017) |
| Closing Price | McKnight and Weir, (2008), Subrahmanyam and Titman (2001), Ujunwa. A. (2012) |
| Price by book ratio | Walker (2001) |
| P/E ratio | Acharya (2013) |
| Tobin's Q | Mak and Kusnadi (2005),Elsayed K. (2007),Ping and Hsien (2008), Varshney (2012), Kumar.N. et al. (2013),Ujunwa. A. (2012),Elsayed and Elbardan (2018), AnjalaKalsie. A. et al. (2016), Shrivastav. S.M. (2016),Palaniappan G., (2017), Owolabi, (2017), Dang A.,(2017), Mishra andkapil (2017), Orozoco et al.(2018),Eluyela et al. (2018) |
| CSR Spend | Wang et al. (2015), Kabirandthai (2017) |
| Dividend Yield ratio | McKnight and Weir, (2008), Subrahmanyam and Titman (2001), |
| Beta | Baliga et al.(1996), Chou et al (2013), Duru et al. (2016) |

## 2.1.7 Social Performance

Social performance or corporate social responsibility fulfilled by a company also impacts firm performance and is related to corporate governance practices. **Singh and Ahuja's (1983)** analyzed 40 public sector companies through content analysis techniques, covering 33 items of social disclosure. They analysed the relationship of social reporting with demographic characteristics and financial ratios. **Blackburn et al. (1994)** stated that every company is expected to behave responsibly and get involved in promoting women and

minorities, community welfare, and disclosing to them. However, these activities do not positively impact firm performance, but the absence of socially responsible behaviour might have adverse consequences for corporate performance. The study finds that Line of Business- work for external stakeholders, e.g. environmental concerns and External Concerns, e.g. charity, do not impact external perceptions of firm performance. **Collett and Hrasky (2005)** studied the relationship between voluntary disclosure regarding corporate governance practices and the intention to raise external finance by analyzing annual reports of Australian companies in 1994. The study results indicate that the voluntary disclosure of CG information is "positively associated with raising equity capital" but not debt capital. **Ayuso and Argandona (2011)** suggested that having a diverse board of directors promotes CSR initiatives within the company while also increasing board capital. **Fadun (2014),** using Carroll's model of CSR, found that CSR is only about treating stakeholders ethically. In the last two decades, the emergence of non-financial reporting (including BRR, SR, CSR report) attempts to engage the stakeholders in information dissemination.

### 2.1.8 Corporate Governance, Financial Performance and Social Performance

**Blackburn et al. (1994)** socially responsible behaviour does affect the actual return (ROA) of a company. **Sanchez and Sotorr1o (2007)** investigated the association between "social score" with "financial performance". The author proposed a theoretical model that explained that the relationship between social variables (firm's reputation) and financial performance is non-linear and positive. The study was performed in Spain using 100 companies. **Mittal et al. (2008)** investigated the association between ethical commitment and financial performance in India. CSR initiatives are considered a proxy for ethical

responsibility, whereas EVA and MVA are examined for financial performance. The author finds insufficient substantiation to verify that firms will generate higher EVA and MVA with increased CSR activities. **Jamali et al. (2008)**studied the interrelationship between CG and CSR. They found that corporate governance practices will ensure that the companies follow sustainable CSR practices. Articulated that to have an effective corporate governance mechanism, a firm needs to have a sustainable CSR system. It will also help companies become more profitable. **Spitzeck (2009),** through a sample of 51 companies, checked the association between CG mechanism and CSR. The study concluded that organizations with a corporate responsibility committee show indicators of better performance of corporate responsibility. **Wang et al. (2015)**studied the relationship between CSR and firm performance. The authors found that subsequent financial performance is positively associated with social responsibility, supporting the instrumental stakeholder theory. **Kabir and Thai (2017)** studied the impact of environmental CSR and social CSR on the firm's financial performance. It was found that CSR has a positive relationship with financial performance. However, environmental CSR has more influence than social CSR on financial performance.

## 2.2 Research Gap

Based on a review of several research spanning various aspects of CG, it has been determined that corporate governance is a developing concept, and no direct study on NIFTY 100 businesses has been undertaken to examine the impact of CG on financial and social performance. It justifies the conduct of the present study in the modern world scenario.

Based on the above review of studies, it can be stated that CG and firm's performance are widely researched. However, lately, dimensions have changed. Further, the majority of the researchers have tried to examine the level of adequacy of CG in a Company through analysis of its impact either on financial performance or on CSR.

To understand the impact of corporate governance, the researchers have mainly formulated indexes. Variable for these indexes have purely been derived from the existing legal framework of that time in the region, for which time the study had been conducted. In the present study, we have also used corporate governance index constructed by BSE, IFC and IiAS have been used to examine the CG practices in Indian companies. This index has further provided the scorecard methodology to compute the corporate governance scores, which has been adopted to derive the CG scores of sample.

Furthermore, when it comes to measuring financial performance, academics have primarily concentrated on firm size and ratios like "ROA", "ROE", "Tobin's Q", "Return on Sales", "dividend yield", and "PB" ratio. However, CSR has either been studied by understanding the firm's reputation or through investment/spending by each firm in CSR. Literature also suggest that researchers have mainly depended on descriptive analysis, ANOVA, Chi-square, correlation and regressions models and factor analysis regarding the application and use of statistical tools and techniques.

In India, the performance of corporate governance has mainly been characterized by the behaviour of top management, i.e., how it hands out the organisation's financial resources between themselves and stakeholders. It is expected that this decision is taken by management with high integrity, honesty, and transparency. Post-implementation of the Companies Act, 2013, corporate governance guidelines has changed significantly. New

guidelines have been included such as introduction of women directors, empowered independent directors, electronic voting, internal audit committees, and mandatory CSR committee, etc.

However, studies that include financial performance and CSR or both have been very limited in numbers, particularly focusing on the result of CG on firm's performance in the post the introduction of Companies' Act 2013 period**. Jain and Jamali (2016)** say that although both CG and CSR are growing independently into mature disciplines, research at the CG-CSR intersection is still emerging. It can be construed from the above that FP and CSR are crucial indicators of an organization's performance. Thus, this leaves a gap for future research where additional variables of corporate governance, based on changed regulatory framework after the Companies' Act, 2013, can be examined to understand how well Indian companies comply with contemporary corporate governance guidelines.

## 2.3   Relevance of the Study

Over the past few years, CG has been gaining importance. Policy makers/regulators and the stakeholders, are demanding the companies to adopt good governance practices, which will give stakeholders a transparent look into the company's affairs, performance and provide the government/regulators an assurance that the company is complying with the applicable legal and reporting framework. A strong need for good corporate governance practices, aligned with the international practices, is being realized by companies that seek to distinguish themselves internationally. Globalization of economies, have further made the need for good governance of paramount importance.

Furthermore, with the onset of Companies Act, 2013, the adoption of Ind-AS and the SEBI (LODR) Regulations, 2015 have initiated the convergence of the Indian corporate governance framework with that of the international standards. The increased focus on increasing the number of women directors, empowering independent directors, providing electronic voting and setting up internal audit committees, have paved the way for better governance system. It has also delivered the corporate world a message that government/regulatory authorities expect good corporate governance with adequate disclosures and transparency. The Companies Act of 2013 has made corporate social responsibility, which was formerly a voluntary activity, mandatory. "Every company above thresholds defined (net worth of rupees five hundred crores; turnover of rupees one thousand crores, or a net profit of rupees five crores) during the preceding financial year must form a CSR Committee. Such Companies are required to spend at least two percent of the company's avg. net profits made during the three immediately preceding financial years" (Section 135 of the Companies Act).

The increasing focus on corporate governance is also the result of various financial frauds that have happened in the recent past. Financial frauds including Enron (2001), WorldCom (2002), Satyam (2009), Kingfisher (2016), Punjab National Bank (2018), etc., portrayed the need and relevance of good corporate governance practices, specifically in entities which have a large public interest. Good corporate governance practices provide an assurance to various stakeholders that the organisation is working towards securing their interests in an efficient and well-organised manner. The policies and procedures that govern an organisation play a critical role, since poor ICFR and poor CG "weakens a

company's potential and may pave the way for financial difficulties" along with increasing the scope of frauds.

Therefore, the companies today are realizing the importance of establishing good corporate governance practices and strong policies and procedures to govern the organisation. The boards are involving employees at all levels while formulating strategies to maintain acceptability and flexibility while preparing the organisation against future hurdles. Rights of the stakeholders are becoming a centre of focus for the companies. The companies are also offering the stakeholders (even other than the shareholders) equitable rights to attend, vote, make observations and comment on the performance of the companies in general meetings.

Further, new scams/frauds and corporate governance failures that are coming to the limelight, are attracting the focus of the regulators, stakeholders and academicians on this subject. Most recently, the SEBI has directed the listed companies to end CEO duality and split the roles of the Chairman and the CEO (Managing Director) before April 2022. SEBI is currently focusing on examining the problem of promoter holdings in Indian companies and determining if it is necessary to move to a framework of controlling shareholders, as is the case in most international nations.

In light of recent changes and reforms in India, it is now more important than ever to investigate this topic of national importance and assess the impact of these reforms on the corporate sector's performance. Furthermore, CG and its impact on financial and social health is an issue with a lot of room for inquiry, and the existing literature backs up the necessity for this study.

The following points further highlight the relevance of the study in current context:

- The study is relevant to understand the best practices followed by Indian companies. The new start-ups and SMEs can follow these best practices.

- It gives an insight to regulatory agencies about the status of corporate governance principles implementation.

- The study emphasises understanding the impact of CG on the financial performance. Result helps understand the implications and areas of concern and improvement in terms of practices and financial variables.

- The perception about companies and their market valuation is nowadays judged from the stock market performance of companies. The study gives insight into the impact of CG on market valuation.

- The study also analyses the relationship of some significant corporate governance features like "board size", "independence", "gender diversity" in the board, "CEO duality", etc. with the performance of companies as well as the importance of these variables in the corporate governance standards are effectively implemented.

- The recommendations of the study will be relevant for investors, companies and regulators about corporate governance practices in India.

The study fills in gaps by investigating the impact of CG on financial and social performance in the current situation; results of the study would help companies adopt the best practices and successfully face the challenges of the new market economy.

# Chapter-3

# Research Methodology

Research methodology is the contextual framework for research. This summarizes the systematic approach of obtaining and confirming new and reliable knowledge. In simple words it is specific procedure or techniques used to identify select, process and analyse information about the research topic.

The present chapter (Research Methodology) has been divided into five sections, which includes the background, the scope, the objectives, the research process and the limitations.

## 3.1 Background of the Study

CG refers to "system of rules, practices, and processes to direct and control the organisation based on pillars of accountability, transparency and fairness, focusing on serving every stakeholder". It is both a structure and a well-defined system of relationship that gives directions and paves the way for corporate excellence.

In India, the corporate sector is a blend of small, large, family-owned and professionally owned companies. These companies are owned by investors from both domestic and international realms. Investors invest in these corporate entities, with an expectation that the entities will focus on the wealth maximization. Wealth maximization is not only the function of the earnings maximization, but also depends upon various factors including innovative practices of the organization, strategic planning, compliance with laws,

corporate social responsibility (CSR) practices, optimum and cordial relations among directors, shareholders, employees and customers. All these factors enable the companies to have good CG that is important for them to sustain and grow in the highly competitive markets efficiently and transparently. Therefore, in simple words, corporate governance revolves around how various stakeholders get fair and equitable treatment as per their expectations.

CG is not a new concept. It has existed since the evolution of corporate entities in various forms. Even in the ancient India, kings used to have their council of ministers who tested on their good governance skills, including ethics, values, principles, and knowledge. The success and popularity of a kingdom was directly linked to good governance practices executed by its ministers. However, in today's scenario good corporate governance is emerging in a well-defined legal framework. The recent introduction of the Companies Act, 2013, and the SEBI Listing Obligations and Disclosure Requirements (LODR), have changed the corporate governance framework in India significantly. The policy makers are required to ensure that corporate governance emerge as a robust instrument to achieve competitiveness and sustainability in the changing business environment. New guidelines are focusing on increasing the importance of women directors, empowering independent directors, electronic voting, internal audit committees, and mandatory CSR committee.

However, the key question that remains and would come to someone's mind is that: What is the use or need for CG? Does the CG practices of a company impact its performance? Does the corporate governance practices really enable wealth maximization? The answer to these questions provides rationale of the present study.

The study on "Impact of Corporate Governance on Firm's Performance – A Study of Select Companies in India" has been carried to determine the link between CG and firm's performance. In this process, the study has also focused and tried to understand as to how well Indian companies comply with the contemporary corporate governance guidelines. The study has benchmarked CG practices of Indian companies with the international standards and examined the areas of improvement.

## 3.2   Scope of the Study

The scope has been explained in terms of variables used, organisations covered and the time frame involved. The study focuses on Corporate Governance (CG) Practices, and the impact of CG on Financial Performance (FP) and on Corporate Social Performance (CSP). Therefore, three types of variables i.e. Corporate Governance (CG), FP and CSP, have been selected. Scores are allocated to each of the variables as explained in the methodology of the study. The score on CG has been computed using the corporate governance scorecard, developed by "Bombay Stock Exchange (BSE), International Finance Corporation (IFC) and Institutional Investor Advisory Services India Limited (IiAS)". This score has been computed using the data available for FY 2019 for the selected sample companies. The CG scores are calculated for the FY 2019 because of the following:

- As evidenced by available literature as well as BSE, IFC and IiAS, there is not much change in corporate governance practices of Large Cap Indian Firms from 2016 to 2019 years;

- The Companies Act, 2013 and SEBI LODR 2015, were introduced in 2013 and 2015 respectively. It is a general expected norm that the impact of any new regulation should be studied after a gap of couple of years.

Further, the financial performance variables have been considered for a period of five years i.e. from 2015-2019. Social performance scores have been calculated from business responsibility reports (BRR) of the companies.

The study covers NIFTY 100 companies. For data collection, the NIFTY 100 companies base has been taken as listed on October 01, 2018.

## 3.3 Objectives of the Study

The main objective of the present study is to analyse the impact of CG on firm's performance. Following are the objectives of the study:

1. To examine the corporate governance practices of selected Indian companies.

2. To analyse the corporate governance score of the selected companies.

3. To analyse the impact of corporate governance on the performance of the companies.

### 3.3.1 Key Research Areas

To achieve these objectives, the following key research areas were identified:

1. To study the corporate governance practices followed by the companies.

2. To measure the corporate governance practices scores by using the standard scorecard.

3. To analyse the impact of corporate governance on the financial performance of the companies.

4. To analyse the impact of corporate governance on the social performance of the companies.

5. To give recommendations based on the findings for good corporate governance practices in the present Indian environment.

## 3.3.2   Research Questions

The following research questions were formulated and analysis of data carried out accordingly:

- How do Indian companies practice CG?

- What are the best CG practices followed by the sample companies?

- What is the level of compliances to CG norms by Indian companies?

- Which CG practices are followed by Indian companies?

- How much disclosure on CG practices is made by Indian companies?

- What is the impact of CG practices on financial performance such as market capitalisation, ROA, tobins' Q, ROE, etc. and what are the other firm characteristics that do impact financial performance?

- How does the CG practices impact the overall performance of companies?

## 3.4 Research Process

This section provides a detailed view of the sample size, sources of data and scoring as well as data analysis process of each objective separately. Broadly research methodology has been discussed in the following three sub-sections:

- Identifying the CG practices followed by selected Indian companies;

- Measuring CG score, identifying financial and social performance indicators;

- Analysing the impact of CG on the financial and social performance of the organisations.

### 3.4.1 Sample Size

NIFTY 100 companies, as on October 1, 2018, have been selected as the sample companies for the study. The list of 100 companies forming part of the NIFTY 100 was retrieved from the National Stock Exchange of India website. These 100 companies were a logical and appropriate choice of the sample size since they represented more than 65 percent of the total market cap of the Indian stock market and included companies from nine sectors (industries) i.e. Information technology; Consumer Staples; Material; Utilities and Telecom; Consumer Discretionary; Industrial; Health care; Energy and Financials.

### 3.4.2 Sources of Data

Secondary data is used for this research. The corporate governance total score has been measured using BSE, IFC and IiAS (2016) scoresheet by extracting information from their annual reports for the FY 2018-19 and IiAS-Adrian database. After filling the scoresheet for all the companies, total scores were calculated for each company.

The Corporate Social Performance (CSP) score has been measured through a scoresheet following the "Global Reporting Initiative for Sustainability Reporting Standards" (GRI) scoresheet, which is based on ten principles of Business Responsibility Report published along with annual report. The Social Performance scoresheet has been filled from sustainability report from the annual reports of sample 100 companies for the year 2019.

Financial data for all NIFTY 100 Index companies were collected from the CMIE Prowess database for FY 2015-16 to FY 2018-19.This data was collected for sixteen financial variables.

### 3.4.3   Identifying the Corporate Governance (CG) Practices

The first objective of the study was to examine the CG practices followed by the Indian corporate sector. For its analysis, the process followed three steps:

A Scorecard developed by "BSE, IFC and IiAS" in 2016 is used to compute the CG total score.

The second step was to quantify and measure the corporate governance score of the sample companies. The score allocated to each of the 70 questions was then used to compute the corporate governance total score and to classify the sample companies into four corporate governance practice categories, namely leadership, good, fair and basic practices, based on their level of closeness with the global best practices.

The third step was to analyse the best practices followed by companies in terms of CG score, based on 4 principles of OECD.

### 3.4.3.1 Scoring of Data

The study calculated *Corporate Governance Total Score (CG)* by adapting CG Scorecard. Based on the "OECD Principles", the scorecard is categorized into four corporate governance practice categories, namely

- "Rights and Equitable treatment of shareholders"
- "Role of Stakeholders"
- "Disclosures and Transparency"
- "Responsibilities of the Board"

This scorecard includes 70 questions. Based on the practices followed by every company, a score of 0, 1 and 2 is allocated for each question. These scores are given based on the below-described criteria:

a)  Score = 0 (minimum), if a company fails to meet even the regulatory requirements (i.e. the policy or disclosure is not as per Clause 49 of Companies Act, 2013).

b)  Score = 1, if a company meets the requirements of the regulatory framework (i.e. the policy or disclosure is as per Clause 49 of Companies Act, 2013); however, it does not inculcate the relevant international good practices.

c)  Score = 2 (maximum), if a company meets the regulatory requirements, has policies "in line with the international standards" and provides disclosures in line with the international standards.

However, since responses to some questions are limited in the form of 'Yes' or 'No', for these question Yes= 2 and No=0 has been allocated.

Further, if the question is 'not applicable' to a particular company, the question has been excluded from the scoring formula.

**Table 3.1 – CG Total Score Categories and Scoring Chart**

| Principle Category | # of questions | Maximum score | Weight (%) |
|---|---|---|---|
| "Category I- Rights and Equitable Treatment of Shareholders" | 19 | 38 | 30 |
| "Category II- Role of Stakeholders" | 9 | 18 | 10 |
| "Category III- Disclosure and Transparency" | 23 | 46 | 30 |
| "Category IV- Responsibilities of Board" | 19 | 38 | 30 |
| Total | 70 | | 100 |

To compute the final score of a company, the following steps are performed (based on BSE, IFC and IiAS Questionnaire):

- "Add the scores for all responses under a category and divide it by the maximum attainable score for the category(while considering not applicable questions also)"

- "Multiply the ratio so obtained by the total category weight to give a weighted score for that category."

- "Sum all weighted scores across all four categories. The final score will be rounded off to the nearest integer."

**"Category score**= Aggregate score of all questions under the category/(Number of applicable questions in category x 2) X Category Weight"

**"Total Score** = Category Score1 + Category Score2 + Category Score3 + Category Score4 Similarly, the score for each category is calculated to get the final overall CG score for a Company."

### 3.4.3.2 Variables Explained

Corporate Governance Scorecard which is used to identify CG practices followed by selected companies considers geography relevant issues based on the existing regulatory

framework. The CG "G20/OECD Principles" are used to create the scale. These Principles are the internationally recognised standard for CG.

The scorecard is structured into four key principle categories based on these CG Principles and the Indian regulatory environment. Each category corresponds to one of the principles in the "G20/OECD Principles" to measure good CG. The data collected has been complied as scores under all four categories for each company in the sample (Table 3.2).

Table 3.2 - Categories of CG Principles and its Components

| "Category I -Rights and equitable treatment of shareholders" | "Category II- Role of stakeholders" | "Category III- Disclosures and transparency" | "Category IV- Responsibilities of the board" |
|---|---|---|---|
| • Quality of shareholder meetings<br>• Related party transactions<br>• Investor grievance policies<br>• Conflicts of interest | • Business responsibility initiatives<br>• Supplier management<br>• Employee welfare<br>• Investor engagement<br>• Whistle-blower Policy | • Ownership structure<br>• Financials<br>• Company filings<br>• Risk Management<br>• Audit integrity<br>• Dividend payouts and policies | • Board and committee composition<br>• Training for directors<br>• Board evaluation<br>• Director remuneration<br>• Succession planning |

The calculated CG total score was further classified into CG practices. This has been calculated by classifying the total score into four groups given in Table 3.3.

Table 3.3 - CG Practice Categories and Definition

| CG Practices | Definition | Maximum Scores |
|---|---|---|
| Leadership | The companies in the top spectrum of the CG scorecard (scoring over 85 percent) were categorised as the leadership group. | 100 |
| Good | The Companies whose CG score was below 85 percent but above 75 percent were categorised as Companies with Good Corporate governance practices. | 85 |
| Fair | Companies with CG scores between 65 to 75 are assumed to have a fair level of corporate governance practices | 75 |

| | | |
|---|---|---|
| **Basic** | Companies with a score less than 65 fall into the basic level. These are companies that only fulfil the basic level of compulsory compliances for CG. | 65 |

CG practices wise classification has been used for analysis in Chapter 4 and Chapter 5.

### 3.4.3.3 Statistical Techniques Used

For the first objective, to examine the CG practices of selected Indian companies detailed analysis of principle category I to IV of companies have been carried out. A comprehensive discussion based on these four parameters is done to determine how well a company performs on corporate governance. This detailed analysis attempts to answer the following research questions.

- How much do Indian companies practice corporate governance?

- What are the best corporate governance practices followed by sample companies?

- What are the international best practices on corporate governance?

The analysis has been carried out using basic analysis of scores using tables, percentages and graphs.

### 3.4.4 Analysis of Corporate Governance Score

This section covers objective two of the study i.e. analyse the CG Total Score (CG) of 100 sample companies, descriptive analysis of their financial performance, and calculate their social performance scores using a scoresheet from their annual reports.

This section has the following sub-parts, including sample size, data sources, scoring of data, variables used, hypotheses tested, and statistical tools used.

### 3.4.4.1 Scoring of Data

*CG Total Score has* been calculated using the scoring methodology given in 3.4.3.1. The scoring of the Social Performance Index has been done based on the GRI standards, which follows ten principles of Business Responsibility Reporting (BRR).

Following are the parameters for social performance as per GRI guidelines.

- o Environmental

- o Labour Practices and Decent work

- o Society

- o Human Rights

- o Product Responsibility

For the CSP score, we have used Business Responsibility Report to get social performance index. The report is divided into ten principles and 27 questions. Scores are assigned to each statement based on the un-weighted index construction technique. Yes indicates that the company complies with that disclosure and No indicates that he company does not comply with that disclosure. 'Yes' is assigned a value of 1, and 'No' is assigned a value of 0.

<p align="center">Table 3.4 - Social Performance Index Scoresheet</p>

| Business Responsibility Reporting Principles | #of questions | Maximum score | Weight (%) |
|---|---|---|---|
| "The company publish a BR or a Sustainability Report" | 1 | 1 | 10% |
| "Businesses should conduct and govern themselves with Ethics, Transparency and Accountability" | 3 | 3 | 10% |
| "Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle" | 2 | 2 | 10% |
| "Businesses should promote the well-being of all employees" | 5 | 5 | 10% |

| | | | |
|---|---|---|---|
| "Businesses should respect the interests of and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised" | 3 | 3 | 10% |
| "Businesses should respect and promote human rights" | 2 | 2 | 10% |
| "Businesses should respect, protect and make efforts to restore the environment" | 5 | 5 | 10% |
| "Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner" | 1 | 1 | 10% |
| "Businesses should support inclusive growth and equitable development" | 3 | 3 | 10% |
| "Businesses should engage with and provide value to their customers and consumers in a responsible manner" | 2 | 2 | 10% |
| Total | 27 | | 100% |

**"Category score**= Aggregate score of all questions under the category/(Number of applicable questions in category ) X Category Weight"

**"Total Score** = Principle 1 Score + Principle 2 Score1 + Principle 3 Score+ Principle 4 Score+ Principle 5 Score + Principle 6 Score+ Principle 7 Score + Principle 8 Score + Principle 9 Score+ Principle 10 Score"

### 3.4.4.2 Variables Explained

For analysis, five sets of variables have been used.

### i. *Demographic Characteristics*

The sample companies have been classified into five categories.

<div align="center">Table 3.5 - Demographic Classification of Sample Companies</div>

| | | N | percent |
|---|---|---|---|
| | 0-25 Years | 19 | 19 |
| | 25-50 Years | 46 | 46 |
| Age | 50- 75 Years | 21 | 21 |
| | Above 75 Years | 14 | 14 |
| Ownership | Promoter-owned | 76 | 76 |

| | | | |
|---|---|---|---|
| | Institutional | 18 | 18 |
| | Widely-held | 6 | 6 |
| **Private vs PSU** | Private | 79 | 79 |
| | PSU | 21 | 21 |
| **MNC vs Nationally-located** | Nationally-located | 89 | 89 |
| | MNC | 11 | 11 |
| **Industry sector** | HealthCare | 7 | 7 |
| | Information Technology | 6 | 6 |
| | Financials | 25 | 25 |
| | Consumer Staples | 10 | 10 |
| | Energy | 10 | 10 |
| | Materials | 15 | 15 |
| | Consumer Discretionary | 14 | 14 |
| | Industrials | 9 | 9 |
| | Utilities and Telecom | 4 | 4 |
| **Total** | | **100** | **100** |

The demographic-wise differences in all variables have been analysed in Chapter 5.

## ii. *Corporate Governance Total Score*

The CG Total Score has been computed. It explains the overall Score of CG, followed by companies in compliances related to CG in annual reports. Table 3.6 defines the variables

**Table 3.6- Corporate Governance Scores Definition**

| Corporate Governance Scores | Definition | Maximum Scores |
|---|---|---|
| *Corporate Governance Total Score (CG)* | "The scorecard includes 70 questions that are divided into four categories. Primarily, the score is calculated in absolute terms, with each question having a maximum score of 2 and a minimum of 0. Therefore, the maximum score attainable by a Company in the CG scorecard was 140. Based on the scoring methodology of the scorecard, the CG score was converted into a percentage while allocating a 30% weight to category 1, 3 and 4 and a 10% weight to category 2." | 100 |
| *"Category I- Rights and Equitable Treatment of Shareholders"* | "Category I consisted of 19 questions, bring the maximum attainable score to 38. The questions are focused on the quality of shareholder meetings, related party transactions, investor grievance policies and conflicts of interest." | 30 |
| *"Category II- Role of Stakeholders"* | "Category II consisted of nine questions, bring the maximum attainable score to 18. The questions are focused on business responsibility initiatives, supplier management, employee welfare, investor | 10 |

| | | |
|---|---|---|
| | "engagement, and whistle-blower policy" | |
| *"Category III-Disclosure and Transparency"* | "Category III consisted of 23 questions, bring the maximum attainable score to 46. The questions are focused on ownership structure, financials, company filings, risk management, audit integrity, and dividend payouts and policies" | 30 |
| *"Category IV-Responsibilities of Board"* | "Category IV consisted of 19 questions, bring the maximum attainable score to 38. The questions are focused on board and committee composition, training for directors, board evaluation, director remuneration, and succession planning." | 30 |
| Given the CG scoring methodology, the score of each of the companies was presented in percentages (before applying weights). | | |

### iii. CG Practices

The CG practices have been classified as Leadership, Good, Fair and Basic practices (refer Table 3.3) followed by companies.

### iv. Financial Variables

The study focuses on FP variables that have more strategic relevance and can impact companies' long-term valuation and performance. The study has used sixteen selected variables for the study (Table 3.7). The basis of identifying variables was a review of existing literature and the conceptual relationship of variables with corporate governance. Some variables have been deliberately not chosen for the study, like diluted EPS, interest coverage ratio.

<p align="center">Table 3.7- Definition of financial variables</p>

| Variable | Formula and definition | CAGR Values |
|---|---|---|
| **Beta-Measure of volatility** | "Beta is a measure of a stock's volatility about the overall market. A stock that swings more than the market over time has a beta above 1.0. If a stock moves less than the market, the stock's Beta is less than 1.0." (September 2019 data) | The compound annual growth rate (CAGR) values have been calculated for five year change in variables. 2015-2019 period. This indicates long term impact of CG on financial variables. |
| **Closing Price** | "The closing price is the final price at which it trades during regular market hours on any given day. This Price is considered the most accurate valuation of a stock or other security until trading resumes on the next trading day." (September 30, 2019 data) | |
| **Market Capitalisation** | "Market capitalisation, commonly called a market cap, is the market value of a publicly traded company's outstanding shares. Market capitalisation is equal to the share price multiplied by the number of shares outstanding." (September 2019 data) | |
| **Enterprise Value** | "Enterprise value, total enterprise value, or firm value is an economic measure reflecting the market value of a business. It includes the market capitalisation of a company and any cash on the balance sheet, as well as both short-term and long-term debt." (September, 2019 data) | |
| **Earning Per share (EPS0** | "Earnings per share (EPS) is calculated as a company's profit divided by the outstanding shares of its common stock. In simple words, it is the monetary value of | |

| | earnings per outstanding share of common stock for a company." (September 2019 data) | . |
|---|---|---|
| **Price to Earnings ratio (PE)** | "The price-earnings ratio, also known as P/E ratio, P/E, or PER, is the ratio of a company's share price to the company's earnings per share. In an apples-to-apples comparison, investors and analysts use P/E ratios to determine the relative value of a company's shares. It can also be used to compare a company against its historical record or to compare aggregate markets against one another or over time." (September, 2019 data) | |
| **Price by book ratio (PB)** | "The price-to-book ratio, or P/B ratio, is a financial ratio used to compare a company's current market value to its book value." (September, 2019 data) | |
| **Total Debt ratio** | "The debt ratio is defined as total debt to total assets, expressed as a decimal or percentage. It can be interpreted as the proportion of a company's assets that are financed by debt. A ratio greater than 1 shows that assets fund a considerable portion of debt." (September, 2019 data) | |
| **Tobin's Q** | "Tobin's Q, is the ratio between a physical asset's market value and its replacement value. This ratio is computed using the following formula: Enterprise Value of Firm / (Total Assets of Firm + Total Debt)" (September, 2019 data) | |
| **Return on Equity ratio (ROE)** | "The Return on equity is a measure of the profitability of a business in relation to the equity. This ratio is computed using the following formula: PAT / (Total Assets –Non-Current Liabilities - Current Liabilities)" (September, 2019 data) | |
| **Earnings before Interest and Tax (EBIT)** | "It reflects the operating efficiency of the company on the basis of profit earned before paying interest and taxes." (September, 2019 data) | |
| **Return on Capital Employed (ROCE)** | "Return on capital employed (ROCE) is a financial ratio that can assess a company's profitability and capital efficiency. In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use. This ratio is computed using the following formula: EBIT / (Total Assets - Current Liabilities)" | |
| **Return on Assets ratio (ROA)** | "Return on assets (ROA) indicates how profitable a company is relative to its total assets. " | |
| **Return on Sales ratio (ROS)** | "Return on sales (ROS) is a ratio used to evaluate a company's operational efficiency. This measure provides insight into how much profit is being produced per rupee of sales. An increasing ROS indicates that a company is growing more efficiently, while a decreasing ROS could signal impending financial troubles." (September, 2019 data) | |
| **Dividend Yield** | "The dividend yield, expressed as a percentage, is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price." (September, 2019 data) | |
| **CSR Spend** | "CSR can be defined as companies obligation towards society and its surrounding environment to contribute towards social wellbeing and sustainability.As per the Companies Act, 2013, all companies with net worth > 500 crore or turnover> 100 crore or net profit >5 crore need to form a CSR committee and spend a minimum of 2% of the average net profit made during 3 immediate preceding years." (September, 2019 data) | |

For this analysis, five-year data FP variable was used (2015-2019) to calculate the CAGR values (compound annual growth rate of companies). The basic premises that CG practices were made compulsory after 2013 Act, and the companies had adopted CG practices after this time. Since companies were using these practices for a more extended period and corporate governance being a strategic decision is not revised daily. An analysis of CAGR values of five years performance of the company would give a true

insight on the effectiveness of CG practices followed by companies. It will also depict whether CG practices have a long term impact on financial performance or not? Thus, five-year CAGR values have been used for the long-term impact of CG on FP.

v. *Social Performance Score*

Corporate social performance relates to corporate social responsibility practised by the company. The data has been collected from business sustainability reports from companies' annual reports using a social performance scoresheet (Table 3.8).

Table 3.8 - Social Performance Variables Definition

|  | Definition | Maximum Scores |
|---|---|---|
| *Corporate Social Performance Score (CSP)* | The social performance score is a reflection of CSR being fulfilled. Higher spending on CSR helps the company give back to society and impacts the long-term performance of companies. Social performance is related to companies activities and contribution towards economic, environmental and social development. | 27 |
| *High Social Performance* | Companies who score high in social performance score more than 14 | 27 |
| *Low Social Performance* | Companies that score less than 14 have been defined as having low social performance | 14 |

The study examines the association between CG and firm performance, using all five variables.

### 3.4.4.3 Formulation of Hypotheses

To analyze the corporate governance score and its relationship with other variables, nine null hypotheses have been formulated (for a detailed list of hypothesis refer chapter 5).

### 3.4.4.4 Statistical Techniques Used

Statistical tools such as descriptive statistics, Levene, ANOVA, Duncan's Post-Hoc Test and Chi-square Test have been used to analyse the data. The use of various tools has been

made keeping in view the nature of data and objectives of the analysis. SPSS 22 have been used for analysis. These are explained hereunder:

**Descriptive Statistics**: Measures of central tendencies helps in describing and understanding the characteristics of the data collected. An overview of the sample and data measures is obtained through mean, standard deviation, maximum and minimum score. This helps to explain the nature of the data.

**ANOVA:** Analysis of Variance is a technique for analyzing the differences among means. ANOVA can be applied to data where a dependent variable is a metric, and an independent variable is a categorical factor. In the present study, ANOVA has been used for studying the relationship between demographic variables groups with corporate governance total scores.

**Chi-Square test:** It determines whether a "systematic association" exists between the two variables. This has been used for testing the relationship of corporate governance practices with demographic variables.

### 3.4.5   Impact of Corporate Governance on Financial Performance (FP) and Social Performance

The third objective was to analyse the impact of CG on the performance of companies. The performance of companies has been identified as financial performance and social performance. Collectively it is defined as firm performance. The analysis includes investigating the relationship of CG total score and CG practices with FP variables and corporate social performance score (CSP). to fulfil the third objective. The study also carries out factor analysis to identify important factors from sixteen financial variables

taken in the research and reduce them to five factors. Later on, these five financial factors extracted were used to understand their relationship with corporate governance total score, corporate governance practices and social performance score. Further analysis has been carried out to identify ten main corporate governance variables and their relationship with financial variables, corporate governance categories, corporate governance practices, and CSP scores has been studied. This section covers the explanation of variables used, the hypothesis tested, and statistical techniques used.

### 3.4.5.1 Explanation of Variables Used

The following variables are examined in order to determine the impact of CG on Company's performance.

i.   *Corporate Governance Total Score*

These variables include CG score and four categories of CG

ii.  *Corporate Governance Practices*

The companies are classified under four categories of corporate governance practices, namely leadership, good, fair and basic

iii. *Corporate Social Performance Score(CSP)*

Social performance score reflects the companies' performance on corporate social responsibility and has been classified into two categories high CSP and low CSP.

iv.  *Sixteen Financial Performance (FP) variables*

Detailed description of the FP used is given in Table 3.7.

v.   *Five Financial Factors Extracted*

Exploratory factor analysis has been applied on sixteen financial variables used in the study, and the output has extracted five factors based on them.

<div align="center">Table 3.9 - Five Financial Factors Extracted</div>

| | |
|---|---|
| **F1: Return on Assets Ratios** | In this, almost all the Return related ratios like "Return on assets ratio", "return on capital employed", "return on equity" and "return on sales" are loaded |
| **F2: Valuation-related factor** | This includes four variables, "market capitalisation", "enterprise value", "Earnings Before Interest and Tax (EBIT)" and "total debt ratio". These four variables reflect the company's valuation and other important ratios used at the time of valuation. |
| **F3: Long-term market growth factor** | It includes two important variables that are essentially seen when the long-term market growth of a company is checked: earnings per share and the company's closing price. |
| **F4: Replacement Value factor** | This includes three variables: "Price to book ratio"; "Price to earnings ratio", and "Tobin's Q". These ratios are essential when a company wants to check its replacement value or when a company has to replace certain assets |
| **F5: Stakeholder-related factor** | It loads three significant variables: CSR spending (how companies giving back to society); dividend yield ratio (how much shareholders returns are in the form of dividend), and Beta, which talks about the volatility of the stock in the market (affect the risk and return relationship of the stakeholder). |

The detailed analysis has been discussed in Chapter 6.

## vi. *Corporate Governance Variables*

These include ten main corporate governance variables, namely "board size", "board independence", "gender diversity in the board", "CEO duality", "number of board meetings", "audit committee members", :"audit firm category from Big four or non-big four", (Transparency of financial statements), "audit concerns on financial statements", and "concerns of secretarial audits".

<div align="center">Table 3.10- Definition of Corporate Governance Variables</div>

| Variables | Definition |
|---|---|
| **Board Size** | "Board size refers to the total number of directors on the board of each sample firm, including the CEO and Chairman for each accounting year. This will include outside directors, executive directors and non-executive directors. |
| **Board Independence** | Board independence is measured through the ratio of independent directors to the total directors (number of independent directors/total directors on the board)." |
| **Gender Diversity** | "It is the percentage of women directors in the board of directors" |
| **Board Meetings** | "Total number of board meeting held in a year. This reflects the style of decision |

| | making and the contribution of board members in decision making." |
|---|---|
| **CEO Duality** | "CEO Duality is the situation when a Chief Executive Officer (CEO), besides running the corporation at the highest level, also holds the position of the Chairman of the Board." (dummy variable) |
| **# of Members in Audit Committees** | "The total number of members in the audit committee reflects the transparency in the evaluation of the financial performance of companies." |
| **# of Independent Directors (IDs) in Audit Committee** | "The number of independent directors who are included in the audit committee will also reflect the unbiased work of the committee." |
| **Audit firm category** | "The external audit carried out by the company is from Big-four audit firms or non-big four audit firms." ( dummy variable) |
| **Audit Concerns on Financial Statements** | "External auditors are required to state the company's finances and attest to the validity of financial reports that may have been released. If auditors have reported some concerns about financial statements, it is shown as a dummy variable." |
| **Concerns of Secretarial Audit** | "Secretarial Audit is a process to check compliance with the provisions of various laws and rules/ regulations/procedures, maintenance of books, records, etc., by an independent professional to ensure that the company has complied with the legal and procedural requirements and also followed the due process. if secretarial audit has shown some qualified statements about financial statements, it has been identified." (dummy variable) |

### 3.4.5.2 Formulation of Hypotheses

To analyse the relation between CG, FP, and social performance of a firm, the 49 null hypotheses have been formulated. The hypotheses are detailed in chapter 6.

### 3.4.5.3 Statistical Techniques Used

For the analysis of data following statistical tools were used in Chapter 6.

**Pearson Correlation:** High correlation indicates that these corporate governance variables complement each other, whereas low correlation suggests that each variable can be selected independently to represent the right mix of corporate governance index.

**Multiple Regression Analysis:** Statistical method for examining "associative relationships between a metric dependent variable and more than one independent variable". To get the best fit model, the independent variables are included to the model and then removed one by one utilising backward elimination of variables. The coefficients of the estimated regression model are the unstandardised coefficients. The t statistic help determine the importance relatively of every variable. The t statistic and its significance value are used to test the null hypothesis. It is used to ensure that the dependent and independent variables have no linear relationship. The value of R and its sign shows the direction of the relationship. The proportion of variance in the dependent variable explained by the independent variable is known as R square. A higher value of the adjusted R square reflects the "goodness of fit" of the model. The F statistic's lower significance value (less than 0.05) indicates that independent factors are effectively explaining the dependent variable's changes.

**Durbin Watson test:** The Durbin-Watson test is used to determine whether residual autocorrelation exists. If the value is less than two, the autocorrelation of residuals in the assessed model is not a concern.

**Kolmogorov-Smirnov test:** The cumulative distribution is compared to a specified distribution in a "non-parametric goodness-of-fit" test. It's useful for ensuring that the population is dispersed normally.

**Exploratory Factor Analysis:** Factor analysis is a multivariate statistical technique that looks at a large number of interconnected relationships. It is primarily used for data reduction and summarization. Factor analysis is helpful in summarising correlations

among observed variables and reducing many observed variables (dimension) to a smaller set of factors (broader dimensions). This consolidation of dimensions does not deprive us of information possessed by an original correlation matrix. Factor analysis has been used to analyse the perceptions of stakeholders on web reporting.

Apart from that, ANOVA and Duncan Post-Hoc test has been used in the study.

## 3.5  Limitations of the Study

Research is a continuous process and every study has some limitations, as there is always a further scope for research work on every subject. In that context, the following limitations of the study may be highlighted:

1.  The study could have collected cross-sectional data for more years and conducted a panel regression analysis to carry out a similar study. But with an understanding that corporate governance practices followed by companies do not change every year and are long-term policy decisions, only one-year data of corporate governance score was collected.

2.  The study can be expanded to pre and post Companies Act 2013, and the impact of corporate governance practices can be studied for both periods.

3.  A study can also be carried out on a larger sample size of Indian companies.

# Chapter-4

# Corporate Governance Practices of Selected Companies

The Companies Act, 2013 makes it compulsory for Indian companies to follow CG and make mandatory disclosure about in their annual reports. So it is necessary to understand the practices of Indian companies. The study has collected data for NIFTY 100 indexed companies and analysed their corporate governance practices. The data has been collected through a structured questionnaire developed by the BSE, IFC and IiAS in 2016. The corporate governance Scorecard consisted of 70 questions divided into four OECD practice categories, namely

I. "Rights and equitable treatment of shareholders"

II. "Role of stakeholders"

III. "Disclosures and transparency"

IV. "Responsibilities of the board"

The chapter has been divided into five sections. The first section provides the details of methodology used for the analysis. The second section provides the details regarding reliability of questionnaire. The third section provides a view of the status of the CG practices that are prevalent in the NIFTY 100 companies. Finally, the fourth section shows the main highlights of the sample companies, and section five concludes the study.

## 4.1 Methodology

The study's first objective was to look into the CG procedures used by the Indian corporate sector. The first step was to measure the CG governance score of selected Indian companies. A scoresheet to calculate the CG total score has been adopted from the "Corporate Governance Scorecard of BSE,IFC and IiAS Initiative" and is used in the present study.

We have used the BSE Corporate Governance Scorecard for the NIFTY 100 Companies to carry out this analysis. The sample 100 companies come from nine *industrial sectors* (Information technology; Consumer Staples; Material; Utilities and Telecom; Consumer Discretionary; Industrial; Health care; Energy and Financials). The sources of information included annual reports and the website of the company. Each of the sub-categories of the BSE CG Scorecard has been sub-divided into numerous subparts for a more in-depth review of corporate governance practises, as shown in the table below.

**Table 4.1 - BSE Corporate Governance Scorecard Sub-categories**

| "Category I- Rights and Equitable Treatment of Shareholders" | "Category II- Role of Stakeholders" | "Category III- Disclosures and Transparency" | "Category IV- Responsibilities of the Board" |
|---|---|---|---|
| (19 Question) | (9 Question) | (23 Question) | (19 Question) |
| "Quality of shareholder meetings" "Related party transactions" "Investor grievance policies" "Conflicts of interest" | "Business responsibility initiatives" "Supplier management" "Employee welfare" "Investor engagement" "Whistle-blower policy" | "Ownership structure" "Financials" "Company filings" "Risk Management" "Audit integrity" "Dividend payouts and policies" | "Board and committee composition" "Training for directors" "Board evaluation" "Director remuneration" "Succession planning" |

Based on the practices followed by every company, a score of 0 (minimum), 1 or 2 (maximum) is allocated for each question. However, if the question is 'not applicable' to a particular company, the question has been excluded from the scoring formula.

Considering the requirements of the existing legal framework in India, which mainly includes the provisions of the Companies Act and the SEBI's listing requirements, the companies were bifurcated into three categories based on the fact that based on the average number of companies falling within each group, i.e. practices needs improvement; practices are reasonable, and practices are closer to global standards. This detailed analysis attempts to answer the following research questions.

- How much do Indian firms practise CG?

- What are the best corporate governance practices followed by sample companies?

The analysis has been carried out using basic analysis of scores using tables, percentages and graphs.

## 4.2 Reliability and Validity of Corporate Governance Scoresheet

The scoresheet taken from Corporate Governance Scorecard of BSE-IFC Initiative"(BSE, 2016) was adapted. Reliability was tested by calculating Cronbach alpha. Cronbach alpha measures the consistency reliability of the set of items within a group (questionnaire). Reliability for all four categories of scoresheet is here under:

### 4.2.1 Category I Reliability: Rights and Equitable Treatment of Shareholders

**Table 4.2 - Reliability Statistics**

| Cronbach's Alpha | N of Items |
|:---:|:---:|
| .926 | 19 |

The table 4.2 shows that for category 1, which included 19 statement cronbach's alpha value is .926, indicating that these statements regarding rights and equitable treatment of shareholders are highly reliable for data collection and conducting the analysis.

### 4.2.2 Category II Reliability: Role of Stakeholders

**Table 4.3 - Reliability Statistics**

| Cronbach's Alpha | N of Items |
|:---:|:---:|
| .731 | 9 |

The table 4.3 shows that for category II, cronbach's alpha value is .731, shows that 9 statements regarding role of stakeholders are highly reliable for data collection.

### 4.2.3 Category III Reliability: Disclosures and Transparency

**Table 4.4 - Reliability Statistics**

| Cronbach's Alpha | N of Items |
|:---:|:---:|
| .709 | 23 |

The table 4.4 shows that for category III, which is represented through 23 statement, its cronbach's alpha value is .709, indicating that these statements regarding disclosures and transparency are highly reliable for data collection.

### 4.2.4   Category IV Reliability: Responsibilities of the Board

**Table 4.5 - Reliability Statistics**

| Cronbach's Alpha | N of Items |
|:---:|:---:|
| .831 | 19 |

Table 4.5 shows the reliability statistics; Cronbach alpha value is .831, which shows that for category IV, which comprises 19 statements regarding Responsibilities of the Board practices  is highly reliable for collecting data.

## 4.3   Analysis of Corporate Governance (CG) Practices

The analysis of CG practises followed by sample companies (NIFTY 100) has been carried out in this section in four subsections. Sub-section one covers governance practices regarding rights, and equitable treatment of shareholders, sub-section two analyses practices regarding the role of stakeholders, sub-section three analyses disclosure and transparency practices, sub-section four analyse governance practices regarding responsibilities of the board.

### 4.3.1   Category I:   Rights and Equitable Treatment of Shareholders

One of the fundamental OECD corporate governance principles is that the company must identify fundamental shareholder rights and treat all shareholders equally. A publically listed Company is not merely constituted by the promoters group or high net worth investor with significant interest/shareholding to make themselves heard. It also includes small/retail investors with a minority interest. A good CG practice suggests that a company must give equitable rights and treatment to its shareholders, irrespective of their shareholding size. Quality of shareholder meetings, disclosures and policies and

framework of related party transactions, investor grievance policies formulated by the company, and practises of companies regarding any conflict of interest are a few of the core components to measure the extent of focus of companies towards the rights and equitable treatment of shareholders. 19 parameters were selected to understand the procedures being followed by the NIFTY 100 companies concerning the OECD principle "Rights and Equitable Treatment of Shareholders."

### 4.3.1.1 Quality of Shareholder's Meeting

While ensuring equitable rights and treatment to all the shareholders, an important aspect is ensuring the quality of shareholders' meetings. This is tested by understanding NIFTY 100 Companies practices, for the following statements:

Table 4.6– Average Score of Quality of Shareholder's Meeting Practices ( percent)

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Has the company taken steps to ensure that the fundamental rights of shareholders are unequivocal?" | 0 | 1 | 99 |
| "Did the previous AGM allow sufficient time for shareholder engagement?" | 14 | 85 | 1 |
| "Can a minority shareholder with less than a 10 percent stake propose an agenda item in a shareholder meeting?" | 99 | 1 | 0 |
| "Was there any evidence of combining multiple matters or issues in a single resolution?" | 7 | 42 | 51 |
| "Was shareholder participation facilitated for all shareholders at the previous AGM in the past year?" | 2 | 1 | 97 |
| "Did the company provide proxy and e-voting facilities for all shareholder meetings in the past year?" | 1 | 1 | 98 |
| "Did all board members attend the previous AGM?" | 9 | 72 | 19 |
| "Did the external auditors attend and participate in the previous AGM?" | 11 | 54 | 35 |
| "Within how many months of the fiscal year-end was the last AGM held?" | 22 | 52 | 26 |
| "Do the charter documents of the company give additional rights to certain shareholders?" | 2 | 3 | 95 |
| **Average Score** | **17** | **31** | **52** |

AGM's are one of the most important ways of ensuring equitable treatments for shareholders and involving them. The matter involving sufficient time to shareholders in

the last AGM, attendance and participation of all the board members and external auditors during the previous AGM can be analysed. The directors need to attend AGM because directors are the ones who take decisions on behalf of various shareholders; they are accountable to be present at AGM to answer questions of the shareholders. Apart from this, they should exercise their voting right to impact decisions and best suited for the organisation and shareholders.

Good corporate governance practices also suggest that the board must not combine two separate agendas into one voting item. The Agendas must be quoted unambiguously, and the shareholder must have a right to evaluate each item separately

Table 4.6 shows practices regarding the quality of shareholder's meetings. It depicts that almost all the companies have framed policies shareholders are unequivocal, only in one company no specific steps were taken beyond compliance with the law. Companies are also facilitating shareholder's participation and providing proxy and e-voting facility, without fail. It was only in 19 percent of companies that all the board members attended the AGM. In 72 percent of companies' chairman was not present at the AGM. In 7 percent companies, multiple resolutions were combined in 42 percent companies; at least one resolution was combined. Sufficient time was given to shareholders for participation, and their minutes were also recorded. 98 percent companies had provided an e-voting facility. Only one company did not give an e-voting facility for AGMs/EGS/Postal Ballot. In the majority of the companies, the Chairman, CEO and the Chairman of the Audit Committee attended the AGM; however, only in the case of 19 percent companies, the entire board participated at the AGM. In the case of 9 percent companies, even the Chairman/CEO, the Chairman of the Audit Committee did not attend the AGM. In only 36 percent of

companies, the Statutory Auditors participated in the AGM. In only 26 percent companies, AGM was held within four months of the fiscal years ending. Ninety-five companies do not give additional rights to any shareholders.

From the above analysis, it can be concluded that the majority of the companies (83 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards. Only in the case of 17 percent companies the practices were not as per the expected norms. These companies indicated a need for improvement in the quality of shareholder meetings.

### 4.3.1.2 Conflict of Interest

Conflict of Interest is another crucial factor determining equitable rights and treatment to all the shareholders. Any factor that leads to a conflict of interest for the minority shareholder hampers the good governance category of a company.

Table 4.7– Average Scores on Conflict of Interest Practices ( percent)

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Were any preferential warrants issued to the controlling shareholders in the past one year?" | 2 | 1 | 97 |
| "Does the company have a policy requiring all related party transactions (RPTs) to be dealt with only by independent non conflicted board members?" | 100 | 0 | 0 |
| "Does the company have a system, including policies and procedures, to facilitate disclosures of conflicts of interest by stakeholders?" | 5 | 62 | 33 |
| "Did the company undertake any related party transaction in the past three years, which may have been prejudicial to the interests of minority shareholders?" | 0 | 0 | 100 |
| "Does the company payout disproportionately high royalty to its group entities?" | 7 | 1 | 92 |
| "In the past, has the company (or its subsidiaries) provided financial assistance to promoter entities that had to be written off or unlikely to be recovered?" | 0 | 0 | 100 |

| | | | |
|---|---|---|---|
| "Has the company been transparent while undertaking any M&A, restructuring, or slump sale?" | 3 | 18 | 9 |
| "Does the company have a policy to publicly disclose the reasons for pledging of shares by the controlling shareholders?" | 9 | 0 | 28 |
| "Is there evidence of structures or mechanisms that have the potential to violate minority shareholder rights?" | 18 | 1 | 81 |
| **Average Score** | **16** | **9** | **60** |

The mere fact that the related parties are not independent of each other, the Companies Act, 2013 and SEBI (LODR), among other financial reporting frameworks, have established accounting and disclosure requirements for the RPTs. Section 177 of the Companies Act, 2013 require that "the company obtain prior approval from the Audit Committee, either individually or omnibus". SEBI (LODR), the corporate governance certificate, requires the company to indicate that prior approval from the Audit Committee was obtained for the respective RPT. The company must also ensure that every RPT is at arm's length and in an ordinary course of business. If any requirements are not met, the company must obtain shareholder approval through a resolution for any RPT. The fact that an RPT may conflict with the minority shareholders/Company interest requires the Audit Committee, the board of directors, and the statutory auditors to pay special attention to each RPT. The disclosures regarding the RPT are, therefore, vital from the Corporate Governance perspective.

Table 4.7 shows practices regarding conflict of interest. Regarding issues of preferential warrants, only two of the NIFTY 100 Companies had issued preferential warrants to controlling shareholders. The majority of the NIFTY 100 Companies have not given any preferential warrants to controlling shareholders. Two companies have issued preferential warrants, whereas one company has issued preferential warrants were issued following the debt restructuring scheme.

Almost all companies have rules and procedures in place to make it easier for stakeholders to disclose conflicts of interest. However, only 33 percent companies cover all stakeholders, including suppliers and vendors. This implies that though the majority of the companies are complying with the law, there is great scope for improvement since only 1/3rd of the companies cover all their stakeholders. In the majority of the NIFTY 100 companies, 92 percent of the royalty payouts were not disproportionate. Only in the case of 7 percent companies were royalty payouts higher than net profits and profitability growth. In none of the NIFTY 100 companies were loans/investments written off or classified as doubtful. Out of NIFTY 100 Companies that had undertaken M&A, restructuring or slump sale, the majority of the Companies (27 percent) had disclosed ample details, including fairness opinion. Only nine companies publically announced fairness opinions and independent valuation reports. There were only 3 percent companies that did not disclose an adequate amount of details.

Out of NIFTY 100 Companies, whose controlling shareholders had pledged shares, the majority had provided reasons for pledging of shares. Only in the case of 9 percent companies there were no reasons for pledging available.

Even though the majority of the NIFTY 100 Companies did not present evidence indicating structures or mechanisms that may violate minority shareholder rights, however, in the case of 18 percent of companies, there was evidence relating to pyramidal / opaque holding structures, cross-holdings and many inactive joint ventures.

From the above analysis, it can be concluded that the majority of the companies (84 percent) forming part of the NIFTY 100 had reasonable practices or practices close to

global standards. Only in the case of 16 percent companies the practices were not as per the expected norms. These companies indicated a need for decreasing conflict of interest.

## 4.3.2  Category II:  Role of Stakeholders

Another important OECD principle of corporate governance is to encourage cooperation between stakeholders and the company. Every stakeholder, including shareholders, suppliers, or company employees, has their vested interest because they are associated with the company. The company also thrives based on its excellent relationship with its stakeholders. A few of the core components to measure companies' extent of focus towards corporate governance stakeholders include the welfare of employees, suppliers, investors, society and whistle-blower policy. Nine parameters were selected to understand the practices being followed by the NIFTY 100 companies concerning the OECD principle "Role of Stakeholders."

### 4.3.2.1 Supplier Management and Employee Welfare

THE OECD'S principle IV states that "The corporate governance framework must encourage active cooperation between companies and their stakeholders". Therefore, supplier management and employee welfare practices of any Company are key determinants of corporate governance.

**Table 4.8–Average Score of Supplier Management and Employee Welfare Practices ( percent)**

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Does the company have publicly disclosed policies and/or mechanisms to address employees' health, safety, and welfare?" | 2 | 27 | 71 |
| "Does the company have policies and practices that explain its supplier/contractor selection and management processes?" | 18 | 15 | 67 |

| | | | |
|---|---|---|---|
| "Has the company demonstrated a commitment to protect the rights of its lenders, creditors, and suppliers?" | 6 | 8 | 86 |
| "Does the company demonstrate a commitment to strong ethical practices and is anti-corruption and anti-bribery?" | 5 | 57 | 38 |
| **Average Score** | **8** | **27** | **66** |

For any business concern, suppliers and employees are among the most critical stakeholders. Good relations and reputation with suppliers ensures an ongoing and hassle-free business, while on the other hand, good employer-employee relations and practices ensure that the employee will focus on Company growth and it will operate effectively and efficiently. Therefore, good governance practices require that the company disclose their policies and mechanism to speak about the welfare of employees publicly. Supplier selection and management procedures must also be transparent with adequate policies in place. The company's commitment to ethical procedures and anti-corruption and anti-bribery policies are directly related to supplier and employee wellbeing.

Table 4.8 shows that the majority of the companies are closer to international standards of corporate governance and provided information on the health, safety, and welfare of employees along with detailed policies; however, 27 percent of companies did not have such policies and only disclosed information on the welfare of employees. Further, the two companies did not even disclose any information on employees' health, safety, and interest and did not have any such related policies available in the public domain.

The majority of the companies have displayed their policies regarding both supplier and contractor selection. Although 15 percent of companies have only made their policies available either for the supplier or contractor selection, 18 percent are still lacking in making their supplier/ contractor policy available on the website.

86 percent of the companies have made efforts to meet the international standards regarding the protection of rights of their lenders, creditors, and suppliers as these companies have made timely payments to lenders, suppliers and other creditors. However, 8 percent of companies have made timely repayments to lenders but failed to repay suppliers on time. Further, 6 percent of companies have made delayed repayments to their lenders.

The majority of the companies have made their ethics policy available on their website for an ethical code of conduct. However, only 38 percent of companies have mentioned anti-corruption and bribery measures.57 percent have not said anti-corruption and bribery measures. Moreover, only 5 percent of the companies have not made their ethical practices policy available on their website.

From the above analysis, it can be concluded that the majority of the companies (92 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards. Only in the case of 8 percent companies the practices were not as per the expected norms. These companies indicated a need for improvement in supplier management and employee welfare practices.

### 4.3.2.2 Business Responsibility Initiatives

Corporate social responsibility is no longer an option for an organisation. From time to time, research has proved that if a business takes an interest in social and environmental issues, it can positively impact a firm's overall performance.

As per the Companies Act, 2013, "all companies having net worth > 500 crores or turnover> 100 crore or net profit >5 crores need to form a CSR committee and spend a

minimum of 2 percent of the average net profit made during three immediately preceding years."

However, to improve the quality of CSR projects undertaken by the firm and to know any loopholes in the initiative, it is essential to conduct its impact assessment. In Jan 2021, the MCA has amended the CSR rules of 2014 and made impact assessment of CSR activities mandatory. The company can assess the impact of the CSR project after one year of its implementation. Now the firm must hire an independent agency to conduct an impact assessment. However, impact assessment expenditure should not exceed 5 percent of total spending on CSR projects or INR 5000.

Table 4.9–Average Score on Business Responsibility Initiatives Practices ( percent)

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Is the company committed to developing stakeholder relationships?" | 40 | 28 | 32 |
| "Does the company demonstrate its commitment to being a good corporate citizen?" | 4 | 27 | 69 |
| "Does the company have processes in place to implement and measure the efficacy of its CSR programs?" | 2 | 19 | 79 |
| **Average Score** | **15** | **25** | **60** |

Table 4.9 shows that for developing stakeholder's relationship, 32 percent of the companies meet "at least four times a year", have two independent directors and talk about stakeholder welfare. Twenty-eight percent of companies meet the requirement but do not fulfil the independent director requirement. Forty percent of the companies still do not have a Stakeholders' Relationship Committee. Regarding CSR spend and being a good corporate citizen, only four companies have not spent any amount on CSR activities; however, 27companies have spent less than "2 percent of average profit for the last three years", and 69 companies have spent 2 percent or more on CSR activities.

Further, 19 percent of companies do not undertake CSR impact assessment. Seventeen companies do not undertake CSR impact assessment. However, 80 percent of the companies have a well-structured and appropriate framework, i.e., a CSR committee disclosing spending and are conducting an impact assessment.

From the above analysis, it can be concluded that the majority of the companies (85 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards. Only in the case of 15 percent companies the practices were not as per the expected norms. These companies indicated a need for improvement in the business responsibility initiatives.

### 4.3.2.3 Investor Engagement and Whistle-blowing

Whistle-blower policy/mechanism allows everyone to raise red flags against the wrong going or unethical practices within an organisation without the fear of disclosing their identity. It aims to reinforce compliance with policies and procedures. Whistle-blowing helps an organisation to maintain an honest and transparent culture in an organisation. It allows anyone to raise concerns without the fear of disclosing their identity. There are times when individuals are afraid to raise concerns because they may be made targets and that there may be no action against the complaint. Therefore, Whistle-blower Policy ensures that a person can bring attention or uncover the misconduct, wrongdoing, illegal and unethical practices in an organisation while protecting himself/his self-interest. Thus, SEBI (LODR) mandates all the listed companies shall have a whistle-blowing policy for stakeholders.

Further, Companies must ensure that even the minority shareholders can engage and express any concerns through investor complaints. The Companies must have a stringent system to address investor grievances effectively.

**Table 4.10–Average Score on Investor Engagement and Whistle-blower Practices ( percent)**

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Does the company have policies and processes in place to handle investor grievances?" | 4 | 17 | 79 |
| "Does the company have an effective whistle-blower mechanism for stakeholders to report complaints and suspected or illegal activities?" | 3 | 44 | 53 |
| **Average Score** | **4** | **30** | **66** |

Table 4.10 shows that 79 percent of the companies have formulated a policy for investor grievances and address them through an escalation mechanism. Only 17 percent of the companies have reasonable practices on this. 4 percent of the companies are still behind in meeting the governance practices benchmark as these companies either do not have a policy or do not publicly disclose the investor grievances policies. Regarding effective whistle-blower mechanisms for stakeholders and filing complaints, only 53 percent of the companies have an effective whistle-blower policy covering all stakeholders. 44 percent of companies have a whistle-blower policy for employees but not for external stakeholders. Further, only 3 percent of companies have not disclosed whistle-blower policy and mechanism.

From the above analysis, it can be concluded that the majority of the companies (96 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards. Only in the case of the four companies the practices were not as per the

expected norms. These companies indicated a need for improvement in the investor engagement initiatives and whistle-blower mechanism.

### 4.3.3   Category III:   Disclosures and Transparency

The disclosure and transparency principle of OECD states that "*the corporate governance framework must facilitate disclosure of material information to aid in informed decision-making.*" A company should always strive to provide self-explanatory, relevant and complete disclosures to its stakeholders. A good corporate governance practice suggests that a company must ensure adequate disclosures and transparency in its fillings. The company should timely and accurately make disclosures regarding its ownership structure, financial, risk management practices, audit outcomes and dividend policy, among others. 23 parameters were selected to understand the procedures being followed by the NIFTY 100 companies concerning the OECD principle "Disclosures and Transparency".

### 4.3.3.1 Company Filling

Quality of company fillings and their timely availability is among the most critical factors of good governance. Technically, the company's filings are the only media of information transfer to its stakeholder, including the minority shareholders. The quality and the quantum of information available in the company's fillings directly determine the level of awareness of the stakeholders. Timely information delivery is also a crucial factor of Corporate Governance. SEBI (LODR) has mandated all the companies to formulate and disclose a policy on disclosing material information. SEBI (LODR) has also directed company's to develop an extensive related party transaction policy since it represents a severe risk of conflict of interest.

**Table 4.11–Average Score on Company Filling Practices ( percent)**

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Does the company have a policy for determining and disclosing material information?" | 0 | 0 | 100 |
| "Has the company developed and disclosed a comprehensive related party transaction (RPT) policy?" | 0 | 19 | 81 |
| "Did the company provide timely, accessible and comprehensive information for all shareholder meetings in the past one year?" | 1 | 0 | 99 |
| "Are the detailed minutes or transcripts of the previous AGM publicly available?" | 4 | 43 | 53 |
| "Did the company disclose voting results for each shareholder category for all resolutions proposed in the past one year?" | 0 | 1 | 99 |
| "Is the information on the company website comprehensive and accessible?" | 2 | 57 | 41 |
| "Does the company have a dedicated investor relations team/person whose contact details are publicly available?" | 2 | 52 | 46 |
| "Has the company identified its senior executives and their responsibilities?" | 2 | 11 | 87 |
| "Has the company disclosed the experience of each board member and senior executive?" | 2 | 55 | 43 |
| "Has the company identified its independent directors in the annual report and on its website?" | 0 | 0 | 100 |
| "Does the company fully disclose the process and criteria used for appointing new directors?" | 2 | 40 | 58 |
| "Does the company disclose details on its training, development and orientation programs for directors?" | 4 | 7 | 89 |
| **Average Score ( percent)** | **1** | **24** | **75** |

Table 4.11 shows that regarding disclosure of material information of last three years, companies follow good practices on filing reports. For related party transactions, all the companies have an RPT policy, but 81 percent of companies have a comprehensive RPT

policy that defines the ordinary course of business, the materiality of transactions and 19 percent of companies do not have a complete RPT policy.

Almost all the companies (99 percent) have provided comprehensive and timely information of shareholders meetings. Only one company has failed to meet global standards as its information was not accessible.

The availability of detailed minutes or transcripts of the previous AGMs, 53 percent company's meetings is available online. However, 43 percent of companies have made reasonable disclosure through minutes of the meetings, and four percent have not disclosed anything. Almost all the companies meet international standards concerning the disclosure of voting details and invalid votes. For information on the company website, 41 percent of companies have accessible, accurate, and comprehensive information. Fifty-seven percent of companies have accessible and precise, but it is not complete. Regarding the investor relations team and contact detail, 46 percent of the companies have disclosed the name and contact details on their website. Fifty-two percent of companies have announced names of the individuals but not contact details.

The majority of the companies, 87 percent, has disclosed information regarding senior executives and revealed information regarding their roles. 11 percent of the companies have only disclosed basic information about senior management. The experience of board members and senior executives has been disclosed by 43 percent of companies. All companies have revealed details about independent directors in the annual report.

Regarding full disclosure of process and criteria for appointment of new directors', majority of the company's, 58 percent has disclosed both process and criteria information. Forty percent of the companies have either announced the process,

not the criteria. For disclosure of details regarding directors training development and orientation programs, 89 percent have admitted detailed framework off training and familiarisation programs. 4 percent of the companies have not disclosed details regarding training, development and orientation program for directors in the public domain.

The majority of companies follow global standards in terms of disclosure and transparency of corporate filing of reports.

### 4.3.3.2 Audit Integrity

The quality of the financial statements issued by the company should reflect a "true and fair view" of the company. Statutory auditors audit the financial statements and certify if the statements indeed present a "true and fair view". In case of any concerns, the auditor gives a qualified opinion. The auditors may also draw users of financial statements to specific items/notes of financial statements through Emphasis of Matter (EOM) paras. Any concerns in the audit report impact the "true and fair view" of the financial statements/annual reports. The Companies Act, 2013 requires the auditors to be independent and auditors' rotation every five years.

Table 4.12–Average Score of Audit Integrity Practices ( percent)

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Have there been any concerns about the financial statements in the past three years?" | 0 | 28 | 72 |
| "Is the company transparent in disclosing financial performance quarterly in the past one year?" | 0 | 1 | 98 |
| "Is the company transparent in disclosing segmental information?" | 4 | 58 | 35 |
| "Is the company transparent in disclosing non-financial information?" | 3 | 53 | 43 |
| "Does the company provide any information about the independence, competence and | 0 | 34 | 66 |

| | | | |
|---|---|---|---|
| experience of the external auditor?" | | | |
| "Has the company periodically rotated its auditors (firm and partner)?" | 1 | 4 | 95 |
| "Does the latest annual report contain a statement confirming the company's compliance with the regulatory requirements on corporate governance?" | 15 | 2 | 83 |
| **Average Score** | **3** | **26** | **70** |

In the majority of the companies, that is 72 percent of the companies, and there is no Emphasis of matter issued by the auditor. However, 28 percent of the companies' auditors have raised an emphasis of matter. Regarding companies' transparency in disclosing financial performance quarterly, almost all the companies, 98 percent have met the global standards. For disclosure of segmental information, 35 percent have disclosed comprehensive information of all business segments.

Regarding disclosure of non-financial information, 43 percent of companies have made detailed and meaningful disclosure. However, 53 percent of companies have made disclosure only on some parameters. Three companies have not disclosed non-financial information up to the mark. Sixty-six percent companies have disclosed their competence and expertise these companies have also provided evolution criteria for auditor's independence.

Regarding rotation of auditors, almost all the companies (95 percent) have rotated their auditors in less than ten years, and audit partner is also rotated in less than five years. In 4 percent of the companies' auditor's tenure is less than ten years, but the audit partner is rotated after five years. Eighty-three percent of companies have provided information regarding the reason for non-compliance and the steps taken for future compliance. 2 percent of the companies have given statement confirming companies' compliance with

the regulatory requirements but has not disclosed the reason for non-compliance neither they have revealed a compliance plan.

All companies have followed audit integrity practices, and 70 percent of companies follow global standards about audit practices.

### 4.3.3.3 Risk Management, Ownership Structure and Dividend Policy

Effective risk management framework, transparent disclosures of the shareholding pattern and transparent dividend policy are essential of corporate disclosures. SEBI (LODR) requires companies to constitute Risk Management Committee. Companies shall also disclose information about their potential risk. The company's stakeholders should be aware of the foreseeable risk and the company's mitigation. The shareholding pattern is another crucial variable. It enables stakeholders to understand who the real decision-makers are. SEBI (LODR) requires the companies to disclose their shareholding pattern quarterly. This includes disclosure of shareholding of individual board members and KMPs.

**Table 4.13 - Average Score of Risk Management, Ownership Structure and Dividend Policy ( percent)**

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Does the company provide comprehensive disclosures on its foreseeable risks?" | 1 | 24 | 75 |
| "Is the company transparent in disclosing its shareholding pattern?" | 0 | 2 | 98 |
| "Is the shareholding of individual board members and key managerial personnel (KMP) disclosed in the latest annual report?" | 0 | 6 | 94 |
| "Has the company articulated a dividend policy for its shareholders?" | 7 | 50 | 43 |
| **Average Score** | **2** | **21** | **78** |

Table 4.13 reveals that the majority of the companies (75 percent) have disclosed information regarding the risk management framework that outlines the mitigations measures. Twenty-four percent companies have disclosed risk management but have not given any information regarding mitigation measures. Concerning transparency in disclosing shareholding patterns, almost all the companies that are 98 percent have informed quarterly shareholding pattern filings and have listed the top ten shareholders.

Ninety-four percent of the companies have met the global standards and disclosed information regarding the shareholding of the board members and key managerial persons. As far as the disclosure of information regarding dividend policy is concerned, 43 percent companies have shown their approved dividend policy and payout ratio on their website. Further, 7 percent companies have not made any disclosure on dividend policy publicly.

### 4.3.4 Category IV: Responsibilities of the Board

The last OECD principle states that "*the corporate governance framework must ensure effective supervision by the board and enhance the board accountability to stakeholders.*" Shareholders appoint directors as agents to overlook the day to day management of the company. It is the board's responsibility to ensure effective company supervision and enhance accountability to the stakeholders. A strong and ethically board ensures that the company thrives on being successful, and in meeting the objectives, 19 parameters were selected to understand the practices being followed by the NIFTY 100 companies about the OECD principle "Responsibilities of the Board."

## 4.3.4.1 Board and Committee Composition and Effectiveness

The Companies Act, 2013, and SEBI (LODR) have laid down specific regulations regarding the composition of committees. About audit committee, CSR committee and nomination and remuneration committee, it is necessary to have at least three directors. These committees' Chairperson should be an Independent director. It is also critical that the board of directors possess diverse skill sets as the board is the pillar of an organisation and provides direction to a company. A director's expertise and competency can be relating to general management technical skills, legal, accounting, industry knowledge, and behavioural competency. However, a single board member cannot possess all skills and competencies. Thus, the board should have these skills collectively. At present, there are no specific guidelines regarding skill sets matrix disclosure, but the board should have balanced and wholesome expertise and skills to make informed and wise decisions. Although, SEBI has recommended that a detailed disclosure of board members' expertise, competency, skills, and qualifications and their names be mentioned in the annual report.

In light of recent scandals, the Companies Act, 2013 and SEBI both require the nomination of Independent Directors (IDs). Further, SEBI recommends that half of the board comprise IDs in the case of executive Chairman, and in the case of non-executive Chairman, 1/3 of the board members should be independent. They not only makes fair choices, but also acts in the shareholders' best interests. They bring their experience and expertise, help conflict resolution and hold management and other directors responsible for their actions, views and decisions. SEBI (LODR) has also mandated at least one women director on board, this was done to bring gender diversity. Before Uday Kotak Committee, many companies already had women directors. However, the committee

observed that most of these companies had appointed such women directors from their families themselves. Committee noted that companies were doing this to comply with the law in letter merely. Therefore, to preserve the spirit of the law, Uday Kotak Committee recommended an independent women director on board.

Also, by combining the role of CEO and Chairman, the power of a single person can be enhanced. This conjoining of functions might lead to a conflict of interest. Thus, SEBI (LODR) mandated that top 500 companies must separate the role of CEO and Chairman by 2020.

**Table 4.14–Average Score of Board and Committee Composition and Effectiveness Practices ( percent)**

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Are all directors fully engaged in company matters and committed to corporate governance?" | 50 | 42 | 8 |
| "Does the board meet sufficiently to exercise due diligence?" | 1 | 6 | 93 |
| "Is there a separation of roles between the Chairperson and the CEO?" | 29 | 61 | 10 |
| "Does the board have sufficient skills, competence and expertise?" | 0 | 4 | 96 |
| "Does the board have gender diversity?" | 6 | 65 | 29 |
| "Does the company have adequate independent representation on the board?" | 45 | 32 | 23 |
| "Do the board committees have adequate independent representation?" | 52 | 2 | 46 |
| "Is the audit committee effective in its composition and its meeting frequency?" | 44 | 3 | 53 |
| "Does the company have a robust internal audit framework?" | 5 | 55 | 40 |
| "Were all resolutions proposed by the board to shareholders in the past one year accepted?" | 3 | 6 | 91 |
| "Is there evidence to show that the company, directors or its key managerial personnel (KMP) have violated normally expected ethical/ behavioural norms?" | 15 | 0 | 85 |
| **Average Score** | **23** | **25** | **52** |

Table 4.14 shows that only 8 percent have full attendance of board members in meetings and 50 percent have less than 75 percent participation in board meetings in the last three months. Regarding board meetings, 93 percent companies had at least met the requirement. About the separation of roles between Chairperson and CEO that is CEO duality, only 10 percent of the companies have managed to keep Chairperson and CEO separate, and the CEO is an independent director. In 29 percent of the companies, CEO duality has not been maintained separation of Chairperson and CEO.

Whether the board has sufficient skills, competence and expertise, almost all the companies have a director with prior experience in similar business and the board having diverse skills. For gender diversity or representation of women directors on board, only 29 percent of companies have women directors who are not from the promoter's family. Sixty-five percent companies have women directors from the promoter's family. However, 6 percent does not have women directors on board.

Regarding independent directors' representation in the board, only 23 percent of the companies have independent directors, higher than the regulatory requirements, but 45 percent companies have not met the regulatory requirements related to IDs. As for the SEBI (LODR) and Companies Act 2013, the audit committee must have 2/3 IDs, and the Chairman being independent. For the nomination and remuneration committee, out of 3 members, at ½ of the directors must be independent. Thus as per the results, only 46 percent of the companies have exceeded size on independence norms regarding independent representation. These companies also have "non-conflicting members in audit", and "nomination and remuneration", "CSR", and "stakeholder relationship" committee.

Concerning audit committee and meeting frequency, it is found that 53 percent of companies have a publicly available charter; meet over four times; with board having financial expertise. Regarding the information w.r.t. robust and internal audit framework, only 40 percent of companies have disclosed that "internal audit reports to the audit committee" were directly provided and that they have "internal audit charter".

Regarding resolution acceptance, in 91 percent companies' majority of resolutions were accepted by shareholders. In 85 percent of the companies, director or key managerial personnel in the past three years have not been fined or penalised for violation and unethical behaviour in the past three years. However, in 15 percent of the companies, the company, director or key managerial person has been penalised for unethical behaviour in the past five years.

About audit committee, CSR committee, nomination, remuneration committee, the role of IDs, meeting frequency, experience and expertise of board members, CEO duality, women directors, most Indian companies follow global standards.

### 4.3.4.2 Directors Remuneration

The Companies Act, 2013 recommends aligning executive compensation with companies' performance. If a company does not earn profit during the year, executives are not entitled to remunerations. The shareholder approval, by special resolution, is required before discharging fee or compensation to executives who are a promoter or belong to the promoter group. The ceiling of compensation prescribed in the case of one MD or one WTD is a maximum of "5 percent of the net profits"; if there is more than one whole-time director, the maximum limit is "10 percent of net profits". However, for part-time

directors, the remuneration ceiling is 1 percent of the company's net earnings if there are more than one part-time director and 3 percent of the company's net profits if there is a single part-time director. A sitting fee is given in independent directors' remuneration, with a maximum limit of Rs. 1,00,000 per board or committee meeting. SEBI restrains independent directors from the entitlement of any commission fee, sweat equity and ESOP.

**Table 4.15–Average Score on Directors Remuneration ( percent)**

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Does the remuneration structure for executive directors align pay with performance?" | 37 | 1 | 62 |
| "Has executive director(s) pay been aligned to company performance in the last three years?" | 32 | 34 | 34 |
| "If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price?" | 5 | 9 | 86 |
| "Is the CEO compensation commensurate with the company's size and performance?" | 22 | 27 | 51 |
| **Average Score** | **24** | **18** | **58** |

Table 4.15 shows that disclosure related to remuneration structure of executive directors and its alignment with performance, 62 percent of the companies pay their executive directors, variable pay through which combines incentives. One percent of the company give variable pay to its executive directors through short term incentives.

Thirty-four percent of corporations' aggregate pay growth over three years is not higher than profit or sales growth. 86 percent of corporations have issued stock options at market price for stock option programmes. Furthermore, 9% of organisations provide employees a discount on stock options. Nearly half of the companies have variable pay, which is more than 67 percent of overall pay, and comprehensive pay is less than 5% of net profits, according to CEO compensation proportionate to company size and performance. This

means that half of the enterprises follow worldwide standards in terms of remuneration, ESOPs, and the relationship between compensation and performance.

### 4.3.4.3 Succession Planning

The current, as well as future of an organisation depends on the quality of a leader. To avoid any leadership gap and ensure the continuous performance of the company, it is essential to develop a leader's pipeline. Succession planning ensures that the right person is placed at the right job and at the right time. It also provides that no position (whether of the executive management or the board) is vacant for more than a stipulated time since it may lead to deficiency in controls and reduced checks and balances in the company.

An improper succession planning can result in deficiency in internal control, material weakness, misstatement of financial reporting. Thus, leading to unreliable financial information and impacting overall operational efficiency

Table 4.16– Average Score of Succession Planning ( percent)

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Does the company have a succession plan for its directors and senior leadership?" | 22 | 19 | 45 |
| "Are the disclosures on succession planning detailed?" | 32 | 37 | 17 |
| **Average Score** | **27** | **28** | **31** |

Regarding succession planning for directors and senior leaders, 45 percent of companies have designed succession plans for both groups. Nineteen percent of companies have developed succession plans either for directors or senior leaders, whereas 22 percent of companies still have not mentioned succession planning. Concerning disclosure on succession planning, 17 percent of companies have shown evidence about a detailed

framework on succession planning. Thirty-seven percent of companies have not given precise information regarding succession planning and developing leadership pipeline.

Succession planning is very important for the long term success of the business, in this regard, Indian companies, one-third of them follow the global standard, and another one third follow reasonable practices.

### 4.3.4.4 Board Evaluation

To ensure that board members have adopted good corporate governance practices and perform to their best capabilities, board performance is evaluated.

Boards of directors are the trustee and the agents who look after the interest of a large number of shareholders. Thus, it is important to have board members who are committed, respectable and trustworthy. SEBI (LODR) has mandated that the board and other committees should be evaluated annually so that attention can be paid to critical issues and the performance of board committees can be enhanced.

**Table 4.17–Average Score on Board Evaluation Practices ( percent)**

| Statement | Needs improvement | Reasonable practices | Global standard practices |
|---|---|---|---|
| "Is the board evaluation policy and process in place and effective?" | 3 | 63 | 18 |
| "Are board committees evaluated separately?" | 3 | 24 | 57 |
| **Average Score** | **3** | **44** | **38** |

For board evaluation policy and process, only 18 percent of companies have met global standards where companies have mentioned who is evaluator, who is evaluated and what was the procedure followed for evaluation, apart from this, companies have also done impact assessment for future improvements. However, 63 percent have only disclosed about the evaluation system but have not given any information about impact assessment.

Regarding the evaluation of the board, 57 percent have disclosed review and evaluation criteria. Board evaluation practices need to be strengthened in Indian companies as the majority of them follow reasonable review and evaluation practices for the board.

## 4.4 Corporate Governance Practices -Highlights

This section shows the main highlights of corporate governance practices followed by sample companies. It discusses the demographic wise distribution of corporate governance scores.

**Figure 4.1- Mean, Maximum and Minimum for Nifty 100 Companies**
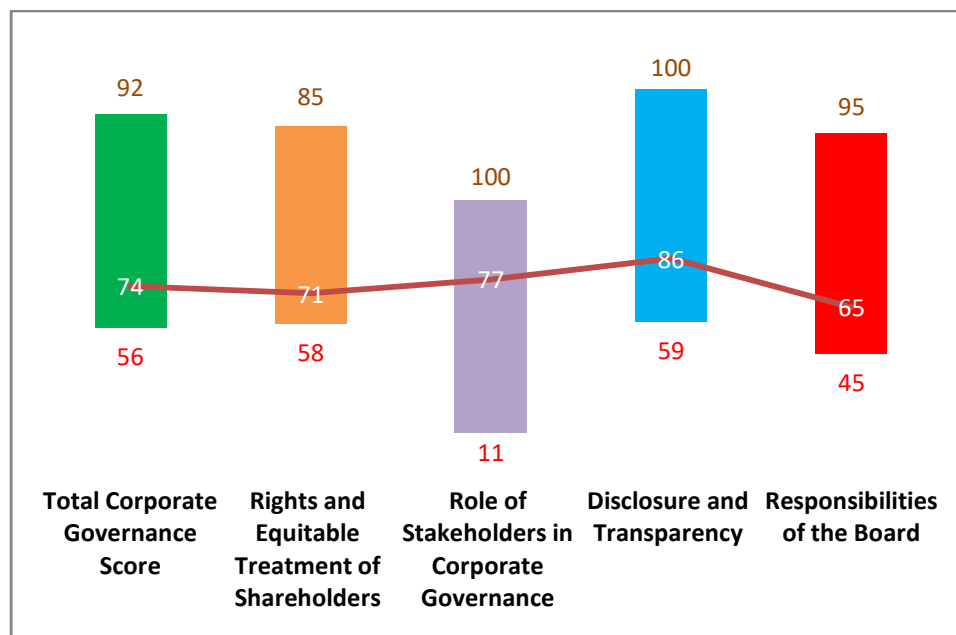


Figure 4.1 shows that the corporate governance total score of Nifty 100 company's ranges between maximum 92 and minimum 56 with 74 as the median. Category I ("Rights and Equitable Treatment of Shareholders") score range is 85 maximum and 58 minimum with a median value of 71, category II ("Role of Stakeholders") score lies between maximum 100 and minimum 11 with 77 being median value, category III ("Disclosure and

Transparency") score ranges from 100 to 59 with 86 as median value and category 4 ("Responsibilities of the Board") score ranges between maximum 45 and minimum 95 with median value as 65.

**Figure 4.2- Age-wise Mean Scores for Nifty 100 Companies**

## Age wise mean Scores
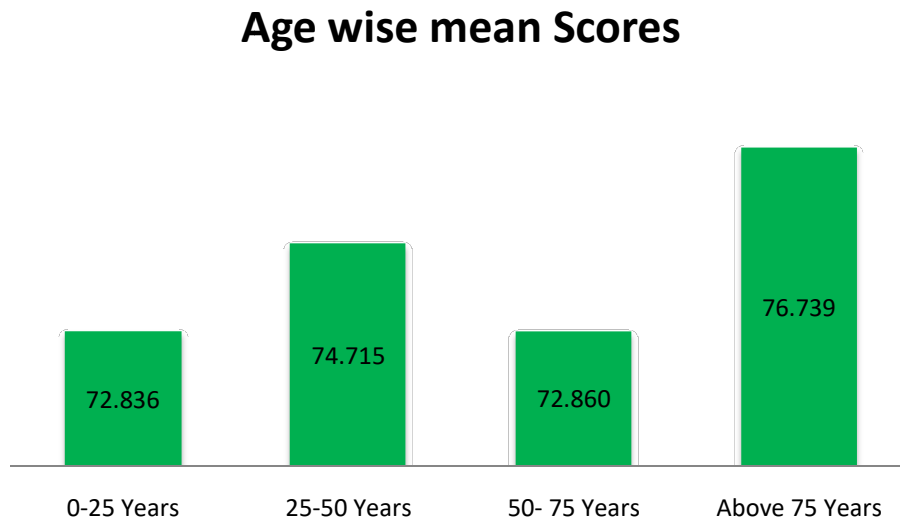


Figure 4.2 presents the age-wise distribution of corporate governance scores of companies. The mean score of companies above 75 years is 76.739, followed by 25-50 years (74.715), 50-75 years companies have a score of 72.860 and 0-25 years score is 72.836. This shows that corporate governance practices of companies above 75 years are better than other age group companies.

Figure 4.3– Ownership-wise Mean Scores for NIFTY 100 Companies

**Ownership wise mean scores**



| | | | | | | |
|---|---|---|---|---|---|---|
| 74.056 | 74.989 | 74.663 | 70.925 | 72.818 | 78.525 | 79.587 |
| Private | PSU | National | MNC | Promoter | Institutional | Widely Held |
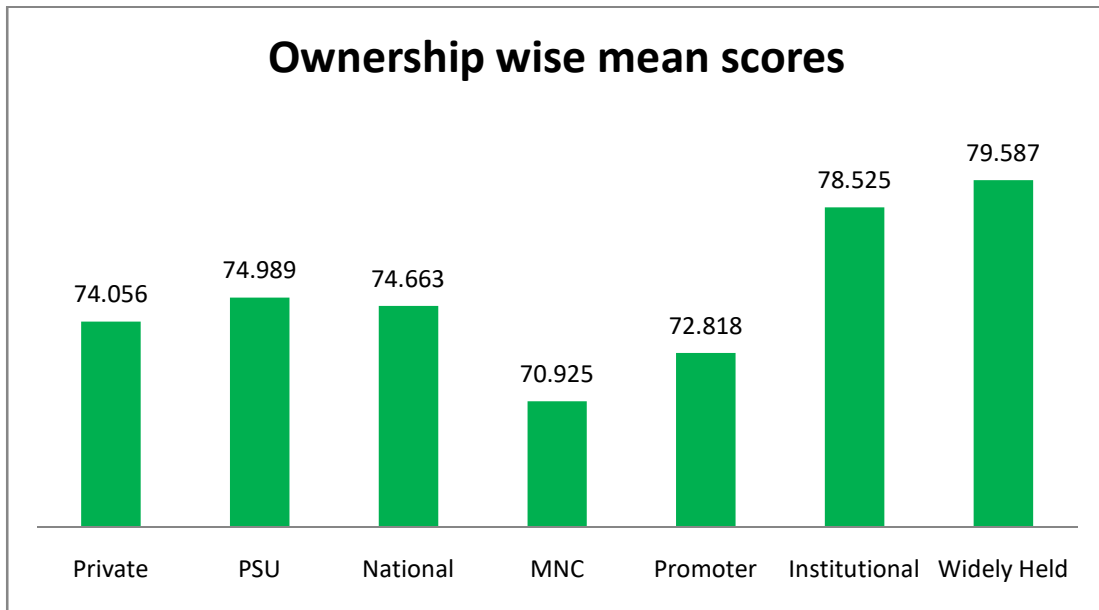
Figure 4.3 shows that the corporate governance average score of Private companies is 74.056, for PSU, it is 74.989, for Nationally-located companies, it is 74.663, MNC is 70.925, the promoter-held companies CG score is 72.818, institutional-owned is 78.525, and widely-held companies is 79.587. The widely held average score is the highest, and MNC has the least average corporate governance score.

**Figure 4.4 - Industry-wise Mean Scores for NIFY 100 Companies**

**Industry wise mean scores**



74.342  78.592  74.808  72.717  76.175  74.345  73.528  73.122  67.856

HealthCare — Information Technology — Financials — Consumer Staples — Energy — Materials — Consumer Discretionary — Industrials — Utilities & Telecom

119
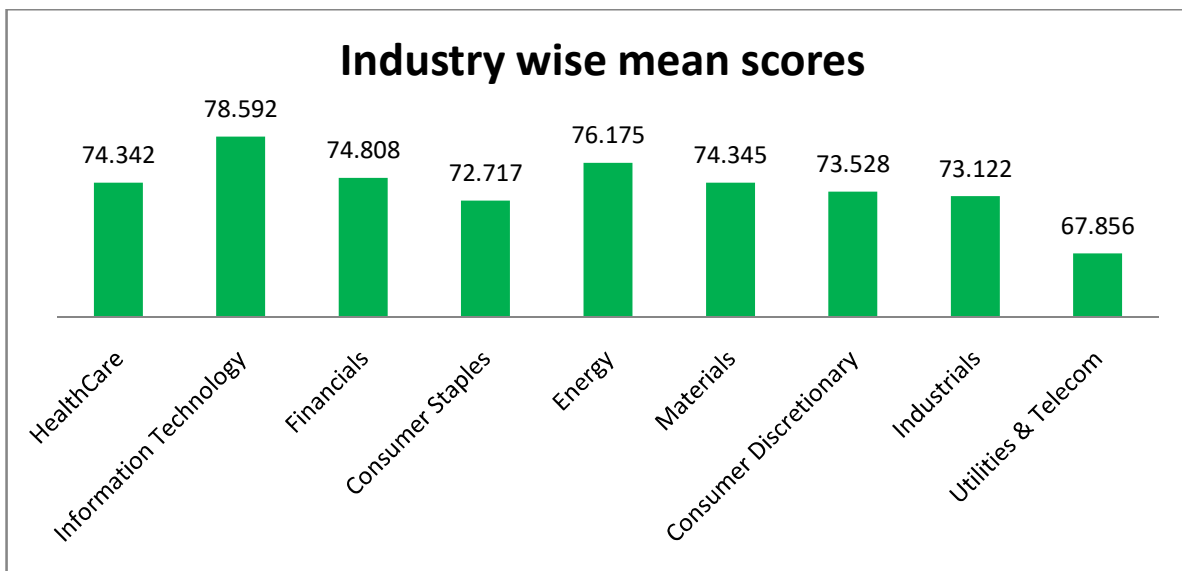
Figure 4.4 shows that corporate governance average score of the healthcare industry is 74.342, for IT sector it is 78.592, for financials, it is 7/4 .808, consumer surplus is 72.712, energy 76.175, material 74.345, consumer discretionary sector is 73.5 28, industrials have 73.122 and utilities, and telecom has 67.856. This shows that the IT sector has a relatively high score than other sectors like the healthcare sector, financials, and materials have similar corporate governance practices. Consumer staples, energy, consumer discretionary and industrials follow identical practices. However, utilities and the telecom industry have obtained the least average score.

**Figure 4.5- Percentage of Companies in each Governance Practice Category**
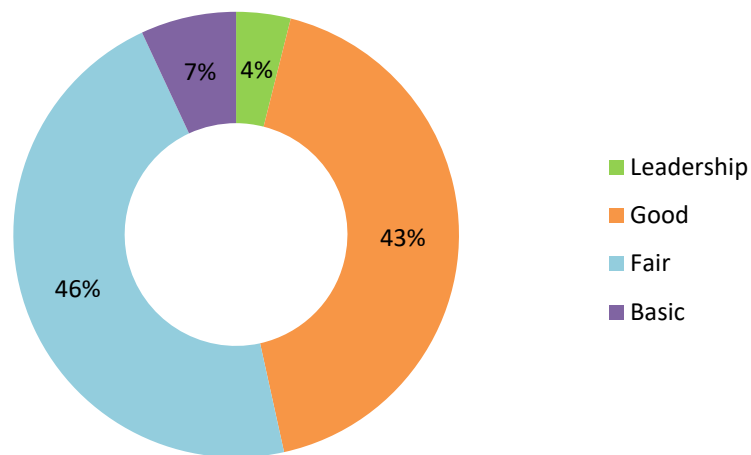


Figure 4.5 shows that in the leadership category, 4 percent of the companies have contributed, whereas 43 percent of the companies fall into the good category and 47 percent of the companies are in the fair category. However, 7 percent of the companies have scored less than 65 scores, thus, fall into the basic category.

**Figure 4.6 -Governance Scores for the Nifty 100 Companies**
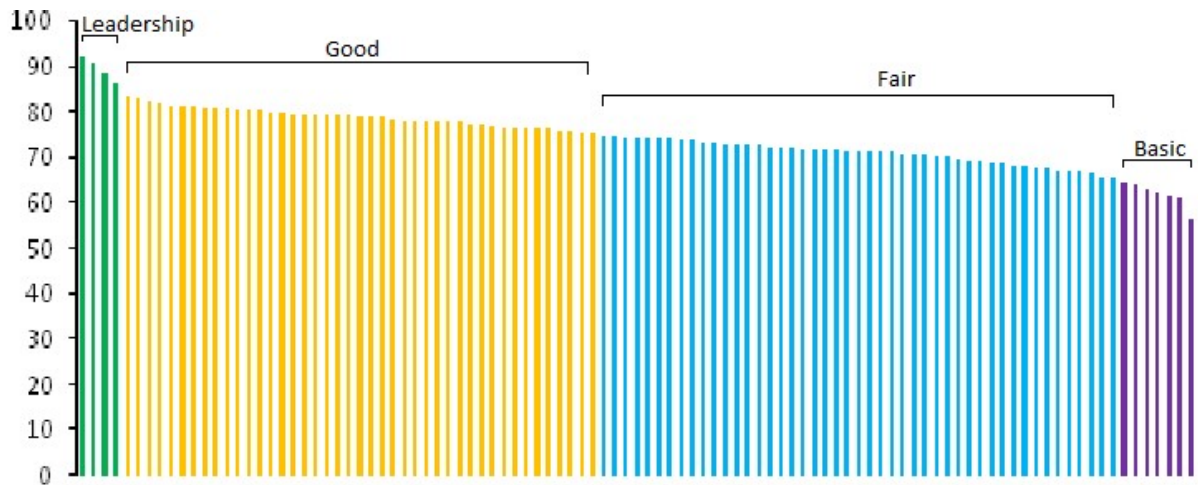


Similar values are shown in Figure 4.6, which depicts the percentage of companies falling in various governance categories. It can be concluded from the above scores that approximately 90 percent of the companies follow reasonably good corporate governance practices when compared to global standards.

## 4.5 Conclusion

The analysis concludes that the majority of the companies (83 percent) forming part of the NIFTY 100 had reasonable practices or practices close to global standards concerning quality of shareholders meetings. Conflict of interest, another important indicator, shows that 84 percent of companies have reasonable practices or practices close to global standards. Under stakeholder's rights, 92 percent of companies follow supplier management and employee welfare practices and have reasonable practices or practices close to global standards. Regarding business responsibility initiatives, 85 percent of companies have reasonable practices or practices close to global standards. The majority of the companies (96 percent) forming part of the NIFTY 100 have reasonable practices or

practices close to global standards on investor engagement initiatives and whistle-blower mechanism. In terms of corporate filing of reports, the majority of corporations adhere to worldwide norms in terms of disclosure and transparency. All companies have followed audit integrity practices, and 70 percent companies follow global standards about audit practices. About audit committee, CSR committee, nomination, remuneration committee, the role of IDs, meeting frequency, experience and expertise of board members, CEO duality, women directors, and majority of Indian companies follow global standards. Only 10 percent of the companies have managed to keep the roles of Chairperson and CEO separate, and the CEO is an independent director. 29 percent of companies have women directors who are not from the promoter's family. In 85 percent of the companies, directors or key managerial personnel in the past three years have not been fined or penalised for violation and unethical behaviour in the past three years. Only 23 percent of the companies have independent directors, higher than the regulatory requirements. Results indicate that with regard to remuneration, ESOPs, and the relationship of compensation with company's performance, half of the companies follow global standards. Succession planning is very important for the long term success of the business, in this regard, in Indian companies, one-third of them follow global standards, and another one third follow reasonable practices. Board evaluation practices need to be strengthened in Indian companies as the majority of them follow reasonable review and evaluation practices for the board.

# Chapter-5

# Analysis of Data: Corporate Governance, Financial Performance and Social Performance

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Corporate governance aims at achieving efficient controls over the business through enhanced disclosures, by bringing fairness and transparency to the system. Implementation of good CG practices leads to the improved financial performance of the company. Good governance protects the interest of all stakeholders. It not only includes ensuring board accountability but also the aspects of CSR.

This chapter analyses the CG scores, FP variables and CSP scores computed from secondary data for the sample companies. Analysis of data has been divided into three sub-sections i.e. analysis of corporate governance scores, financial performance variables and social performance scores.

## 5.1 Methodology

The sample used for study is NIFTY 100 companies. Secondary data relating to corporate governance has been collected using a score sheet from "annual reports" of NIFTY 100 in 2019. The data for financial performance variables have been collected from PROWESS database for these companies for five years from 2015-2019. The corporate social performance index has been used to compile social performance scores of the sample companies. Data has been analysed using SPSS 22 for understanding the nature of data and its relationship with demographic variables by applying descriptive statistics,

ANOVA, post-hoc test and Chi-square test. The following hypotheses have been tested in this chapter.

$H_{01}$:There is no significant difference between the demographic characteristics of companies and their corporate governance score categories.

$H_{02}$: There is no significant difference in the demographic characteristics of companies and their corporate governance scores.

$H_{03}$: There is no significant difference in demographic characteristics of companies and their Rights and Equitable Treatment of Shareholders scores.

$H_{04}$: There is no significant difference in demographic characteristics of companies and their practices related to the Role of stakeholders Scores.

$H_{05}$: There is no significant difference in demographic characteristics of companies and their practices related to disclosures and transparency scores.

$H_{06}$: There is no significant difference in demographic characteristics of companies and their practices related to responsibilities of the board scores.

$H_{07}$: There is no significant difference in the demographic characteristics of companies and their financial performance variables.

$H_{08}$: There is no significant difference in demographic characteristics of companies and their corporate social performance scores.

$H_{09}$: There is no significant difference in corporate governance practices of companies and their corporate social performance scores.

The demographic characteristics include the company's age, ownership, Private vs PSU status, MNC vs Nationally-located and Industry sectors.

The financial performance variables taken up for the study are Beta-Measure of volatility, closing price, Market Capitalization, Enterprise Value, EPS, PE ratio, Tobin's Q, ROE, Earning before interest and tax, ROCE, ROA, ROS, Dividend Yield, CSR Spend, PB ratio, Total Debt Ratio.

## 5.2 Results and Discussions

Section is bifurcated into three sub-parts. Sub-section 5.2.1 relates to an analysis of CG scores, sub-section 5.2.2 deals with analysis of FP variables and sub-section 5.2.3 analyses CSP.

### 5.2.1 Analysis of Corporate Governance

The data relating to CG score has been collected using a score sheet on a scale of 0 to 2 for NIFTY 100 sample companies. The CG score is a composition of four categories of scores related to "rights and equitable treatment of shareholders", "role of Stakeholders", "disclosure and transparency" & "responsibilities of the board".

The analysis of data has been divided into four sub-parts. Sub-part 5.2.1.1 explains descriptive statistics of CG scores of sample 100 companies, sub-part 5.2.1.2 relates to company-wise analysis of CG scores, sub-part 5.2.1.3 analyses demographic characteristics differences in CG practices, and sub-part 5.2.1.4 explains demographic characteristics differences in CG scores using ANOVA.

#### 5.2.1.1 Descriptive Statistics

The score of CG computed here is a combination of scores related to four categories. Various descriptive statistics of each category as well as CG Total Score are shown in table 5.1 below.

**Table 5.1-Descriptive Statistics of Corporate Governance Score Categories**

| | "Category I- Rights and Equitable Treatment of Shareholders Score" | "Category II- Role of Stakeholders Score" | "Category III- Disclosures and Transparency Score" | "Category IV- Responsibilities of the Board Score" | Corporate Governance Total Score (CG) |
|---|---|---|---|---|---|
| N | 100 | 100 | 100 | 100 | 100 |
| Minimum | 57.9 | 11.1 | 58.7 | 44.7 | 56.1 |
| Maximum | 85.3 | 100.0 | 100.0 | 94.7 | 91.8 |
| Mean | 71.252 | 77.222 | 85.879 | 64.634 | 74.252 |
| Std. Deviation | 5.7749 | 16.1151 | 7.8806 | 11.3388 | 6.2670 |

The table above depicts the mean value of CG total score is 74.252,the maximum score is 91.8 and the minimum 56.1. This indicates that the maximum score obtained by any organization is 91.8 and minimum score obtained is 56.1. The average score demonstrates that companies involved follow fair CG practices. The standard deviation value is 6.2670, indicating that data is relatively distributed near the mean value.

The mean score of "Category I - Rights and Equitable Treatment of Shareholders" is 71.252, with a maximum score of 85.3 and a minimum value of 57.9. This shows that score secured by any company in this category is not less than 57.9 and not more than 85.3. The average score indicate that companies have scored reasonably good level in the rights and equitable treatment of shareholders category. The standard deviation is 5.7749, indicating that data is closely distributed near the mean value.

In "Category II -the Role of Stakeholders", the mean value is 77.2, the maximum score is 100 and the minimum 11.1,which indicates that companies have scored maximum in this category. However, there are high variations in the score. Mean value shows that companies have made good efforts in this category. The standard deviation is 16.1151, indicating considerably high variations in data value from the mean value.

Under "Category III -Disclosure and Transparency", the mean value is 85.879, the maximum is 100, and the minimum is 58.7, showing that the company has scored maximum in this category. The average score indicated that companies had made fair and adequate disclosures. The standard deviation is 7.880 which indicates, that the data is distributed in the region of the mean value.

In "Category IV -Responsibilities of the Board", the mean value is 64.634, the maximum score is94.7, and the minimum score is 44.7. This conveys that companies have performed reasonably well under this category. However, the standard deviation shows dispersion from the mean value.

Overall by looking at mean scores, it can be said that companies have scored reasonably well in the total CG (average score is74.252) as well as in its four categories. However, in Category– II, companies have scored the least (minimum = 11.1), and the standard deviation is also the highest in this category (16.1151). In Categories II and III, companies have obtained a maximum score of 100 also.

Table 5.2-Descriptive Statistics of Corporate Governance Score based on Age of the Company

| Age of Company Category | | Statistic | | | | |
|---|---|---|---|---|---|---|
| | | "Category I- Rights and Equitable Treatment of Shareholders Score" | "Category II- Role of Stakeholders Score" | "Category III- Disclosures and Transparency Score" | "Category IV- Responsibilities of the Board Score" | Corporate Governance Total Score (CG) |
| 0-25 Years | Mean | 71.074 | 76.023 | 80.778 | 65.594 | 72.836 |
| | Std. Deviation | 4.9065 | 20.6257 | 7.9467 | 10.0603 | 5.8955 |
| 25-50 Years | Mean | 70.851 | 75.000 | 86.912 | 66.285 | 74.715 |
| | Std. Deviation | 5.7344 | 17.7527 | 7.9386 | 12.9036 | 6.8644 |
| 50-75 Years | Mean | 70.755 | 79.101 | 86.994 | 58.752 | 72.860 |
| | Std. Deviation | 5.6907 | 7.4338 | 5.6786 | 7.2382 | 4.3157 |
| Above 75 Years | Mean | 73.556 | 83.333 | 87.733 | 66.729 | 76.739 |
| | Std. Deviation | 7.0893 | 12.1325 | 8.3809 | 10.5064 | 6.7630 |

The descriptive statistics of CG score (CG) based on the company's age are shown in Table 5.2.The company's age is divided into four categories 0- 25 years, 25-50 years, 50-75 years and above 75 years. The CG Total Score of companies above 75 years shows higher mean scores, i.e. 76.739,as compared to companies with ages between25-50 years (74.715), 50-75 years (72.860) and 0-25 years (mean=72.836). This indicates that CG practices of companies above 75 years are slightly better than other age group companies.

The standard deviation of 0-25 years Age Company is 5.8955, 25-50 years is 6.8644, 50-75 years is 4.3157, and above 75 years is 6.7630. This indicates that 25-50 years aged companies have the highest dispersion, and companies with 50-75 years of age have the least dispersion.

For Category I mean score of above 75 years companies is 73.556, which is more than other age group companies mean score, 0-25 years (71.074), for 25-50 years (70.851) 70.7554 for 50-75years. This indicates that above 75 years company follow better practices, in category I. The standard deviation value of 0-25 years age group companies is least (4.9065) followed by 50-75 years (5.6907), 25-50 years (5.7344), and above 75 years standard deviation is 7.0893.

Under category II, the highest average score is for above 75 years companies (83.333), followed by the mean score of 79.101 of 50-75 years, 76.023 of 0-25 years and 75.00 of 25-50 years companies. The standard deviation value of 0-25 years is 20.6257, for 25-50 years is 17.7527, for 50-75 years is 7.4338, and for above 75 years, it is 12.1325, which indicates the least fluctuation in 50-75 years.

The results of category III show that above 75 years of age, companies have the highest mean score of 87.733, 50-75 years (86.994) are second, 25-50 years (86.912) are third, and 0-25 years is the last. The value of standard deviation for 0-25 years is 7.9467 and 25-50 years is 7.9386 is almost the same. Above 75 years, companies have the highest dispersion of 8.309, and 50-75 years have the lowest standard deviation of value 5.6786.

In category IV, above 75 years, companies mean score is 67.105, 0-25 years mean score is 85.594, 25-50 years is 66.285, and 50-75 years is 58.752, indicating that above 75 years companies have better board responsibility practices as compared to other age group companies. Standard deviation values indicate that 25-50 years companies have the highest fluctuation (12.9036) and dispersion, followed by 0-25 years (10.0603), above 75 years has 10.5064 and 50-75 years has 7.2382.

From the above analysis, it can be concluded that above 75 years of age group companies follow better total CG practices and have the highest mean score in all the categories. Thus, it can be inferred that the above 75 years age group of companies have better CG practices than any other age group company. From maximum values, we can conclude that in category I and IV, none of the age group companies has secured 100 scores.

**Table 5.3-Descriptives Statistics of Corporate Governance Score Categories based on Demographic Characteristics Classifications**

| Private vs PSU | | Statistic | | | | |
|---|---|---|---|---|---|---|
| | | "Category I-Rights and Equitable Treatment of Shareholders Score" | "Category II-Role of Stakeholders Score" | "Category III-Disclosures and Transparency Score" | "Category IV-Responsibilities of the Board Score" | Corporate Governance Total Score (CG) |
| Private | Mean | 70.994 | 77.848 | 84.756 | 65.152 | 74.056 |
| | Std. Deviation | 6.2780 | 16.0497 | 8.2457 | 11.8499 | 6.7198 |
| PSU | Mean | 72.222 | 74.868 | 90.100 | 62.685 | 74.989 |
| | Std. Deviation | 3.1810 | 16.5383 | 4.3089 | 9.1502 | 4.1936 |
| **Nationally-located vs MNC** | | | | | | |
| Nationally-located | Mean | 71.637 | 76.654 | 86.428 | 65.260 | 74.663 |
| | Std. Deviation | 5.4743 | 16.6283 | 7.6482 | 11.2408 | 6.2913 |
| MNC | Mean | 68.141 | 81.818 | 81.433 | 59.569 | 70.925 |
| | Std. Deviation | 7.3810 | 10.5675 | 8.6979 | 11.3660 | 5.1815 |
| **Promoter-owned vs Institutional vs Widely-held ownership** | | | | | | |
| Promoter-owned | Mean | 70.971 | 75.877 | 84.508 | 61.956 | 72.818 |
| | Std. | 5.6036 | 17.1546 | 7.9428 | 9.4157 | 5.4592 |

| | Deviation | | | | | |
|---|---|---|---|---|---|---|
| **Institutional** | **Mean** | 71.018 | 81.481 | 89.010 | 74.561 | 78.525 |
| | **Std. Deviation** | 6.3960 | 11.5909 | 6.0793 | 13.0178 | 6.6322 |
| **Widely-held** | **Mean** | 75.517 | 81.481 | 93.841 | 68.772 | 79.587 |
| | **Std. Deviation** | 5.1962 | 12.5051 | 4.2191 | 12.4623 | 7.0677 |

In Table5.3, descriptive statistics of CG scores based on demographic characteristics classifications are given. The above table shows that the overall CG scores mean value of private companies is 74.056, and the mean value of PSU companies is 74.989.This indicates that companies in both privately owned and PSUs follow almost similar CG practices. The standard deviation of private companies is 6.7198 and for PSU is 4.1936, indicating that there are comparatively less variations in PSUs.

Category I values show that the mean score of private companies is 70.994, whereas for PSU rights and equitable treatment of shareholders scoreis 72.22, which shows that PSUs have relatively better practices. The value of standard deviation in private companies is 6.2780, and PSU is 3.1810. This shows that fluctuation in private sector companies is higher.

In category II, the mean score of private companies is 77.848 and PSU is 74.868, which conveys a slight difference in stakeholder practices. The standard deviation of private companies is 16.0497 and for PSU is16.5383.

Under category III, private companies have a mean score of 84.756 indicating that disclosure and transparency scores are not similar in private companies and PSUs have a mean score of 90.100.

According to category IV, the mean score of private companies is 65.152, and for PSU it is 62.685, indicating that private companies have relatively better practices. The standard

deviation of private companies is 11.8499 and for PSUs is 9.1502; showing that fluctuation in private sector companies score is higher.

The above analysis shows that private companies mean CG scores are better than PSU in categories I, II and IV. However, in category III, PSUs have better average scores. Thus, indicating that except in category three .i.e. disclosures and transparency, private companies have better practices.

A comparison of company classification based on nationally-located vs MNC status is shown in Table 5.3. Classification of companies in the Nationally-located category shows that the overall CG mean score is 74.663, whereas, in the MNC category, the CG mean value is 70.925. This reveals that CG practices in nationally-located companies are much better than MNC. The value of standard deviation in nationally-located is 6.2913 and for MNC is 5.1815. This indicates that in Nationally-located companies, the dispersion of data is more than in MNCs.

In category I, the mean score of nationally-located companies is 71.637, which is higher than MNC mean scores (68.141), revealing that nationally-located companies have better practices in category I. The standard deviation value in the case of nationally-located companies is 5.4743, and for MNC, it is 7.3810, showing that in nationally-located companies, data lies closer to the mean value and indicates less dispersion.

In category II, the mean score of nationally-located companies (76.654) is less than the mean score of MNC (81.818), revealing that MNCs have better practices relating to stakeholders' role in CG. The standard deviation of nationally-located companies is 16.6283, and for MNC, it is 10.5675, which shows a high degree of variance in nationally-located companies.

Under category III, nationally-located companies' average score is 86.428, which is higher than MNCs (81.433). This indicates that nationally-located companies follow better disclosure and transparency practices than MNCs. The standard deviation for nationally-located companies is 7.6482, and for MNCs, it is 8.6979.

Under category IV, the mean value of nationally-located companies is 65.260 and for MNC, it is 59.569, indicating that nationally-located companies have better practices than MNC. The standard deviation for both the groups is not much different, with Nationally-located at 11.2408 and MNC at 11.3660.

The above analysis reveals that overall nationally-located companies have better CG practices as compared to MNCs. However, in category II average score of MNCs is higher than nationally-located companies.

Ownership based classification of companies divides all companies into three groups, namely, promoter-owned, institutional-owned and widely-held as shown in Table 5.3. The overall average score of promoter-owned companies is 72.818, for institutional-owned, it is 78.525, and for widely-held, it is 79.587. The maximum score of CG for promoter-owned companies is 82.7, institutional is 90.5 and widely-held 91.8. The standard deviation value shows that widely-held companies (7.0677) have more fluctuations than institutional (6.6322) and promoter-owned companies (5.4592).

Under category I, the average score of widely-held (75.517), is more than institutional-owned companies (71.018) and promoter-owned companies (70.971). This reveals that widely-held companies have better CG practices than promoter-owned and institutional-owned companies under category I. The standard deviation of promoter-owned (5.6036) and widely-held (5.1962) are relatively low than institutional-owned (6.3960) companies.

For category II, the mean score of promoter-owned companies is 75.877. However, both for institutional and widely-held average score is 84.81. The average score of institutional and widely-held companies is higher than promoter-owned, showing that institutional and widely-held have the same practices, but promoter-owned companies have relatively weaker practices. From the standard deviation value, it can be observed that promoter-owned (17.1546) have more dispersion than institutional (11.5909) and widely-held (12.5051).

Under category III, the average score of widely-held (93.841) is more than promoter-owned (84.508) and institutional (89.010). This indicates that widely-held companies follow better disclosure and transparency practices than institutional and promoter-owned companies. The standard deviation value indicates that promoter-owned owned companies (7.9425) have more dispersion than institutional (6.0793) and widely-held (4.2191).

For category IV, the mean score of promoter-owned (61.956), institutional (74.561) and widely-held (68.772) reveals that institutional owned companies have better governance practices compared to promoter-owned and widely-held. The value of standard deviation for a promoter-owned company is 9.4157, institutional-owned is 13.0178, and widely-held is 12.4623.

Overall it can be said that widely-held companies have the highest CG total scores as compared to promoter-owned and institutional-owned companies. The category I, category II and category III scores are also better for widely held companies. Under category IV, institutional-owned companies have better scores.

Further, analysis of CG scores for various industry sectors has been presented in table 5.4 below.

**Table 5.4-Descriptive Statistics of Corporate Governance Score Categories based on Industry**

| Industry Classification | | Statistic | | | | |
|---|---|---|---|---|---|---|
| | | Category I- Rights and Equitable Treatment of Shareholders Score | Category II- Role of Stakeholders Score | Category III- Disclosures and Transparency Score | Category IV- Responsibilities of the Board Score | Corporate Governance Total Score (CG) |
| HealthCare | Mean | 70.954 | 80.952 | 86.335 | 63.534 | 74.342 |
| | Std. Deviation | 8.1286 | 14.6485 | 8.4861 | 15.3016 | 9.6270 |
| Information Technology | Mean | 73.638 | 76.852 | 91.667 | 71.053 | 78.592 |
| | Std. Deviation | 7.0717 | 26.1564 | 6.6533 | 13.3149 | 9.1151 |
| Financials | Mean | 71.404 | 74.000 | 83.304 | 69.986 | 74.808 |
| | Std. Deviation | 5.6750 | 20.1410 | 8.8465 | 12.5512 | 7.2166 |
| Consumer Staples | Mean | 67.994 | 81.667 | 82.174 | 65.000 | 72.717 |
| | Std. Deviation | 6.4002 | 11.1265 | 7.3757 | 10.6028 | 4.8956 |
| Energy | Mean | 73.698 | 72.778 | 92.174 | 63.786 | 76.175 |
| | Std. Deviation | 4.8962 | 24.0670 | 2.7498 | 8.2393 | 4.6573 |
| Materials | Mean | 71.606 | 80.741 | 86.964 | 62.334 | 74.345 |
| | Std. Deviation | 7.0659 | 9.3592 | 7.8619 | 8.2980 | 5.3776 |
| Consumer Discretionary | Mean | 70.809 | 77.778 | 87.267 | 61.090 | 73.528 |
| | Std. Deviation | 3.4684 | 8.7163 | 6.3727 | 9.0090 | 4.0576 |
| Industrials | Mean | 71.877 | 79.630 | 84.870 | 60.448 | 73.122 |
| | Std. Deviation | 4.6557 | 11.1111 | 5.8123 | 11.7956 | 4.6798 |
| Utilities and Telecom | Mean | 68.096 | 70.833 | 79.348 | 55.132 | 67.856 |
| | Std. Deviation | 2.5641 | 13.8889 | 9.4759 | 7.0005 | 5.7127 |

Table 5.4 highlights descriptive statistics of CG scores based on industry sector classification. Overall CG average score of the healthcare industry is 74.342, for IT sector it is 78.592, for financial it is 74.808, consumer staples is 72.712, energy 76.175, material

74.345, consumer discretionary is 73.528, industrial 73.122 and utilities, and telecom has 67.856. This shows that the IT sector has a relatively high score than other industries. The healthcare sector, financial, materials have similar kinds of CG practices.

The standard deviation value indicates that consumer discretionary(4.0576) have least dispersion followed by energy (4.6573), industrials(4.6798), consumer staple (4.8956), material (5.3776), utilities and telecom (5.7127), financial (7.2166), information technology (9.1151) and healthcare (9.6270).

Under category, I mean score of energy (73.698) and information technology (73.638) are highest. Health care (70.954), financials (71.404), materials (71.606), consumer discretionary (70.809) and industrial (71.877) have similar average scores, reflecting similar CG practices. The standard deviation value for utilities and telecom is the least, which is 2.5641. However, the health care sector has maximum value for standard deviation, indicating that data is closely distributed to mean value and utilities and telecom sector, but it has maximum dispersion for healthcare.

Category II scores mean value of consumer staples (81.667) is relatively higher as compared to health care (80.952), information technology (76.852), financials (74.000), energy (72.778), materials (80.741), consumer discretionary (77.778), industrials (79.630) and utilities and telecom (70.833) sectors. The standard deviation value indicates that the IT sector has a high dispersion of 26.564 whereas consumer discretionary has the least dispersion in the data 8.7163.

For category III average score of health care is 86.335, IT is 91.667, financials is 83.304, consumer staples is 82.174, energy is 92.174, materials is 80.741, consumer discretionary 77.778, industrials is 84.870 and utilities, and telecom is 70.833. This shows that energy

has a better average score than any other industry, reflecting better CG practices in category III. The energy sector has the least value of standard deviation 2.7498, and the utilities and telecom sector has highest.

From category IV scores, financials mean score is 69.986; IT is 69.737, and the industries with highest average scores. Consumer discretionary has the least value of standard deviation 4.0576 whereas higher standard deviation value is of healthcare industry 15.3016 reflecting highest dispersion.

It can be seen that the IT sector has a relatively high score as compared to other industries. The healthcare sector, financial, materials have similar kind of CG practices. Under category, I mean score of energy (73.698) is the highest. Category II scores are the best for consumer staples (81.667), in category III energy sector is performing the best, and in category, IV financial sector has the highest mean score (69.986). The overall analysis indicates that there are lot of differences in the CG scores and its four category components concerning various demographic variables.

### 5.2.1.2 Company-wise Analysis

In this sub-section, analysis of CG scores is done for private and PSU companies separately. Out of the total sample of 100 companies of NIFTY 100 Index, 21 companies belong to the PSU category and the remaining 79 companies are private sector companies. The scores of each company have been discussed here under.

**Table 5.5 - Corporate Governance Scores of Private Sector Companies**

| Company Name | Private Ownership | | | | |
| | "Category I- Rights and Equitable Treatment of Shareholders Score" | "Category II- Role of Stakeholders Score" | "Category III- Disclosures and Transparency Score" | "Category IV- Responsibilities of the Board Score" | Corporate Governance Total Score (CG) |
|---|---|---|---|---|---|
| ABB India Ltd. | 63.9 | 83.3 | 73.9 | 52.6 | 65.5 |
| ACC Ltd. | 76.5 | 100.0 | 73.9 | 65.8 | 74.9 |
| Adani Ports and Special Economic Zone Ltd. | 70.6 | 83.3 | 84.8 | 76.3 | 77.8 |
| Aditya Birla Capital Ltd. | 63.9 | 72.2 | 71.7 | 55.3 | 64.5 |
| Ambuja Cements Ltd. | 58.3 | 88.9 | 67.5 | 47.4 | 60.8 |
| Ashok Leyland Ltd. | 67.6 | 83.3 | 73.9 | 55.3 | 67.4 |
| Asian Paints Ltd. | 79.4 | 66.7 | 84.8 | 78.9 | 79.6 |
| Aurobindo Pharma Ltd. | 60.5 | 72.2 | 78.3 | 50.0 | 63.9 |
| Avenue Supermarts Ltd. | 72.2 | 94.4 | 76.1 | 78.9 | 77.6 |
| Axis Bank Ltd. | 66.7 | 94.4 | 82.6 | 86.8 | 80.3 |
| Bajaj Auto Ltd. | 76.5 | 66.7 | 82.6 | 60.5 | 72.5 |
| Bajaj Finance Ltd. | 67.6 | 72.2 | 80.4 | 71.1 | 73.0 |
| Bajaj Finserv Ltd. | 79.4 | 66.7 | 80.4 | 60.5 | 72.8 |
| Bandhan Bank Ltd. | 73.5 | 100.0 | 78.3 | 65.8 | 75.3 |
| Bharti Airtel Ltd. | 64.7 | 72.2 | 76.1 | 57.9 | 66.8 |
| Bharti Infratel Ltd. | 67.6 | 55.6 | 73.9 | 57.9 | 65.4 |
| Biocon Ltd. | 73.5 | 100.0 | 80.4 | 68.4 | 76.7 |
| Bosch Ltd. | 72.2 | 88.9 | 82.6 | 50.0 | 70.3 |
| Britannia Industries Ltd. | 73.5 | 66.7 | 73.9 | 55.3 | 67.5 |
| Cadila Healthcare Ltd. | 68.4 | 77.8 | 78.3 | 50.0 | 66.8 |
| Cipla Ltd. | 85.3 | 100.0 | 97.8 | 89.5 | 91.8 |
| Colgate Palmolive (India) Ltd. | 61.8 | 94.4 | 78.3 | 50.0 | 66.5 |
| Dabur India Ltd. | 63.9 | 88.9 | 89.1 | 65.8 | 74.5 |
| DLF Ltd. | 67.6 | 77.8 | 89.1 | 60.5 | 73.0 |
| Dr. Reddy's Laboratories Ltd. | 72.2 | 83.3 | 97.8 | 71.1 | 80.7 |
| Eicher Motors Ltd. | 73.5 | 83.3 | 91.3 | 60.5 | 75.9 |
| Godrej Consumer Products Ltd. | 63.9 | 88.9 | 82.6 | 60.5 | 71.0 |
| Grasim Industries Ltd. | 69.4 | 83.3 | 89.1 | 60.5 | 74.1 |

| | | | | | |
|---|---|---|---|---|---|
| **Havells India Ltd.** | 77.8 | 88.9 | 87.0 | 57.9 | 75.7 |
| **HCL Technologies Ltd.** | 61.1 | 27.8 | 82.6 | 60.5 | 64.1 |
| **HDFC Bank Ltd.** | 76.5 | 94.4 | 93.5 | 86.8 | 86.5 |
| **HDFC Standard Life Insurance Company Ltd.** | 73.5 | 83.3 | 80.4 | 55.3 | 71.1 |
| **Hero MotoCorp Ltd.** | 63.9 | 83.3 | 91.3 | 55.3 | 71.5 |
| **Hindalco Industries Ltd.** | 63.2 | 77.8 | 82.6 | 57.9 | 68.9 |
| **Hindustan Unilever Ltd.** | 57.9 | 72.2 | 89.1 | 65.8 | 71.1 |
| **Hindustan Zinc Ltd.** | 61.8 | 66.7 | 89.1 | 63.2 | 70.9 |
| **Housing Development Finance Corporation Ltd.** | 78.9 | 88.9 | 84.8 | 84.2 | 83.3 |
| **I T C Ltd.** | 77.8 | 88.9 | 95.7 | 71.1 | 82.2 |
| **ICICI Bank Ltd.** | 66.7 | 77.8 | 91.3 | 86.8 | 81.2 |
| **ICICI Lombard General Insurance Company Ltd.** | 67.6 | 94.4 | 87.0 | 73.7 | 77.9 |
| **ICICI Prudential Life Insurance Company Ltd.** | 64.7 | 88.9 | 82.6 | 73.7 | 75.2 |
| **Indiabulls Housing Finance Ltd.** | 63.2 | 72.2 | 87.0 | 50.0 | 67.3 |
| **IndusInd Bank Ltd.** | 71.1 | 61.1 | 91.3 | 84.2 | 80.1 |
| **Infosys Ltd.** | 73.5 | 100.0 | 100.0 | 94.7 | 90.5 |
| **InterGlobe Aviation Ltd.** | 73.5 | 55.6 | 80.4 | 78.9 | 75.4 |
| **JSW Steel Ltd.** | 71.1 | 77.8 | 91.3 | 65.8 | 76.2 |
| **Kotak Mahindra Bank Ltd.** | 81.6 | 83.3 | 93.5 | 92.1 | 88.5 |
| **L&T Finance Holdings Ltd.** | 69.4 | 11.1 | 58.7 | 55.3 | 56.1 |
| **Larsen & Toubro Ltd.** | 72.2 | 94.4 | 87.0 | 71.1 | 78.5 |
| **LIC Housing Finance Ltd.** | 69.4 | 22.2 | 60.9 | 73.3 | 63.3 |
| **Lupin Ltd.** | 73.5 | 61.1 | 87.0 | 47.4 | 68.5 |
| **Mahindra & Mahindra Ltd.** | 67.6 | 83.3 | 97.8 | 71.1 | 79.3 |
| **Marico** | 70.6 | 66.7 | 78.3 | 68.4 | 71.8 |
| **Maruti Suzuki India Ltd.** | 67.6 | 66.7 | 91.3 | 76.3 | 77.2 |
| **Motherson Sumi Systems Ltd.** | 69.4 | 66.7 | 84.8 | 50.0 | 67.9 |
| **MRF Ltd.** | 70.6 | 83.3 | 87.0 | 52.6 | 71.4 |
| **Oracle Financial Services Software Ltd.** | 73.5 | 77.8 | 84.8 | 57.9 | 72.6 |

| | | | | | |
|---|---|---|---|---|---|
| Pidilite Industries Ltd. | 77.8 | 72.2 | 89.1 | 55.3 | 73.9 |
| Piramal Enterprises Ltd. | 76.5 | 83.3 | 87.0 | 55.3 | 73.9 |
| Procter & Gamble Hygiene & Health Care Ltd. | 64.7 | 83.3 | 84.8 | 52.6 | 69.0 |
| Reliance Industries Ltd. | 81.6 | 94.4 | 95.7 | 63.2 | 81.6 |
| Shree Cement Ltd. | 67.6 | 77.8 | 87.0 | 52.6 | 69.9 |
| Shriram Transport Finance Co. Ltd. | 58.3 | 66.7 | 82.6 | 73.7 | 71.1 |
| Siemens Ltd. | 79.4 | 72.2 | 95.7 | 55.3 | 76.3 |
| Sun Pharmaceutical Industries Ltd. | 63.2 | 72.2 | 84.8 | 68.4 | 72.1 |
| Sun TV Network Ltd. | 70.6 | 77.8 | 87.0 | 52.6 | 70.8 |
| Tata Consultancy Services Ltd. | 82.4 | 72.2 | 95.7 | 73.7 | 82.7 |
| Tata Motors Ltd. | 73.7 | 83.3 | 93.5 | 68.4 | 79.0 |
| Tata Steel Ltd | 76.3 | 77.8 | 95.7 | 71.1 | 80.7 |
| Tech Mahindra Ltd. | 73.5 | 88.9 | 93.5 | 73.7 | 81.1 |
| Titan Company Ltd. | 73.5 | 77.8 | 91.3 | 73.7 | 79.3 |
| UltraTech Cement Ltd. | 77.8 | 94.4 | 84.8 | 52.6 | 74.0 |
| United Spirits Ltd. | 73.7 | 72.2 | 73.9 | 81.6 | 76.0 |
| UPL Ltd. | 72.2 | 77.8 | 87.0 | 60.5 | 73.7 |
| Vedanta Ltd. | 83.3 | 88.9 | 91.3 | 65.8 | 81.0 |
| Vodafone Idea Ltd. | 69.4 | 66.7 | 73.9 | 44.7 | 63.1 |
| Wipro Ltd. | 77.8 | 94.4 | 93.5 | 65.8 | 80.6 |
| Yes Bank Ltd. | 76.5 | 72.2 | 82.6 | 73.7 | 77.1 |
| Zee Entertainment Enterprises Ltd. | 75.0 | 61.1 | 78.3 | 68.4 | 72.6 |

Table 5.5 shows company-wise CG scores of private sector companies. These scores have been presented for total score (CG) and four components of CG i.e. "Category I - rights and equitable treatment of shareholders", "Category II - Role of Stakeholders", "Category III - disclosure and transparency", and "Category IV responsibilities of the board". As per CG total score, out of 79 private sector companies, Cipla Ltd. has got the highest CG score 91.8, Infosys Ltd. got second rank 90.5,whereas, Kotak Mahindra Bank Ltd. 88.5, HDFC Bank 86.5, Housing Development Finance Corporation Ltd. 83.3, Tata

Consultancy Services Ltd. 82.7 got $3^{rd}$, $4^{th}$, $5^{th}$ and $6^{th}$ ranks respectively. L&T Finance Holding Ltd. got the last rank.

In the case of category I, Cipla Ltd. (85.3) has got the highest score, Vedanta Ltd. (83.3) got $2^{nd}$ rank, $3^{rd}$ rank is of Tata Consultancy Services (82.4), Reliance Industries Ltd. and Kotak Mahindra Bank Ltd. with 81.6 are at the $4^{th}$ position. Asian paints Ltd., Bajaj finserv Ltd., Siemens Ltd. (79.4) have got $5^{th}$ rank, and Housing Development Finance Corporation Ltd. (78.9) is at $6^{th}$ position. Hindustan Unilever, with a 59.9 score, is in the last position.

From category II score analysis, it can be said that ACC Ltd.,Bandhan Bank Ltd.,Biocon Ltd.,Cipla Ltd., Infosys Ltd., scored the highest (100). Avenue Supermarket Ltd, Axis Bank Ltd., Colgate Palmolive Ltd., HDFC Bank Ltd., ICICI Lombard General Insurance Company Ltd., Larsen and Tourbo Ltd., Reliance Industries Ltd., Ultra Tech Cement Ltd. and Wipro Ltd. ranks $2^{nd}$with 94.4 scores. Ambuja Cement Ltd., Bosch Ltd., Dabur India Ltd., Godrej Consumer, Havells India Ltd., Housing Development Finance Corporation Ltd., ITC Ltd., ICICI Prudential Life Insurance Company Ltd., Tech Mahindra Ltd. got $3^{rd}$rank by scoring 88.9. With 83.3 ABB Ltd., Adani Ports, Ashok Leyland Ltd., Dr. Reddy Laboratories Ltd., Eicher Motor Ltd., Grasim Industries Ltd., HDFC Standard Life Insurance Company Ltd., Hero Moto Corp Ltd., Kotak Mahindra Bank Ltd., Mahindra and Mahindra Ltd. MRF Ltd., Piramal Enterprises Ltd., Procter and Gamble Hygiene and Health Care Ltd., Tata Motors Ltd., hold $4^{th}$ rank. Cadila healthcare Ltd., DLF Ltd., Hindalco Industries Ltd., ICICI Bank Ltd., JSW Steel Ltd., Oracle Software Industries Ltd., Shree Cement Ltd., Sun TV Network Ltd., Tata Steel Ltd., Titan Company Ltd., and

UPL Ltd. are at the 5$^{th}$ rank with 77.8 scores. However, L&T Finance Holding Ltd. is in the last position with an 11.1 score.

For category III, Infosys Ltd. with 100 scores is the leader, followed by Cipla Ltd., Dr. Reddy Laboratories Ltd., Mahindra and Mahindra Ltd. with 97.8 scores is at 2$^{nd}$ position. ITC Ltd., Reliance Industries Ltd., Tata Consultancy Services Ltd., Tata Steel Ltd., with a 95.7 score, holds 3$^{rd}$ position. HDFC Bank Ltd., Kotak Mahindra Bank Ltd., Tata Motors Ltd., Tech Mahindra Ltd. and Wipro Ltd. with 93.5 scores are at 4$^{th}$ position. Eicher Motors Ltd.,Hero Moto Corp Ltd., ICICI Bank Ltd., Induslnd Bank Ltd., JSW steel Ltd., MarutiSuzuki India Ltd.,Titan Company Ltd. with 91.3 scores are at 5$^{th}$ position. L&T Finance Ltd. Score (58.7) is the least in category III of corporate governance.

As per category IV score, Infosys Ltd. has the highest score (94.7), Kotak Mahindra Bank Ltd. got 2$^{nd}$(92.1), Cipla Ltd. got 3$^{rd}$ rank (89.5), HDFC Bank Ltd. and ICICI Bank Ltd. got 4$^{th}$ rank with (86.8) score and Induslnd Bank Ltd. got 5$^{th}$ rank with 84.2 scores. The last position is of Vodafone idea Ltd. with a 44.7 score.

Table 5.6- Corporate Governance Scores of PSU Companies

| Company Name | PSU Ownership | | | | |
|---|---|---|---|---|---|
| | "Category I- Rights and Equitable Treatment of Shareholders Score" | "Category II- Role of Stakeholders Score" | "Category III- Disclosures and Transparency Score" | "Category IV- Responsibilities of the Board Score" | Corporate Governance Total Score (CG) |
| Bank of Baroda | 76.5 | 72.2 | 82.6 | 52.6 | 70.7 |
| Bharat Electronics Ltd. | 69.4 | 77.8 | 84.1 | 52.6 | 69.6 |
| Bharat Heavy Electricals Ltd. | 69.4 | 77.8 | 84.1 | 46.7 | 67.8 |
| Bharat Petroleum Corporation Ltd. | 63.9 | 72.2 | 89.1 | 56.7 | 70.1 |
| Coal India Ltd. | 70.6 | 11.1 | 87.0 | 66.7 | 68.4 |
| Container Corporation of India Ltd. | 70.6 | 83.3 | 87.0 | 52.6 | 71.4 |
| GAIL (India) Ltd. | 79.4 | 77.8 | 95.7 | 63.3 | 79.3 |

| | | | | | |
|---|---|---|---|---|---|
| General Insurance Corporation of India | 73.5 | 66.7 | 91.3 | 60.5 | 74.3 |
| Hindustan Petroleum Corporation Ltd. | 75.0 | 61.1 | 91.3 | 60.0 | 74.0 |
| Indian Oil Corporation Ltd. | 72.2 | 72.2 | 93.5 | 70.0 | 77.9 |
| NHPC Ltd. | 70.6 | 88.9 | 93.5 | 60.0 | 76.1 |
| NMDC Ltd. | 70.6 | 83.3 | 93.5 | 67.6 | 77.8 |
| NTPC Ltd. | 76.3 | 77.8 | 91.3 | 46.7 | 72.1 |
| Oil and Natural Gas Corporation Ltd. | 72.2 | 77.8 | 93.5 | 76.7 | 80.5 |
| Oil India Ltd. | 73.5 | 88.9 | 91.3 | 70.0 | 79.3 |
| Petronet LNG Ltd. | 72.2 | 94.4 | 93.5 | 64.7 | 78.6 |
| Power Grid Corporation of India Ltd. | 72.2 | 72.2 | 89.1 | 76.7 | 78.6 |
| SBI Life Insurance Company Ltd. | 70.6 | 77.8 | 93.5 | 71.1 | 78.3 |
| State Bank of India | 73.7 | 83.3 | 84.8 | 73.3 | 77.9 |
| Steel Authority of India Ltd. (SAIL) | 70.6 | 83.3 | 97.8 | 70.0 | 79.9 |
| The New India Assurance Company Ltd. | 73.5 | 72.2 | 84.8 | 57.9 | 72.1 |

Table 5.6 shows a company-wise analysis of CG scores of Public Sector Units (PSU). For CG total score, out of 21 companies. Oil and Natural Gas Corporation Ltd. has scored the highest, 80.5, followed by SAIL (79.9). GAIL India Ltd., Oil India Ltd. are at 3rd position with a score of 79.3. At 4th position Petronet LNG Ltd., Power Grid Corporation of India Ltd are placed with 78.6 scores. India Oil Corporation Ltd. and State Bank of India are at 5th position with a score of 77.9. Bharat Heavy Electricals Ltd. (67.8) is in the last position.

Under category I scores, it can be seen that GAIL India Ltd. has got the highest score (79.4), the second rank is of Bank of Baroda (76.5). NTPC Ltd.(76.3)which have the next best score. Hindustan Petroleum Corporation Ltd. (75.0), State Bank of India (73.7) has also scored well. Bharat Petroleum Corporation Ltd. 63.9 is the lowest among all the PSU companies.

For category II, Petronet LNG Ltd.(94.4) has got the highest score. NHPC Ltd., Oil India Ltd.have got the second position (88.9). Container Corporation of India Ltd., NMDC Ltd., State Bank of India and SAIL Ltd. with 83.3 scores is at third rank. At 4th rank, Bharat Electronics Ltd., Bharat heavy electrical Ltd., GAIL India Ltd., NTPC Ltd., ONGC and SBI life insurance company Ltd. are there with 77.8 scores. At 5th rank Bank of Baroda, BPCL, Indian Oil Corporation Ltd. and Power Grid Corporation of India Ltd., The New India Assurance Co Ltd. are there with 72.2 score. However, Coal India has scored the least in category II (11.1).

The highest score in category III is achieved by SAIL Ltd.(97.8), GAIL India Ltd.(95.7) gets the second place, Indian Oil Corporation Ltd., NHPC Ltd., NMDC Ltd., Petronet LNG Ltd., SBI Life Insurance Company Ltd. have got 93.5 score thus, are at the third position. General Insurance Corporation of India, HPCL, NTPC Ltd., Oil India Ltd. with 91.3 are at the four positions, Power Grid Corporation of India Ltd. has also scored good (89.1) and is at 5th position. Bank of Baroda is the lowest among all the PSU's companies with an 82.6 score.

Under category IV score of ONGC is the highest (76.7). Power Grid Corporation of India Ltd. and State Bank of India is at the second position with a 73.3 score. SBI Life Insurance Company Ltd. is in the third position with a 71.1 score. Indian Oil Corporation Ltd., Oil India Ltd. and SAIL Ltd. are at 4th position. The fifth position is of NMDC Ltd. with 67.6 and NTPC Ltd. is last with a 46.7 score.

Overall it can be summarized that for private sector out of 79 private sector companies Cipla Ltd. has got the highest CG score, 91.8, Infosys Ltd. got the second rank, 90.5, Kotak Mahindra Bank Ltd. 88.5. L&T Finance Holding Ltd. which got the last rank.In

case of category I, Cipla Ltd. (85.3) has got the highest score, Vedanta Ltd. (83.3) got $2^{nd}$ rank, $3^{rd}$ rank is of Tata Consultancy Services (82.4). From category II score ACC Ltd., Bandhan Bank Ltd., Biocon Ltd.,CiplaLtd., Infosys Ltd., scored the highest score (100). For category III, Infosys Ltd. with a 100 score is the leader, followed by Cipla Ltd., Dr. Reddy Laboratories Ltd., Mahindra and Mahindra Ltd. with 97.8 score are at $2^{nd}$ position. As per category IV score, Infosys Ltd. has the highest score (94.7), Kotak Mahindra Bank Ltd. got $2^{nd}$ (92.1), Cipla Ltd. got $3^{rd}$ rank (89.5).

Under PSUs categories out of 21 PSUs Oil and Natural Gas Corporation Ltd. has scored the highest,(80.5), followed by SAIL Ltd. (79.9). GAIL India Ltd., Oil India Ltd. are at $3^{rd}$ position with a score of 79.3. Bharat Heavy Electricals Ltd. (67.8) is at the last position. Under category I scores, it can be seen that GAIL India Ltd. has got the highest score (79.4), the second rank is of Bank of Baroda (76.5). NTPC Ltd.(76.3) has the next best score. For category II, Petronet LNG Ltd.(94.4) has got the highest score. NHPC Ltd., Oil India Ltd. have got the second position (88.9). Container Corporation of India Ltd., NMDC Ltd., State Bank of India and SAIL Ltd. with 83.3 score are ranked third. The highest score in category III is achieved by SAIL Ltd.(97.8), GAIL India Ltd.(95.7) gets the second place, Indian Oil Corporation Ltd., NHPC Ltd., NMDC Ltd., Petronet LNG Ltd., SBI Life Insurance Company Ltd. have got 93.5 score thus, are at the third position. Under category IV score of ONGC is the highest (76.7). Power Grid Corporation of India Ltd. and State Bank of India are at the second position with a 73.3 score. SBI Life Insurance Company Ltd. is in third position with a 71.1 score.

Out of private sector companies and PSUs, Cipla Ltd. has got the highest CG score, 91.8, Infosys Ltd. got second rank, 90.5, Kotak Mahindra Bank Ltd., 88.5. The highest score of

PSUs is of Oil and Natural Gas Corporation Ltd. which has scored the highest, 80.5, followed by SAIL Ltd. (79.9). GAIL India Ltd. (79.3), Oil India Ltd. (79.3). Thus we can conclude that private sector companies have better CG scores as compared to PSUs.

## 5.2.1.3 Demographic Characteristic Differences in CG Practices

In this subsection, the relationship has been analyzed between demographic characteristics and CG practices. The data has been classified based on five demographic characteristics i.e. age of the company, ownership status, private vs PSUs, MNC vs nationally-located companies and industrial sector based classification of companies. The CG total scores have been divided into four categories: leadership, good, fair, and basic, based on the scores they have received.

The results of  Table 5.7 shows age-wise differences in CG practices.

Table 5.7- Age-wise Differences in Corporate Governance Practices

| Corporate Governance Practices | | Age of Company Category | | | | | Chi-square Test |
|---|---|---|---|---|---|---|---|
| | | 0-25 Years | 25-50 Years | 50- 75 Years | Above 75 Years | Total | |
| Leadership | N | 0 | 3 | 0 | 1 | 4 | 11.532 (0.241) |
| | percent | 0.0% | 75.0% | 0.0% | 25.0% | 100.0% | |
| Good | N | 10 | 19 | 6 | 7 | 42 | |
| | percent | 23.8% | 45.2% | 14.3% | 16.7% | 42.0% | |
| Fair | N | 7 | 19 | 15 | 6 | 47 | |
| | percent | 14.9% | 40.4% | 31.9% | 12.8% | 47.0% | |
| Basic | N | 2 | 5 | 0 | 0 | 7 | |
| | percent | 28.6% | 71.4% | 0.0% | 0.0% | 7.0% | |
| Total | N | 19 | 46 | 21 | 14 | 100 | |
| | percent | 19.0% | 46.0% | 21.0% | 14.0% | 100.0% | |

Out of the total 100 sample companies, 46 percent of companies belong to the age group of 25-50 years. 21 percent companies belong to the age group of 50-75 years. 19 percent of the companies age between 0-25years and 14 percent are above 75 years of age. Out of these, 47 percent of the companies have a fair CG score, and 42 percent of companies have a good CG score. The total number of companies under the leadership CG category

is 4 percent, out of which 75 percent belong to 25-50 years of age, and 25 percent belong to above 75 years of age.

The maximum number of companies (47 percent) out of total lies in fair CG practices. 40.4 percent of companies belong to the age group of 25-50 years, and 31.9 percent of companies belong to the age group of 50-75 years.

Good CG practices are found in 42 percent of companies, out of these, 45 percent are from the age group of 25-50 years, and 23.8 percent are between 0-25 years of age. Only 7 percent of the companies which are having basic CG practices out of which 71.4 percent belong to the 25-50 years of age group.

The chi-square test results show a chi-square value of 11.532, with a significance value 0.241 is statistically non-significant at 0.05 percent level of significance. This indicates that there is no significant difference between the age of the company and the CG practices of these companies. Thus, the *null hypothesis $H_{01a}$*, which shows no significant difference between the age of companies and their CG practices, is accepted. This reveals that there is no difference between the age of the company and its CG practices.

Table 5.8 - Ownership-wise Differences in Corporate Governance Practices

| Corporate Governance Practices Status | | Promoter-owned vs Institutional vs Widely-held Classification | | | | |
|---|---|---|---|---|---|---|
| | | Promoter-owned | Institutional | Widely-held | Total | Chi-square Test |
| Leadership | N | 0 | 3 | 1 | 4 | **16.613 (0.011)** |
| | percent | 0.0% | 75.0% | 25.0% | 4.0% | |
| Good | N | 30 | 9 | 3 | 42 | |
| | percent | 71.4% | 21.4% | 7.1% | 42.0% | |
| Fair | N | 39 | 6 | 2 | 47 | |
| | percent | 83.0% | 12.8% | 4.3% | 47.0% | |
| Basic | N | 7 | 0 | 0 | 7 | |
| | percent | 100.0% | 0.0% | 0.0% | 7.0% | |
| Total | N | 76 | 18 | 6 | 100 | |
| | percent | 76.0% | 18.0% | 6.0% | 100.0% | |

Table 5.8 shows the chi-square value is 16.613, indicating significant results that are significant at the 0.01 level of significance, suggesting a significant difference between the CG practices followed by promoter-owned companies, institutional-owned companies, and widely-held companies. This reflects that those companies that are more promoter-owned have better CG practices as compared to other groups. These results are confirmed from the table that 76 percent of companies which are promoter-owned, 18 percent of the companies have institutional ownership, and 6 percent of the companies have widely-held ownership. Out of these,47 percent have fair CG practices, of which 83 percent have promoter ownership, and 12.8 percent have institutional ownership. From the category of good CG practices score, 71.4 percent of companies are promoter-owned, while under the basic CG practices,100 percent of the companies have promoter ownership. Of those companies which have leadership CG practices, 75 percent of these companies have institutional ownership. This indicates that the ownership status of companies does significantly impact the CG practices of the companies, and specifically, the companies with higher promoter ownership have good and fair practices. Thus *null hypothesis $H_{01b}$*, is rejected as there is a significant difference between the ownership status of companies and their CG practices.

**Table 5.9- Private-PSU-wise Differences in Corporate Governance Practices**

| Corporate Governance Practices Status | | Private vs PSU Classification | | | |
|---|---|---|---|---|---|
| | | Private | PSU | Total Sample | Chi-square Test |
| Leadership | N | 4 | 0 | 4 | 3.608 (0.307) |
| | percent | 100.0% | 0.0% | 4.0% | |
| Good | N | 31 | 11 | 42 | |
| | percent | 73.8% | 26.2% | 42.0% | |
| Fair | N | 37 | 10 | 47 | |
| | percent | 78.7% | 21.3% | 47.0% | |

| Basic | N | 7 | 0 | 7 | |
|---|---|---|---|---|---|
| | percent | 100.0% | 0.0% | 7.0% | |
| Total | N | 79 | 21 | 100 | |
| | percent | 79.0% | 21.0% | 100.0% | |

Table 5.9 shows the difference in CG practices based on private and PSU status. Out of the total sample of 100 companies, 79 percent of companies are from the private sector, and 21 percent companies belong to PSU. Under fair CG practices, 47 percent of companies are there, out of which 78.7 percent are from the private sector, and 21.3 percent are from the PSU sector. Good CG practices are followed by 42 percent of sample, of which 73.8 percent of companies belong to the private sector and 26.2 percent of companies belong to the PSU sector. The basic CG practices level is followed by 7 percent of companies, and all of them are private companies. Under leadership CG practices, only 4 percent of companies exist, and all belong to the private sector.

The chi-square value is 3.608, which is insignificant at the 0.307 level, indicating no significant relationship between the private sector and PSU classification of CG practices. Thus, the null hypothesis $H_{01c}$ is supported that there is no significant difference between the private and PSU sector with CG practices.

**Table 5.10– MNC vs Nationally-Located-wise Differences in Corporate Governance Practices**

| Corporate Governance Practices Status | | MNCs vs Nationally-located Classification | | | |
|---|---|---|---|---|---|
| | | Nationally-located | MNC | Total | Chi-square Test |
| Leadership | N | 4 | 0 | 4 | 1.938 (0.585) |
| | percent | 100.0% | 0.0% | 4.0% | |
| Good | N | 39 | 3 | 42 | |
| | percent | 92.9% | 7.1% | 42.0% | |
| Fair | N | 40 | 7 | 47 | |
| | percent | 85.1% | 47.0% | 47.0% | |

| Basic | N | 6 | 1 | 7 | |
|-------|---|---|---|---|---|
| | percent | 85.7% | 14.3% | 7.0% | |
| Total | N | 89 | 11 | 100 | |
| | percent | 89.0% | 11.0% | 100.0% | |

The analysis of Table 5.10 shows that out of 100 companies' sample, 89 percent of companies belong to the nationally-located category and 11 percent belong to MNCs. In the fair category of CG score (47 percent of total companies), 85.1 percent are Nationally-located, and 14.9 percent are MNCs. Good CG practices are for 42 percent of companies, wherein nationally-located companies are 92.9 percent, and 7.1 percent are MNCs. With 7 percent of companies in basic practices, 85.7 percent of them are nationally-located, and 14.3 percent are MNCs.

Leadership practices are followed by 4 percent of companies and all are nationally-located. The chi-square value is 1.938, which is insignificant(0.382). S0, the *null hypothesis $H_{01d}$* is supported. It can be inferred that there is no significant difference between MNC and nationally-located classification with CG practices of companies.

**Table 5.11 - Industry-wise Differences in Corporate Governance Practices**

| | | | | | | Industry Classification | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Corporate Governance Practices Status | | HealthCare | Information Technology | Financials | Consumer Staples | Energy | Materials | Consumer Discretionary | Industrials | Utilities and Telecom | Total | Chi-square Test value |
| Leadership | N | 1 | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 21.283 (0.622) |
| | percent | 25.0% | 25.0% | 50.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 4% | |
| Good | N | 2 | 3 | 11 | 3 | 6 | 6 | 5 | 5 | 1 | 42 | |
| | percent | 4.8% | 7.1% | 26.2% | 7.1% | 14.3% | 14.3% | 11.9% | 11.9% | 2.4% | 42% | |
| Fair | N | 3 | 1 | 9 | 7 | 4 | 8 | 9 | 4 | 2 | 47 | |
| | percent | 6.4% | 2.1% | 19.1% | 14.9% | 8.5% | 17.0% | 19.1% | 8.5% | 4.3% | 47% | |
| Basic | N | 1 | 1 | 3 | 0 | 0 | 1 | 0 | 0 | 1 | 7 | |
| | percent | 14.3% | 14.3% | 42.9% | 0.0% | 0.0% | 14.3% | 0.0% | 0.0% | 14.3% | 7% | |
| Total | N | 7 | 6 | 25 | 10 | 10 | 15 | 14 | 9 | 4 | 100 | |
| | percent | 7.0% | 6.0% | 25.0% | 10.0% | 10.0% | 15.0% | 14.0% | 9.0% | 4.0% | 100.0% | |

In Table 5.11, the industrial sector-wise classification of CG practices of companies has been shown. It can be seen that out of 100 companies,25 percent companies are from the financial sector, 15 percent are from the materials sector, 14 percent belong to the consumer discretionary sector, 10 percent of companies are from the consumer staples sector, 10 percent from the energy sector, 9 percent from the industrial sector, 7 percent companies belong to the health care sector, 6 percent belong to the information technology sector, and 4 percent are from utilities and telecom sector. Maximum companies follow fair CG practices (47 percent), with 19.1 percent from the financial sector, and the consumer discretionary sector, 17 percent of companies, are from the materials sector. Good CG is practised by 42 percent of companies, and 26 percent belong to the financial sector. Only 7 percent of companies follow basic CG practices, out of which 42.9 percent are in the financial sector.

The chi-square value, which is 21.283 with a significance value of 0.622, indicates no statistically significant relationship between industry-wise classification of companies and their CG practices. Therefore, *null hypothesis $H_{01e}$* supports that there is no difference between industrial sector-wise classification and CG practices followed by companies.

It can be summarized that NIFTY 100 sample companies follow leadership (4 percent), good (42 percent), fair (47 percent) and basic (7 percent) CG practices. Based on its relationship with demographic characteristics wise differences, it has been found that ownership status of companies has a significant impact on CG practices, but age, private vs PSU, MNC vs nationally-located companies and industrial sector based classification does not impact their CG practices. Thus *null hypothesis $H_{01}$*is partially supported.

**5.2.1.4 Demographic Characteristics Differences in Corporate Governance Score**

Prior to ANOVA, in order to check whether there is equal variance, Levene test, i.e. test for homogeneity of variance, was performed. The test helps to determine if application ANNOVA is fit on the actual data or not.

Table 5.12 – Homogeneity of variance

| | "Category I-Rights and Equitable Treatment of Shareholders Score" | | "Category II-Role of Stakeholders Score" | | "Category III-Disclosures and Transparency Score" | | "Category IV-Responsibilities of the Board Score" | | Corporate Governance Total Score (CG) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Levene | Sig. | Levene | Sig. | Levene | Sig. | Levene | Sig. | Levene | Sig. |
| **Age** | .192 | .902 | 2.179 | .095 | .996 | .398 | 2.109 | .104 | 1.670 | .179 |
| **Private vs PSU** | 1.256 | .163 | .433 | .512 | .779 | .810 | 2.019 | .158 | 2.710 | .103 |
| **MNC vs. Nationally-located** | 3.473 | .065 | .459 | .500 | .753 | .388 | .002 | .965 | .598 | .411 |
| **Ownership** | .760 | .470 | .390 | .678 | 1.327 | .270 | 1.363 | .261 | .500 | .608 |
| **Industry** | 1.434 | .193 | 1.015 | .430 | .923 | .501 | 1.522 | .160 | 1.345 | .232 |

Table 5.12 shows that all the values of levene statistics are more than 0.05 level of significance, thus, indicating that variances are not equal. Therefore, ANOVA can be performed.

ANOVA was used after the Levene test to determine the differences in the total score of Corporate Governance (CG) and its four component scores in relation to demographic characteristics (**Ofuani et. al. 2018**). The results are summarized in Table 5.13.

**Table 5.13 - ANOVA Test Results for Demographic Characteristics-wise Differences in Corporate Governance Scores**

| | "Category I- Rights and Equitable Treatment of Shareholders Score" | | "Category II- Role of Stakeholders Score" | | "Category III- Disclosures and Transparency Score" | | "Category IV- Responsibilities of the Board Score" | | Corporate Governance Total Score (CG) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | F | Sig. | F | Sig. | F | Sig. | F | Sig. | F | Sig. |
| Age | .871 | .459 | 1.096 | .355 | **3.574** | **.017** | **2.525** | **.048** | 1.510 | .217 |
| Private vs PSU | .748 | .389 | .565 | .454 | **8.180** | **.005** | .784 | .378 | .365 | .547 |
| MNC vs. Nationally-located | 3.684 | .058 | 1.005 | .318 | **4.055** | **.047** | 2.503 | .117 | **3.573** | **.049** |
| Ownership | 1.768 | .176 | 1.105 | .335 | **6.226** | **.003** | **11.396** | **.000** | 3.209 | 0.73 |
| Industry | .929 | .497 | .537 | .826 | **2.551** | **.015** | 1.818 | **.044** | | |

As defined earlier, the CG Total Score (CG) calculated is further divided into four subcategories: "rights and equitable treatment of shareholders score", "Role of stakeholders score", "disclosure and transparency score", and "responsibilities of the board score". These four scores give us a CG Total Score (CG) of each company based on the demographic characteristics.

Age-wise classification of corporate governance total score (CG) the F value is 1.510, which is not significant at the 0.05 level of significance, indicating that the CG total score does not vary for age-wise categorization of companies, so the *null hypothesis $H_{02a}$* is supported.

The *null hypothesis $H_{02b}$* is also accepted as the F value (3.209) of ownership-wise groups of companies is insignificant with sign level of 0.73. The ANOVA result of classification of companies based on private sector vs PSU shows that the F-value is 0.365 which is not

significant (0.547) at 0.05 level, indicating that there is no difference in CG scores of private firms. Thus, the *null hypothesis $H_{02c}$* is supported.

The CG score is significantly different for multinational companies and companies with nationally-located status as the results of F value is 3.573, and the level of significance is at 0.05, which indicates a significant difference between the CG score of MNCs and nationally-located companies. Thus, the *null hypothesis $H_{02d}$* is not supported, suggesting that CG score varies for MNCs vs nationally-located categorization of companies.

Under category I for rights and equitable treatment of shareholders score, the results of the ANOVA test indicates that age-wise, there is no significant difference in the companies' score related to rights and equitable treatment of shareholders as the F value is insignificant (($H_{03a}$ is supported). Similarly, for private vs PSU ($H_{03c}$), ownership-wise differences ($H_{03b}$), MNC versus nationally located ($H_{03d}$) and industrial sector-wise differences ($H_{03e}$) are insignificant, for rights and equitable treatment of shareholders.

This indicates that age, private vs PSU, MNC versus nationally located, ownership and industrial sector does not affect the company's practices related to the company's disclosure related to Category I (i.e. "rights and equitable treatment of shareholders").

Concerning the Category II ("Role of Stakeholders"), all the ANOVA test results with respect to demographic differences show insignificant results, indicating that null hypothesis $H_{04}$ is supported. And there is no significant difference between age-wise, private vs PSU wise, MNC vs nationally-located, ownership-wise and industry-wise

classification of companies for the role of stakeholders scores. Thus, null hypothesis $H_{04}$ is accepted.

Category III of CG score is related to disclosure and transparency scores. The ANOVA test results on disclosure and transparency scores and demographic-wise relationships show highly significant age-wise differences. There is a significant difference between the company's age and the disclosure and transparency scores of companies belonging to different groups. These results can be further verified with the Duncan post hoc test conducted, and the results are shown in Table 5.14, which indicates that the companies which belong to 20-25 years age group, their disclosure and transparency scores are significantly different from other companies. Thus, the null hypothesis $H_{05a}$ is not supported, indicating that the company's age significantly matters for disclosure and transparency scores of companies. With respect to classification for private vs PSU, the disclosure and transparency scores are significantly different with F value of 8.180, which is significant at a 0.05 level of significance. This indicates that the *null hypothesis $H_{05c}$* is rejected, and there is a significant difference between disclosure and transparency score of private and public companies. With regard to MNC vs nationally-located classification of companies, the F value of 4.055 is highly significant at 0.047 level of significance. Thus, null hypothesis $H_{05d}$ is not supported, and disclosure and transparency scores significantly differ across MNCs vs nationally-located companies.

The hypothesis testing of $H_{05b}$, with respect to ownership wise differences in companies, shows significantly different results for different categories of ownership and the F value is 6.226 which is significant at the 0.003 level of significance, indicating that the null hypothesis is the null hypothesis $H_{05b}$ is rejected. Table 5.13 shows that the disclosure and

transparency scores of promoter-owned and institutional-owned companies are significantly different. The industry sector-wise classification of disclosure and transparency score indicates that F value of 2.8551, which is highly significant at 0.015 level of significance conveys that the null hypothesis $H_{05e}$ is rejected, and there is a significant difference in the disclosure and transparency scores of industry-wise classification of companies. The Duncan post hoc test results of Table 5.13 with respect to industry-wise classification and disclosure and transparency score category show that utility companies, consumer staples, financials, and IT sector companies show significantly different results compared to the rest of the industrial sectors. So, the null hypothesis $H_{05e}$ is rejected.

Category IV of CG scores, which account for responsibilities of the board, scores the results in table 5.13 to indicate that age-wise ANOVA results are significantly different with an F value of 2.525, which is insignificant at 0.05 level of significance, which suggests that the null hypothesis $H_{06a}$ is accepted. The Duncan post hoc test results for finding out the differences in the age group categories the results in Table 5.14 shows that companies which belong to the age group of 50-75 years and 25-50 years offer significantly different results as compared to the rest of the age groups, so the null hypothesis $H_{06a}$ is rejected.

**Table 5.14- Duncan Post Hoc Test for Demographic Characteristics-wise Differences in Corporate Governance Scores**

| | "Rights and Equitable Treatment of Shareholders Score" | "Role of Stakeholders Score" | "Disclosures and Transparency Score" | "Responsibilities of the Board Score" | Corporate Governance Total Score |
|---|---|---|---|---|---|
| **Age** | | | 0-25 years | 50-75 years and 25-50 years | |
| **Private vs PSU** | | | Private and PSU | | |
| **MNC vs. Nationally-located** | | | MNC vs. Nationally-located | | MNC vs. Nationally-located |
| **Ownership** | | | promoter-owned and Institutional | promoter and Institutional | |

Regarding private vs PSU and MNC vs. nationally-located companies, the ANOVA results are insignificant, indicating no difference between the responsibility of the board score of private vs PSU companies and MNC vs nationally-located companies. So, the null hypotheses $H_{06c}$ and $H_{06d}$ are accepted. Table 5.13 indicates ownership-wise differences in the responsibility of the board score, and the results of the ANOVA F test are significant with an F value of 11.396, which is significant at 0.005 level of significance, which indicates that the null hypothesis $H_{06b}$ is rejected. There is a significant difference in the ownership-wise distribution of responsibilities of the board, and these results are confirmed by table 5.14, which showcases that promoter-owned and institutional-owned classification of ownership is significantly different from other groups. Industry sector-wise differences in the responsibility of the board score also indicate significant ANOVA result with the F value of 1.818, which is significant at 0.44 level of significance, which suggests that industry sector-wise, there is a significant difference in the responsibilities of the board and the results are confirmed by the Duncan

post hoc test (Table 5.14). It reflects that the responsibility of board score is different for utility companies, consumer staples, financials and IT sector companies as compared to the rest of the industrial sectors. This shows that the null hypothesis $H_{06e}$ is rejected, and there is a significant difference in companies' industry sector-wise classification.

The overall analysis indicates that null hypothesis $H_{02}$ is partially supported as there is a significant difference in the MNC vs nationally-located companies for corporate governance total score (CG). The null hypothesis $H_{03}$ is supported. There is no difference in demographic characteristics of organization and their practices related to the Role of stakeholders scores, and null hypothesis $H_{04}$ is supported. The null hypothesis $H_{05}$ is partially supported as there is a significant difference in the demographic characteristics like age, private vs PSU, MNC vs nationally-located companies and industrial sector based classification of companies and their practices related to disclosures and transparency scores. The null hypothesis $H_{06,}$ which indicates that there is no difference in the demographic characteristics and their practices related to responsibilities of the board, is partially rejected as there is a significant difference in the practices related to the responsibility of the board with respect to age, ownership and industry sector.

Overall we can conclude that CG score is impacted by the MNC vs nationally-located status of companies. Age significantly matters with respect to disclosure and transparency scores where it was found that young companies have better disclosures and for the responsibilities of the board old companies have performed better which was from the age category of 50-75 years the disclosure and transparency scores also differ between the private sector companies and PSU. According to the industrial sector classification,

organisations in the utilities, consumer staples, financials, and IT sectors have considerably different disclosure and transparency scores and duties.

The companies which belong to promoter-owned and institutional-owned categories have significantly different disclosures and transparency scores and responsibilities of the Board. Overall, the above analysis shows that MNC vs nationally-located status, industry sector-wise differences, and ownership characteristics affect the CG practices of Indian companies.

### 5.2.2 Analysis of Financial Performance

This sub-section explains data related to FP variables taken from 2015 to 2019. The detailed analysis has been carried out for financial variables for the financial year 2019, and the rest of the data for a five-year period has been used to compute CAGR for a five-year period. As CG is a strategic and policy-related activity, its impact will be visible on financial performance over five years. So, 5-year CAGR values have also been analysed for the study. Sixteen financial variables data has been analysed.

### 5.2.2.1 Descriptive Statistics of Financial Performance Variables

For the study, 15 financial performance variables are being considered. Descriptive statistics incorporate mean value, maximum, minimum and standard deviation.

Table 5.15 shows descriptive statistics of financial performance variables of 100 companies for the financial year 2019.

**Table 5.15 - Descriptive Statistics of Financial Performance Variables of F.Y. 2019**

| | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|
| Beta-Measure of volatility | 0.00 | 2.20 | .9260 | 0.4761 |
| Closing Price | 18.25 | 57987.15 | 1970.1378 | 6354.4857 |
| Market Capitalization | 201102.94 | 8641224.35 | 1059560.3633 | 1383911.5705 |
| Enterprise Value | -364694.38 | 9542274.35 | 1153392.3312 | 1560203.7475 |
| Earning Per share | -17.93 | 2669.12 | 72.0407 | 282.1848 |
| Price to Earning ratio | 0.00 | 503.02 | 40.9603 | 65.2940 |
| Price by book ratio | 0.00 | 52.57 | 6.0800 | 8.3106 |
| Total Debt ratio | 0.0 | 1617200.0 | 126858.155 | 319375.0638 |
| TobinsQ | -0.6570 | 34.9689 | 3.3470 | 5.0503 |
| Return on Equity ratio | -0.2213 | 0.7881 | 0.1491 | 0.1476 |
| Return on Capital Employed | -0.0895 | 0.8536 | 0.1651 | 0.1581 |
| Return on Assets ratio | -0.0556 | 0.5471 | 0.0913 | 0.0908 |
| Return on Sales ratio | -0.4165 | 0.8998 | 0.1942 | 0.1751 |
| Dividend Yield | 0.0000 | 714.4820 | 58.5516 | 128.0504 |
| CSR Spend | 0.0034 | 0.1135 | 0.0238 | 0.0173 |

Table 5.15 analyses explain financial performance indicators of these 100 companies. The beta mean value is 0.9260, and the standard deviation value is 0.4761. The closing price mean value is 1970.1378, with a standard deviation of 634.4857. The average score of market capitalization is 1059560.3633, Enterprise value mean is 1153392.3312.

The earnings per share mean score is 72.0407 with a standard deviation of 2.1848. Price to Earnings ratio average score is 40.9603 with standard deviation value of 65.2940, the price to book ratio mean is 6.0800, total debt ratio mean is 126858. Tobin's Q mean score is 3.3470, and the standard deviation is 5.0503.

Return on equity ratio mean is 0.1491 and the standard deviation is 0.1476, return on capital employed mean value is 0.1651, the standard deviation is 0.1581, return on asset ratio average value is 0.0913 and standard deviation as 0.0908, return on sales mean is

0.1942, and the standard deviation is 0.1751. The dividend yield mean is 58.5516, and the standard deviation is 128.0504. CSR spending minimum is 0.0034, whereas the maximum is 0.1135. CSR spend average value is 0.0238, whereas the standard deviation is 0.0173.

## 5.2.2.2 Demographic-wise Differences in Financial Performance Variables

The analysis of financial variables based on demographic characteristics has been carried out in this sub-section. Demographic characteristics, namely age, private vs PSU, MNC vs nationally-located companies and industrial sector based classification of companies, has been carried out to analyse the financial performance variables.

Table 5.16- Age-wise Descriptive Statistics of Financial Performance Variables of F.Y. 2019

| | | Statistic | | | |
| --- | --- | --- | --- | --- | --- |
| | | Age of Company Category | | | |
| | | 0-25 Years | 25-50 Years | 50- 75 Years | Above 75 Years |
| Beta-Measure of volatility | Mean | .9336 | .8993 | 1.2465 | .7945 |
| | Std. Deviation | .52227 | .30235 | .42632 | .33324 |
| Closing Price | Mean | 1487.8743 | 1494.0383 | 4825.7390 | 1170.0545 |
| | Std. Deviation | 1949.0350 | 2978.2382 | 13294.0565 | 839.0159 |
| Market Capitalization | Mean | 664835.7929 | 1472559.4890 | 519529.2880 | 1412629.2255 |
| | Std. Deviation | 262885.3263 | 1893940.6307 | 337044.2805 | 1233277.9311 |
| Enterprise Value | Mean | 788213.8786 | 1731281.5081 | 481274.1480 | 1311694.5800 |
| | Std. Deviation | 355620.3145 | 2088055.8626 | 486484.0094 | 1195636.5821 |
| Earning Per share | Mean | 30.4757 | 67.1069 | 180.0215 | 33.7755 |
| | Std. Deviation | 43.14702 | 132.98007 | 597.61881 | 19.25259 |
| Price to Earning ratio | Mean | 62.8800 | 34.9083 | 61.1775 | 37.5573 |
| | Std. Deviation | 89.29390 | 33.05509 | 110.71253 | 21.19991 |
| Price by book ratio | Mean | 8.9121 | 5.4636 | 5.2870 | 12.1391 |
| | Std. Deviation | 9.1801 | 4.2567 | 9.5585 | 15.3866 |

| Total Debt ratio | Mean | 36517.4071 | 152212.3476 | 127714.8200 | 45686.8000 |
|---|---|---|---|---|---|
| | Std. Deviation | 80028.3510 | 407268.3482 | 212705.1671 | 91286.5508 |
| Tobin'sQ | Mean | 5.3367 | 2.9374 | 2.3765 | 5.6672 |
| | Std. Deviation | 9.0816 | 2.6673 | 4.7916 | 6.1945 |
| Return on Equity ratio | Mean | 0.1256 | 0.1552 | 0.1433 | 0.2646 |
| | Std. Deviation | 0.1024 | 0.1413 | 0.1138 | 0.2102 |
| Earning before interest and tax | Mean | 25320.621 | 79938.052 | 45708.760 | 70716.082 |
| | Std. Deviation | 19160.1799 | 115254.8318 | 58393.8395 | 59739.9146 |
| Return on Capital Employed | Mean | 0.1180 | 0.1754 | 0.1642 | 0.2880 |
| | Std. Deviation | 0.0970 | 0.1558 | 0.1381 | 0.2129 |
| Return on Assets ratio | Mean | 0.0787 | 0.1074 | 0.0710 | 0.1397 |
| | Std. Deviation | 0.0651 | 0.1067 | 0.0641 | 0.0768 |
| Return on Sales ratio | Mean | 0.2649 | 0.2254 | 0.1578 | 0.1909 |
| | Std. Deviation | 0.2285 | 0.1615 | 0.1412 | 0.0817 |
| Dividend Yield ratio | Mean | 20.5164 | 63.7995 | 109.4843 | 30.6520 |
| | Std. Deviation | 34.5677 | 130.1096 | 188.3009 | 60.7136 |
| CSR Spend | Mean | 0.0181 | 0.0216 | 0.0300 | 0.0278 |
| | Std. Deviation | 0.0057 | 0.0146 | 0.0249 | 0.0179 |

Table 5.16 shows age-wise descriptive of financial performance variable for the financial year 2019. The age of companies is categorized into four groups, i.e. 0-25 years, 25-50 years, 50-75 years and above 75 years. Beta, which is considered a measure of volatility, has a mean score of 0.9336 for 0-25 years, 25-50 years is 0.8993, for 50-75 years, mean of beta is 1.2465 and for above 75 years, mean is 0.7945. This shows that companies under the age group of 50-75 years have the highest mean value, reflecting that this age group has a high risk and has a high return. Closing Price mean value of companies under age group0-25 years is 1487.8743, 25-50 years is 1494.0383, 50-75 years is 4825.7390 and above 75 years is 1170.0545. Companies under 0-25 years, 25-50 years category have

almost the same mean score, but 50-75 years companies show the highest mean value. Looking at market capitalization values, companies with 25-50 years have the highest mean followed by above 75 years (1412629.2255), 0-25 years (664835.7929) and 50-75 years (519529.2880). Market capitalization reflects a company's total wealth. Hence, it can be seen that companies above 75 years have more wealth than other age group companies. The mean score of enterprise value for 0-25 years is 788213.8786, 25-50 years is 1731281.50814, 50-75 years is 1274.1480, and for above 75 years is 1311694.5800. Since the enterprise value reflects the cost of purchasing a company and the highest enterprise value average is 25-50 years. Earnings per share ratio mean score for 0-25 years is 30.4757, 67.1069 for 25-50 years, 180.02154 for 50-75 years and 33.77554 for above 75 year companies. Earning per share reflects how profitable a company is based on per-share price. From the table, it can be seen that 50 -75 years of companies have the highest EPS mean. Price to earnings ratio 0-25 years average score is 62.8800 and for 25-50 years is 34.9083 and for 50 -75 years is 61.1775 and for above 75 years is 37.5573. Price to earnings ratio shows that investors want to invest more in companies that have a high price to earnings ratio as it leads to higher future growth or future return. The price to book value ratio of above 75 years (12.1391) is higher than 0-25 years (8.9121), 25 -50 years (5.4636) and 50-75 years (5.2870). Since the price to book ratio of above 75 years is the highest, these age group companies are confident about their growth aspects. However, a too high price to book ratio can reflect that the company is overvalued. Total debt ratio average score is lowest and 0-25 years of companies and 25-50 years. Whereas 50-75 years of companies total debt ratio mean value is 127714.8200 and for above 7-5 years are 45686.8000. The total debt ratio depicts that total debt is more than total assets. Therefore,

25-50 years of companies are at risk as their borrowing capacity reduces with a high total debt ratio, leading to financial inflexibility.

Tobin's Q mean value for 0-25 years is 5.3367, for 25-50 years is 2.9374, 50 -75 years is 2.3765, and for above 75 years of companies, it is 5.6672. High Tobin's Q ratio reflects that the company's market value is greater than the value of company recorded assets. For the return on equity ratio, the mean score of 0-25 years of companies is 0.1256, 25-50 years is 0.1552, for 50-75 years is 0.1433, and for above 75 years it is 0.2646. Since the return on equities average value of above 75 years of company is highest, these companies efficiently utilise equity capital to generate profit. For earning before interest in tax (EBIT) highest mean value is of the companies with the age of 25-50 years (79938.052) followed by above 75 years (70716.082), 50-75 years (45708.760) and lastly 0- 25 years of age companies (25320.621) are reflecting that companies under age group 25-50 years have the more earning ability that generates high revenues than other age groups. The return on capital employed has the highest mean score above 75 years of companies (0.2880), 25-50 years of companies are second with 0.1754 scores, 50-75 years of companies next 0.1642 and 0-25 years of companies are last with 0.1180. Companies under the age group above 75 years have generated the highest return for their investors. Return on assets ratios means score for 0-25 years is 0.0787, for 25-50 years is 0.1074, for 50-75 years is 0.0710, and for above 75 years is 0.1397. Since the average score of above 75 years of companies is the highest, these companies generate the highest returns by utilizing their assets. Looking at return on sales ratios, 0-25 years of companies have the highest average score followed by 25-50 years of companies (0.2254), above 75 years (0.1909) and 50-75 years at last (0.1578). High return on sales ratios reflects that the

company is efficiently converting its sales into profit. Therefore, 0-25 years of companies are leading in this category. Similarly, if we look at the dividend yield ratio, the average score of 50-75 years of companies is relatively high than 25-50 years (3.7995), above 75 years (30.6520) and 0-25 years (0.5164). It reflects that 50-75years age group companies are distributing dividends to their shareholders. For CSR spending, the mean value of 0-25 years of companies is 0.0181, 25 to 50 years is 0.0216, 50-75 years of companies is 0.0300 and about 75 years is 0.0278. As per the Companies Act, companies must spend 2 percent of their average profit for the preceding three years. Companies under 50-75 years of age spend relatively higher than other age group companies.

**Table 5.17 - Private vs PSU-wise Descriptive Statistics of Financial Performance Variables of F.Y. 2019**

|  |  | Statistic | |
|---|---|---|---|
|  |  | Private vs PSU ownership | |
|  |  | Private | PSU |
| Beta-Measure of volatility | Mean | .9397 | 1.1233 |
|  | Std. Deviation | .41770 | .28632 |
| Closing Price | Mean | 2638.3050 | 200.4847 |
|  | Std. Deviation | 7393.8998 | 128.4449 |
|  | Minimum | 91.3000 | 24.7000 |
|  | Maximum | 57987.1500 | 525.3000 |
| Market Capitalization | Mean | 1189978.8779 | 760415.1780 |
|  | Std. Deviation | 1567724.3513 | 586464.5570 |
| Enterprise Value | Mean | 1304841.8724 | 923621.7447 |
|  | Std. Deviation | 1728233.4957 | 840635.5217 |
| Earning Per share | Mean | 96.6117 | 17.4047 |
|  | Std. Deviation | 329.81773 | 10.89942 |
| Price to Earning ratio | Mean | 52.8814 | 11.7127 |
|  | Std. Deviation | 73.04031 | 6.33227 |
| Price by book ratio | Mean | 7.7625 | 2.3073 |
|  | Std. Deviation | 9.1917 | 2.2466 |
| Total Debt ratio | Mean | 70360.1347 | 326338.9200 |
|  | Std. Deviation | 226158.8605 | 505846.2268 |

| | | | |
|---|---|---|---|
| TobinsQ | Mean | 4.0242 | 1.2142 |
| | Std. Deviation | 5.5345 | 1.8575 |
| Return on Equity ratio | Mean | 0.1562 | 0.1870 |
| | Std. Deviation | 0.1404 | 0.1637 |
| Earning before interest and tax | Mean | 55008.217 | 96223.160 |
| | Std. Deviation | 85648.8962 | 102276.6205 |
| Return on Capital Employed | Mean | 0.1805 | 0.1651 |
| | Std. Deviation | 0.1619 | 0.1351 |
| Return on Assets ratio | Mean | 0.0983 | 0.0994 |
| | Std. Deviation | 0.0817 | 0.1277 |
| Return on Sales ratio | Mean | 0.2075 | 0.2330 |
| | Std. Deviation | 0.1462 | 0.2357 |
| Dividend Yield ratio | Mean | 29.6930 | 223.7184 |
| | Std. Deviation | 73.9572 | 214.5587 |
| CSR Spend | Mean | 0.0222 | 0.0312 |
| | Std. Deviation | 0.0131 | 0.0300 |

Table 5.17 depicts private and PSU wise descriptive analysis of financial performance variables for the year 2019. The average beta score of PSU (1.1233) is greater than the mean score of private sector (0.9397) companies. The standard deviation of PSU is 0.28632 is less than the standard deviation of private companies is 0.41770. Similarly, the average score of the closing price for private companies (2638.3050) is greater than PSU (200.4847). The standard deviation of private companies is 7393.8998, and for PSU, it is 128.4449. Market capitalization mean score for private sector companies (1189978.8779) is more than PSU (760415.1780) and for enterprise value mean score of the private sector is 1304841.8724 PSUs, it is 923621.7447. The difference between market value and enterprise value is majorly due to cash and debt.

From earning per share, it can be seen that in private sector companies, mean score are 96.6117, and for PSU, it is 17.4047.It indicates that per-share profit is good in private

sector companies. The standard deviation for private sector companies is more (329.81773) than PSU sector companies (10.89942). For price to earnings ratio, the average score of PSU (11.7127) is less than private sector companies (52.8814), indicating that for every rupee invested in private sector companies, shareholders will get more earnings. Similarly, the price by book ratio, mean score of private companies (7.7625) is more than the mean score of PSU (2.3073). It indicates that shareholders will own a greater book value of assets for every rupee invested in private companies. The total debt ratio for private companies is 70360.1347, and for PSU, it is 326338.9200, indicating that PSU's debt is more than private sector companies. Tobin's Q mean score for private sector companies (4.0242) is more significant than PSU (1.2142), implying that in private sector companies, stock prices are higher than the replacement cost of assets compared to PSU.

The mean score of equity ratio for PSU is 0.1870, and private sector companies 0.1562. It depicts that in PSUs, companies can generate more profits for shareholders equity investments. The earnings before interest in tax mean are 55008.217, and for PSU, it is 96223.160. This indicates that PSUs have relatively higher earnings than private companies from their core businesses, i.e. before interest tax is more. Return on capital employed for private companies (0.1805) and PSU (0.1651) indicates that companies generate relatively high returns from capital employed in the private sector.

Return on assets ratio, mean score of private sector companies (0.0983) is relatively less than PSU's (0.0994). However, there is a slight difference in their mean score, but PSUs generate more profits than private companies. The mean score of returns on sales ratio for PSU is 0.330 and for private is 0.2075. This reveals that PSUs generate more profit from sales than private companies. For the dividend yield ratio, the mean score of private

companies (29.6930) is less than PSU mean score (223.7184), indicating that PSUs are giving more price to their shareholders as a dividend for their stocks. CSR spend average score for private sector companies is 0.0222 and for PSU is 0.0312, this shows that PSUs are spending more than private companies on CSR activities. This analysis reveals that private companies have higher profitability measures than PSUs, but CSR spending of PSUs is more than private companies.

**Table 5.18– MNC vs. Nationally-located-wise Descriptive Statistics of Financial Performance Variables of F.Y. 2019**

| | | Statistic | |
| --- | --- | --- | --- |
| | | MNCs vs Nationally- located categories | |
| | | Nationally-located | MNC |
| Beta-Measure of volatility | Mean | .9817 | .9000 |
| | Std. Deviation | .40920 | .36488 |
| Closing Price | Mean | 1921.3320 | 4267.6364 |
| | Std. Deviation | 6916.9383 | 5606.7428 |
| Market Capitalization | Mean | 1157763.9996 | 826785.7191 |
| | Std. Deviation | 1501240.4738 | 1073540.0298 |
| Enterprise Value | Mean | 1303895.8207 | 791532.6009 |
| | Std. Deviation | 1672662.7573 | 1067800.3579 |
| Earning Per share | Mean | 79.2350 | 108.6591 |
| | Std. Deviation | 317.00375 | 160.54062 |
| Price to Earning ratio | Mean | 44.5182 | 54.5245 |
| | Std. Deviation | 72.16013 | 29.80701 |
| Price by book ratio | Mean | 5.6217 | 15.1145 |
| | Std. Deviation | 5.8964 | 17.2196 |
| Total Debt ratio | Mean | 130675.2263 | 2699.6636 |
| | Std. Deviation | 323919.0600 | 7703.0580 |
| TobinsQ | Mean | 3.1386 | 6.3110 |
| | Std. Deviation | 4.7677 | 7.2082 |
| Return on Equity ratio | Mean | 0.1438 | 0.2841 |
| | Std. Deviation | 0.1209 | 0.2236 |
| Earning before interest and tax | Mean | 66964.724 | 28601.818 |
| | Std. Deviation | 94023.2878 | 33467.5318 |
| Return on Capital Employed | Mean | 0.1594 | 0.3049 |
| | Std. Deviation | 0.1311 | 0.2504 |

| | | | |
|---|---|---|---|
| Return on Assets ratio | Mean | 0.0925 | 0.1398 |
| | Std. Deviation | 0.0875 | 0.1028 |
| Return on Sales ratio | Mean | 0.2172 | 0.1754 |
| | Std. Deviation | 0.1678 | 0.1323 |
| Dividend Yield ratio | Mean | 71.4881 | 5.5065 |
| | Std. Deviation | 139.4091 | 8.4814 |
| CSR Spend | Mean | 0.0239 | 0.0225 |
| | Std. Deviation | 0.0184 | 0.0066 |

Table 5.18 shows MNC vs nationally-located classification based descriptive statistics of financial performance variables for the year 2019. The mean beta score of nationally-located (.9817) is higher than MNCs (.9000). The closing price, mean score of nationally-located 1921.330 is less than MNC mean score (4267.6364). In the case of market capitalization, nationally-located companies average score is 1157763.9996, and for MNCs, it is 826785.7191, which shows that nationally-located companies have more market capitalization value than MNC. Considering enterprise values mean score of nationally-located (1303895.8207) and MNC (791532.6009), it can be seen that the average score of nationally-located is more than MNC's. Earnings per share mean for nationally-located (79.2350) and MNC (108.6591) shows that MNC's are making more money than nationally-located for each share. For the price to earnings ratio, nationally-located companies mean is 44.5182, and for MNC, it is 54.5245. This indicates that investors are willing to pay more for MNCs shares than for nationally-located companies share. The price by book ratio mean score for nationally-located is 5.6217, and for MNC, it is 15.1145. The total debt ratio of nationally-located companies, mean score is 130675.2263 and MNC it is 2699.6636, indicating that debt is more in nationally-located companies. For Tobin's Q mean for nationally-located companies is 3.1386, and for MNC, it is 6.3110. This depicts that MNCs are relatively worth more than the cost of their assets. For return on equity ratio, the nationally-located companies average score is 0.1438, and

for MNC's it is 0.2841. This concludes that the return on equity ratio of MNCs is more than the nationally-located company. The mean score of earnings before interest in tax of nationally-located companies' (66964.724) is more than MNC's mean (28601.88818). This indicates that nationally-located companies have more EBIT than MNC's. Return on capital employed average for nationally-located companies (0.1594) is less than MNC's (0.3049), indicating that MNC's generate more profit from its capital employed than nationally-located companies. Return on assets ratio mean values of nationally-located companies (0.0925) is lesser than MNCs (0.1398), it can be concluded that MNCs are utilizing their assets more efficiently to generate profit than nationally-located companies. In return on sales ratio, nationally-located companies mean (0.2172) is more than MNC's (0.1754), showing that nationally-located companies can convert their revenues into profit more efficiently than MNC. The dividend yield ratio mean for nationally-located companies (71.4881) is relatively higher than the mean score of nationally-located companies (5.5065). This shows that nationally-located companies are paying more to their shareholders per share price as dividends. Considering CSR spent mean for nationally-located companies 0.0239 and MNC's 0.025, there is not much difference in average score.

**Table 5.19- Ownership-wise Descriptive Statistics of Financial Performance Variables of F.Y. 2019**

| | | Statistic | | |
|---|---|---|---|---|
| | | Promoter-owned vs Institutional vs Widely-held ownership | | |
| | | Promoter-owned | Institutional | Widely-held |
| **Beta-Measure of volatility** | **Mean** | .9488 | 1.0400 | 1.0140 |
| | **Std. Deviation** | .41120 | .39219 | .37421 |
| **Closing Price** | **Mean** | 1771.0400 | 973.1956 | 12420.2300 |
| | **Std. Deviation** | 3536.3481 | 643.0785 | 25492.9428 |
| **Market** | **Mean** | 990278.6275 | 1750734.2094 | 438731.7900 |

| | | | | |
|---|---|---|---|---|
| Capitalization | Std. Deviation | 1414948.1085 | 1624180.3528 | 135529.8989 |
| Enterprise Value | Mean | 1049685.1150 | 2115754.3983 | 507902.8900 |
| | Std. Deviation | 1509525.7880 | 1897859.1693 | 205472.0655 |
| Earning Per share | Mean | 54.8145 | 46.6367 | 573.9040 |
| | Std. Deviation | 125.70815 | 47.10560 | 1171.54235 |
| Price to Earning ratio | Mean | 50.4447 | 36.2217 | 20.5400 |
| | Std. Deviation | 76.06435 | 41.31344 | 12.60522 |
| Price by book ratio | Mean | 7.9891 | 3.9294 | 2.2960 |
| | Std. Deviation | 9.7942 | 1.7267 | 1.0555 |
| Total Debt ratio | Mean | 140673.1484 | 19955.5111 | 119746.5600 |
| | Std. Deviation | 349250.7407 | 52403.7847 | 150983.2450 |
| TobinsQ | Mean | 4.2387 | 1.6384 | 1.4380 |
| | Std. Deviation | 5.8584 | 1.4568 | 1.0513 |
| Return on Equity ratio | Mean | 0.1834 | 0.0906 | 0.1364 |
| | Std. Deviation | 0.1541 | 0.0959 | 0.0468 |
| Earning before interest and tax | Mean | 56380.711 | 82327.233 | 62736.660 |
| | Std. Deviation | 93716.9476 | 80090.7798 | 64310.7488 |
| Return on Capital Employed | Mean | 0.1975 | 0.1163 | 0.1473 |
| | Std. Deviation | 0.1666 | 0.1259 | 0.0295 |
| Return on Assets ratio | Mean | 0.1102 | 0.0639 | 0.0734 |
| | Std. Deviation | 0.0965 | 0.0686 | 0.0168 |
| | Minimum | -0.0201 | 0.0035 | 0.0575 |
| | Maximum | 0.5471 | 0.1852 | 0.0996 |
| Return on Sales ratio | Mean | 0.2232 | 0.1917 | 0.1399 |
| | Std. Deviation | 0.1789 | 0.1146 | 0.0761 |
| Dividend Yield ratio | Mean | 75.0420 | 33.8782 | 16.2340 |
| | Std. Deviation | 149.0977 | 60.5951 | 21.0521 |
| CSR Spend | Mean | 0.0236 | 0.0212 | 0.0354 |
| | Std. Deviation | 0.0173 | 0.0142 | 0.0262 |

Table 5.19 shows ownership-wise differences in descriptive statistics of financial performance variables for the financial year 2019. As stated earlier, ownership has been categorized into three i.e. promoter-owned, institutional-owned and widely-held. The average beta score for promoter-owned (0.9488) is less than institutional (1.0400) and widely-held (1.0140). The closing price mean score for widely-held (12420.2300) is

higher than promoter-owned (1771.0400) and institutional-owned (973.1956) companies. Market capitalization average score is highest for institutional-owned (1750734.2094), promoter-owned (990278.6275), and lowest for widely-held (438731.7900) companies. Enterprise value mean of promoter-owned companies is 1049685.1150, for institutional is 2115754.3983 and for widely-held is 507902.8900. Earnings per share mean score is highest for widely-held (57.9040) than promoter-owned (54.8145) and institutional-owned (46.6367) companies. Price to earnings ratios, promoter-owned (50.4447), institutional (36.2217) and widely-held (20.5400) shows that promoter-owned companies offer a better return and thus, investors will be willing to pay more for promoter-owned companies shares than institutional and widely-held. Price by book ratio mean score for promoter-owned (7.9891) is higher than institutional (3.9294) and widely-held (2.2960). Total debt ratio mean for promoter-owned (140673.1484), institutional (19955.5111) and widely-held (119746.5600) indicates that institutional owned companies have less debt whereas promoter-owned owned companies have the highest debt. From Tobin's Q mean for promoter-owned companies (4.2387), institutional (1.6384) and widely-held (1.4380) it can be concluded that promoter-owned owned companies have the highest Tobin's Q, indicating that promoter-owned owned companies market value is greater than the value of recorded assets. From a return on equity ratio mean value for promoter-owned companies (0.1834), institutional-owned (0.0906) and widely-held (0.1364) companies it can be understood that promoter-owned owned companies are utilizing their equity capital to generate profit more effectively. Earnings before interest in tax mean for institutional (82327.233) is higher than widely-held (62736.660) and promoter-owned owned (56380.711), shows that institutional owned companies generate high revenues before

interest and tax. Looking at return on capital employed, promoter-owned owned companies' score (0.1974) is higher than widely-held (0.1473) and institution-owned (0.1163), indicating that promoter-owned owned companies generate higher returns for their shareholders than widely-held and institutional owned companies. Return on assets ratio average score of promoter-owned companies (0.1102), institutional (0.0639) and widely-held (0.0734) companies, it can be inferred that promoter-owned companies are more efficient in generating a return from their assets than institutional and widely-held. Return on sales ratio mean for promoter-owned (0.2232), institutional-owned (0.1917) and widely-held (0.1399). This shows that promoter-owned companies are generating relatively high returns from their sales. The dividend yield ratio mean for promoter-owned is 75.0420, institutional is 33.8782, and widely-held is 16.2340. This concludes that promoter-owned companies give more dividends to their shareholders when compared to institutional and widely-held. CSR spend mean for promoter-owned is 0.0236, for institutional owned 0.0212 and four widely-held it is 0.0354. This shows that widely-held companies are investing more in CSR activities than promoter-owned companies and institutional owned companies.

**Table 5.20- Industry-wise Descriptive Statistics of Financial Performance Variables of F.Y. 2019**

| | | Statistic | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Industry Classification | | | | | | | | |
| | | Health Care | Information Technology | Financials | Consumer Staples | Energy | Materials | Consumer Discretionary | Industrials | Utilities and Telecom |
| Beta- Measure of volatility | Mean | .6650 | .3717 | 1.0881 | .5450 | 1.0370 | 1.2479 | .9938 | 1.3556 | .8233 |
| | Std. Deviation | .12112 | .08208 | .39815 | .23491 | .19414 | .38702 | .18697 | .31504 | .31723 |
| Closing Price | Mean | 914.2200 | 1284.6217 | 1497.2225 | 2064.7700 | 333.7170 | 2123.8236 | 7257.8362 | 789.1556 | 214.6500 |
| | Std. Deviation | 934.9252 | 1191.4842 | 1712.5517 | 3198.3789 | 365.6033 | 4874.6055 | 16008.4971 | 546.5600 | 164.5448 |
| Market Capitalization | Mean | 400604.79 | 2469550.840 | 1550740.475 | 1196528.133 | 1763594.261 | 678648.3079 | 657130.5038 | 583068.3444 | 719771.1867 |
| | Std. Deviation | 55552.7320 | 2665647.8093 | 1591830.5666 | 1317437.1351 | 2485487.2804 | 332261.4509 | 471584.6176 | 539212.0386 | 555132.8154 |
| Enterprise Value | Mean | 394493.11 | 2342613.790 | 2251551.618 | 1171823.583 | 1972537.181 | 681518.6079 | 543670.8192 | 523238.0667 | 864580.7533 |
| | Std. Deviation | 87803.5776 | 2516122.0476 | 1853108.8500 | 1270852.0198 | 2769638.2700 | 381827.5114 | 544703.9840 | 428634.3065 | 697366.8312 |
| Earning Per share | Mean | 27.7067 | 59.8450 | 41.1863 | 27.6250 | 26.1480 | 47.7521 | 362.1415 | 12.2300 | 2.8833 |
| | Std. Deviation | 24.61114 | 42.51039 | 34.65944 | 35.11188 | 13.24408 | 84.41811 | 733.62381 | 14.04657 | 11.69518 |
| Price to Earning ratio | Mean | 43.2983 | 21.5017 | 55.2681 | 64.6980 | 12.5900 | 51.8121 | 64.5400 | 37.8922 | 10.5867 |
| | Std. Deviation | 33.99278 | 3.37150 | 84.25356 | 20.29257 | 5.43506 | 49.63070 | 132.84341 | 37.26582 | 10.55514 |
| Price by book ratio | Mean | 3.6600 | 6.0550 | 5.8244 | 22.4110 | 2.6500 | 4.7671 | 5.5554 | 5.1856 | 1.9300 |
| | Std. Deviation | 1.1060 | 3.0605 | 8.1767 | 14.2160 | 2.6492 | 5.2037 | 4.0195 | 3.3749 | 1.4575 |

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| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Total Debt ratio** | **Mean** | 15467.433 | 9365.8333 | 104333.5063 | 3964.0100 | 482397.7200 | 121365.4500 | 9422.7462 | 47683.4000 | 342765.9667 |
| | **Std. Deviation** | 20029.4766 | 20604.6151 | 365460.0345 | 8001.1865 | 605243.2201 | 160411.9211 | 11735.1655 | 84852.9919 | 438916.2570 |
| **TobinsQ** | **Mean** | 2.3322 | 4.1778 | 3.1320 | 10.7871 | 1.4126 | 2.5075 | 3.0531 | 2.0184 | 1.2748 |
| | **Std. Deviation** | 0.6096 | 1.9953 | 8.5223 | 6.0467 | 2.2282 | 2.9707 | 2.1066 | 1.8083 | 1.3142 |
| **Return on Equity ratio** | **Mean** | 0.1146 | 0.2635 | 0.0289 | 0.3654 | 0.2084 | 0.1303 | 0.1849 | 0.1228 | 0.0828 |
| | **Std. Deviation** | 0.0367 | 0.0822 | 0.0475 | 0.1869 | 0.1952 | 0.0815 | 0.0763 | 0.0617 | 0.0984 |
| **Earning before interest and tax** | **Mean** | 18081.867 | 146410.867 | 63459.488 | 37000.120 | 166874.340 | 47067.364 | 36157.092 | 24497.233 | 4475.267 |
| | **Std. Deviation** | 6881.8651 | 141227.4212 | 76546.0888 | 56702.8534 | 155247.8229 | 48843.7221 | 27095.6211 | 24929.1818 | 49429.2757 |
| **Return on Capital Employed** | **Mean** | 0.1332 | 0.3446 | 0.0323 | 0.3774 | 0.1784 | 0.1353 | 0.2458 | 0.1327 | 0.0815 |
| | **Std. Deviation** | 0.0315 | 0.1261 | 0.0248 | 0.2151 | 0.1498 | 0.1006 | 0.1083 | 0.0825 | 0.1289 |
| **Return on Assets ratio** | **Mean** | 0.0822 | 0.2062 | 0.0222 | 0.1944 | 0.1142 | 0.0760 | 0.1251 | 0.0584 | 0.0620 |
| | **Std. Deviation** | 0.0149 | 0.0747 | 0.0246 | 0.0767 | 0.1542 | 0.0520 | 0.0610 | 0.0345 | 0.0818 |
| **Return on Sales ratio** | **Mean** | 0.1884 | 0.3092 | 0.2754 | 0.1946 | 0.1998 | 0.1868 | 0.1906 | 0.1529 | 0.2097 |
| | **Std. Deviation** | 0.0360 | 0.1256 | 0.1791 | 0.0972 | 0.2654 | 0.1506 | 0.1391 | 0.1466 | 0.2686 |
| **Dividend Yield ratio** | **Mean** | 3.8768 | 50.2391 | 23.5902 | 31.2457 | 241.6015 | 80.0243 | 14.3137 | 19.1985 | 194.6181 |
| | **Std. Deviation** | 3.3637 | 67.7399 | 55.5143 | 64.4306 | 246.8128 | 147.1436 | 25.4015 | 29.4066 | 186.0497 |
| **CSR Spend** | **Mean** | 0.0235 | 0.0191 | 0.0185 | 0.0205 | 0.0290 | 0.0347 | 0.0193 | 0.0276 | 0.0112 |
| | **Std. Deviation** | 0.0118 | 0.0019 | 0.0073 | 0.0010 | 0.0222 | 0.0241 | 0.0049 | 0.0325 | 0.0068 |

Table 5.20 presents industry-wise descriptive statistics of financial performance variables for the financial year 2019. The industry has been classified under nine heads: healthcare, information technology, financials, consumer staples, energy, materials, consumer discretionary, industrials and utilities, and telecoms. This table presents descriptive statistics of 15 financial performance variables for above mentioned nine industries.

Beta, which is considered as a measure of volatility, under this, the highest mean score is of industrials (1.3556), followed by materials (1.2479), financials (1.0881), energy (1.0370), consumer discretionary (0.9938), utilities and telecom (0.8233), health care (0.6650), consumer staples (0.5450) and information technology (0.3717) is last. This indicates that the industrials sector is riskier than other industries, and the information technology industry has the least risk. For the closing price, the mean value of healthcare is 914.220, information technology is 1284.6217, financials is 1497.2225, consumer staples is 2064.7700, energy is 333.7170, materials is 2123.8236, consumer discretionary is 7257.8362, industrials are 789.1556 and utilities and telecom is 214.6500. This shows that the highest mean score is of consumer discretionary, and the least is of utilities and telecom. The highest standard deviation is consumer discretionary (16008.4971), whereas the least value of standard deviation is utilities and telecom (164.5448). The information technology average score w.r.t. market cap, (that defines the size of the entity), is the highest (246950.8400), and the least is of industrials (583068.3444). Enterprise value mean score for healthcare is 394493.113 for information technology it is 2342613.7900, financials it is 2251551.6188, consumer staples are 1171823.5830, energy is 1972537.1810, materials is 681518.6073, consumer discretionary is 543670.8192, industrial is 523238.0667 and utilities in telecom is 864580.7533. This depicts that the

highest mean score is of information technology, and the healthcare industry has the least mean score. For earning per share, consumer discretionary have the highest mean score (362.1415), and the least is of utilities and telecom (2.8833). Whereas the highest standard deviation value showing maximum dispersion is consumer discretionary (733.62381), and the least is of utilities and telecom (11.69518). Price to earnings ratio average scores shows highest average score is of consumer staples (64.6980), followed by consumer discretionary (64.5400,) financials (55.2681), materials (51.8121), healthcare (43.2983), industrials (37.8922), information technology (21.5017), energy (12.5900) and at last utilities and telecom (10.5867). Standard deviation values of price to earnings ratio is least for information technology (3.37150) and highest of consumer discretionary (132.84341), showing highest dispersion. Price by book ratio mean score of health care is 3.6600, information technology is 6.0550, financial is 5.8244, consumers staples is 22.4110, energy is 2.6500, materials is 4.7671, consumer discretionary is 5.5554, industrials are 5.1856 and utilities and telecom is 1.9300. This shows that the highest mean score is of consumer staples. The total debt ratio highest mean score is of energy (482397.7200), second is of utilities and telecom (342765.9667), third is of materials (121365.4500), financials (104333.5063), industrials (47683.4000), health care (15 467.4333), information technology (9365.8333), consumer discretionary (9422.7462) and at last consumer staples (3964.0100). Tobin's Q highest average score is of consumer staples (10.7871), second is information technology (414.1778), financials (3.1320), consumer discretionary (3.0531), materials (2.5075), health care (2.3322), industrials (2.0184), energy (1.4126) and at last utilities and telecom (1.2784). The highest standard deviation is of financials (8.5223) and the least dispersion standard deviation in the healthcare

industry (0.6096). From a return on equity ratio, it can be seen that the highest mean score is of consumer staples (0.3654) and the least mean score is of utilities and telecom (0.0828). Earnings before interest in tax average scores tell that the highest mean score is of energy (166874.340), second is (146410.867) of information technology, third is of financials (63459.488), fourth (47067.364) is of materials, the fifth position is of consumer staples (37000.120), consumer discretionary (36147.092), industrials (24497.233), health care (18081.867) and least score is of utilities and telecom (4475.267). Return on capital employed average score of healthcare industry is 0.1 332, for information technology it is 0.3446, financials 0.0323, consumer staples 0.3774, energy 0.1784, materials 0.1353, health care 0.1322, industrials 0.1327, utilities and telecom 0.0815 and financials 0.0323. Return on assets ratio mean score of healthcare is 0.0822, information technology is 0.2062, financials is 0.0222, consumer staples is 0.1944, energy is 0.1142, materials is 0.0760, consumer discretionary is 0.1251, industrials is 0.0584 and utilities and telecom is 0.0620. This indicates that the highest mean score for return of asset ratio is of information technology, and the least average score is of industrials. The return on sales ratio mean value for health care is 0.1884, for information technology is 0.30924,for financials is 0.2754, for consumer staples is 0.19464, for energy is 0.1998, for materials is 0.1868, for consumer discretionary, it is 0.19064, for industrial it is 0.1529, and for utilities and telecom, it is 0.2097. This shows that the highest average score is of information technology and the least score is of industrials. Dividend yield ratio highest mean score is of the energy sector (241.6015), the second position is of utilities and telecom (194.6181), third is materials (80.0243), fourth is information technology (50.2391), followed by consumer staples (31.2457), financials

(23.5902), industrials (19.1985), consumer discretionary (14.3137)and last healthcare (3.8768). Looking at CSR average scores, healthcare average score is 0.0235, information technology is 0.0191, financials is 0.0185, consumer staples is 0.0205, for energy, it is 0.0290, for materials 0.0347, consumer discretionary is 0.0193, and utilities and telecom is 0.0112. The highest score is for materials, 0.0347, and the lowest score is for utilities and telecom. The standard deviation highest standard deviation is in the industry energy 0.0222, and the least deviation is in consumer staples 0.0010.

**Table 5.21- ANOVA Results of Demographic Characteristics wise Differences in Financial Performance Variables**

| | 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Age | | Private vs PSU | | MNC vs. nationally-located | | Ownership | | Industry Sector | |
| | F | Sign | F | Sign | F | Sign | F | Sign | F | Sign |
| Beta-Measure of volatility | 6.220 | **.001** | 1.890 | .172 | .037 | .849 | .037 | .849 | 6.255 | **.000** |
| Closing Price | 1.574 | .201 | 2.048 | .156 | 1.626 | .205 | 1.626 | .205 | 1.277 | .265 |
| Market Capitalization | 2.335 | **.049** | 1.173 | .281 | .347 | .557 | .347 | .557 | 1.946 | **.042** |
| Enterprise Value | 3.369 | **.022** | .904 | .344 | .663 | .418 | .663 | .418 | 1.942 | **.043** |
| Earning Per share | 1.200 | .314 | 1.235 | .269 | .206 | .651 | .206 | .651 | 1.959 | **.041** |
| Price to Earning ratio | .820 | .486 | 6.735 | **.011** | .531 | .468 | .531 | .468 | .820 | .587 |
| TobinsQ | 1.532 | .212 | 4.841 | **.030** | 4.450 | **.038** | 4.450 | **.038** | 4.119 | **.000** |
| Return on Equity | 1.688 | .175 | .100 | .753 | 11.607 | **.001** | 11.607 | **.001** | 10.334 | **.000** |
| Earnings before interest and tax | 1.240 | .300 | 1.975 | .163 | 1.203 | .276 | 1.203 | .276 | 4.943 | **.000** |
| Return on Capital Employed | 1.895 | .136 | .566 | .454 | 10.771 | **.001** | 10.771 | **.001** | 10.946 | **.000** |
| Return on Assets ratio | 1.263 | .292 | .149 | .701 | 3.658 | **.039** | 3.658 | **.049** | 8.133 | **.000** |
| Return on Sales | 1.134 | .340 | .010 | .920 | .142 | .707 | .142 | .707 | .885 | .533 |
| Dividend Yield | 1.684 | .176 | 28.854 | **.000** | 2.165 | .145 | 2.165 | .145 | 4.715 | **.000** |
| CSR Spend | 1.820 | .150 | 3.461 | **.046** | .069 | .793 | .069 | .793 | 1.537 | .158 |
| Price to Book Ratio | 1.255 | .294 | 7.570 | .007 | 16.962 | **.000** | 16.962 | **.000** | 9.228 | **.000** |
| Total Debt Ratio | 1.099 | .354 | 6.717 | **.011** | 1.901 | .171 | 1.901 | .171 | 4.033 | **.000** |

Table 5.21 shows ANOVA results of demographic characteristics wise differences in financial performance variables. However, Levene test for homogeneity of variance was performed before ANOVA and all values were found to be insignificant.

For ANOVA Sixteen financial performance variables have been considered in the test. The demographic wise profile includes the age of the company, private vs PSU, nationally-located vs MNC status, promoter-owned, institutional-owned and widely-held ownership and industrial sector.

For age-wise classification of beta, F value (6.220) is significant at 0.05 level of significance, indicating that null hypothesis is not supported and there is a significant difference between beta scores of companies belonging to various age groups. For market capitalization and age, the F value is 2.335, which is significant at a 0.05 level of significance, thus the null hypothesis is rejected, and there is a significant difference between the market capitalisation of companies of different age groups. As per F value for enterprise value, 3.369, which is significant at a 5 percent level of significance, indicating that enterprise value significantly differs age-wise. Thus *null hypothesis $H_{07a}$is* partially supported for beta, enterprise value and market capitalization. The results suggest that out of four age group categories, category 50-75 years is significantly different from the rest of the age groups. For enterprise value, companies which belong to the age group of 25-50 years are significantly different from the rest of the groups. Based on the age-wise classification, other financial variables do not show a significant difference in their characteristics.

For Nationally-located vs MNC ownership, ANOVA results suggest that nationally-located and MNC wise there is a significant difference in five variables. F values of Tobin's Q (4.450), Return on equity (11.607), return on capital employed (10.771), return on asset ratio (3.658) and price by book ratio(16.962) are significantly different for different companies. Thus *null hypothesis$H_{07b}$* is partially supported. For classification

related to nationally-located companies and MNCs, the results of ANOVA were found to be statistically significantly different for Tobin's Q, return on equity, return on capital employed, return on assets ratio, and price to book ratio.

Considering private vs PSU classification, F value is significantly different for the price to earnings ratio (F=6.735), Tobin's Q (F=4.841), dividend yield (F=28.854) and CSR spending (F=3.461). So, *null hypothesis* $H_{07c}$ is partially supported. ANOVA results were found to be significantly different for the price to earnings ratio, Tobin's Q, dividend yield, CSR spending, and total debt ratio between the private companies and PSUs. This indicated that private sector vs PSUs classification has an impact on the financial performance of companies.

ANOVA results for ownership-wise classification of financial performance variables indicate that Tobin's Q (F=4.450), return on equity (F=11.607), return on capital employed (F=10.771), return on assets (F=3.658) and price to book ratio (F=16.962) are significantly different for classification of companies based on ownership. Thus null hypothesis $H_{07d}$ is partially supported.

For the industry sector, beta F value is 6.255, which is significant at a 0.05 level of significance, indicating that the null hypothesis is rejected and there is a significant difference between the beta and industrial sectors. Similarly, the closing price F value is 1.277, showing that it is not significant at the 0.05 level of significance, thus accepting the null hypothesis that there is no relationship between the closing price and the industry sector. For market capitalization, the F value is 1.946, which is significant at a 0.05 level of significance. Considering enterprise value and ANOVA test, results show F value 1.942 as significant at 0.05 level of significance, at null hypothesis is rejected and there

is a significant difference between enterprise value and industry score. For earnings per share, F value is 1.959 which is significant at a 0.05 level of significance indicates that the null hypothesis is rejected and concludes a significant difference between earnings per share and industry sector score. The price to earnings ratio and ANOVA results show no significant difference between the price to earnings ratio and industry sector score as F value is .820 which is not significant at the 0.05 level. Thus, the hypothesis is accepted that there is no relationship between price to earnings ratio and the industry sector. ANOVA results for Tobin's Q shows that the F value is 4.119, which is significant at 0.05 Similarly, the return on equity F value is 10.334, which is significant at 0.05 level. Earnings before interest in tax F value is 4.943, return on capital employed F value is 10.946, return on assets F value is 8.133, dividend yield F value is 4.715, price to book ratio F value 9.228, the total debt ratio of value 4.033, shows that these F values are significant at 0.05 level of significance. Thus *null hypothesis* $H_{07e}$ is partially supported.

**Table 5.22- Duncan Post Hoc Test Results of Demographic characteristics wise Differences in Financial Performance Variables**

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Age | Private vs PSU | MNC vs nationally-located | Ownership | Industry Sector |
| **Beta-Measure of volatility** | 50-75 years | | | | IT, financial, utility, consumer discretionary, materials, industrial |
| **Closing Price** | | | | | |
| **Market Capitalization** | | | | | |
| **Enterprise Value 2019** | 25-50 years | | | | |
| **Earnings Per share** | | | | | |
| **Price to Earnings ratio** | | Private vs PSU | | | |
| **TobinsQ** | | Private vs | nationally- | Institutional | Consumer Staples |

| | | | | | |
|---|---|---|---|---|---|
| | PSU | located vs MNC | | | |
| **Return on Equity** | | | nationally-located vs MNC | Widely-held | Ulitiy, Financial, Industrial, Consumer staples, IT Energy |
| **Earnings before interest and tax** | | | | | Energy and Utility |
| **Return on Capital Employed** | | | nationally-located vs MNC | Institutional | Consumer staples, financial, energy |
| **Return on Assets ratio** | | | nationally-located vs MNC | Widely-held | Financials, Energy, IT, consumer staples. |
| **Return on Sales** | | | | | |
| **Dividend Yield** | | Private vs PSU | | | Energy, Healthcare and Utilities |
| **CSR Spend** | | Private vs PSU | | | |
| **Price to Book Ratio** | | | | | Energy and Utilities |
| **Total Debt Ratio** | | | | | Consumer Staples |

Table 5.22 shows the Duncan post-hoc test results for demographic characteristics differences in financial performance variables. Regarding the promoter-owned, institutional-owned and widely-held ownership category, return on equity is significantly different for widely-held companies. Return on capital employed is significantly different for institutional-owned companies as compared to the rest of the two groups. Return on assets is statistically significantly different for companies with widely-held ownership from the rest of the two groups.

For different industry sectors, beta is statistically significantly different for Information technology, financial companies, utility and telecom companies, consumer discretionary, materials, and industrial sector companies. Tobin's Q is found to be significantly different for consumer staples. Return on equity is statistically significantly different with an F value of 10.334, which is statistically significantly different at the 0.05 percent level of significance for utility and telecom, financials, industrial sector, consumer staples, the

information technology sector, and energy sectors. Interest before interest tax was found to be statistically significantly different for the energy and utility sector. Return on capital employed is significantly different for consumer staples financial sector to sector companies. A return on assets is statistically significantly different for the financial sector and the sector and consumer staple sector. The dividend yield for companies was found to be statistically different for energy, healthcare and utility and telecom companies. Return on assets is statistically significantly different for the financial sector, IT sector, and consumer staple sector. The dividend yield for companies was found to be different for Energy, healthcare and utility and telecom sectors. The price to book ratio is different for the energy and utility and telecom sectors. The total debt ratio was found to be statistically significantly different for the consumer staple sector. This implies that the *null hypothesis*($H_{07e}$) that there is no difference between the industrial sector-wise classification of financial performance variables is, rejected. And for most of the variables, the companies which belong to different industrial sectors usually will have different levels of financial performance. This indicates that the industrial sector can be an important variable, which can influence the performance of companies.

Overall it can be concluded that null hypothesis $H_{07}$ that there is no difference in the demographic characteristics and their FP variables is partially supported.

### 5.2.2.3 Descriptive Statistics of Five Year CAGR Values of Financial Performance Variables

In this sub-section, financial performance variables data were taken for five years (2015-2019) have been used to calculate CAGR, which will normalize any abnormal values in the financial performance of companies.

**Table 5.23- Descriptive Statistics of 5-year CAGR Values of Financial Performance**

| | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|
| Beta-Measure of volatility | -0.1194 | 0.1967 | 0.0189 | 0.0536 |
| Closing Price | -0.3032 | 0.4908 | 0.0632 | 0.1192 |
| Market Capitalization | -0.1969 | 0.5337 | 0.0723 | 0.1180 |
| Enterprise Value | -1.5453 | 0.6322 | 0.0571 | 0.2104 |
| Earnings Per share | -3.3173 | 0.6182 | -0.1933 | 0.6394 |
| Price to Earnings ratio | -1.0000 | 0.5129 | -0.0487 | 0.2730 |
| Price by book ratio | -0.2738 | 0.3218 | -0.0258 | 0.1008 |
| Total Debt ratio | -1.0000 | 0.8709 | -0.0847 | 0.4628 |
| TobinsQ | -1.5358 | 0.5705 | -0.0261 | 0.1965 |
| Return on Equity ratio | -2.1151 | 0.9836 | -0.1678 | 0.4866 |
| EBIT | -2.3246 | 3.2020 | -0.0341 | 0.6340 |
| Return on Capital Employed | -1.9680 | 0.6426 | -0.1465 | 0.4800 |
| Return on Assets ratio | -2.0319 | 0.9926 | -0.1330 | 0.4810 |
| Return on Sales ratio | -2.2495 | 0.2741 | -0.1251 | 0.4865 |
| Dividend Yield | -1.0000 | 0.4731 | -0.0473 | 0.3072 |
| CSR Spend | -0.1031 | 1.1746 | 0.1104 | 0.2010 |

Table 5.23 depicts descriptive statistics of 5-year compound annual growth rate (CAGR) values of financial performance variables of 100 companies. The beta mean value is 0.0189, and the standard deviation value is 0.0536. The closing price mean value is 0.0632. The average score value for market capitalization is 0.0723, enterprise value mean score is 0.0571. The earnings per share mean are -0.1933, whereas the standard deviation is 0.6394. Price to earnings ratios average score is -0.0487, and standard deviation value is 0.2730, price to book ratio mean is -00258. The total debt ratio mean is -0.847. Tobin's Q mean score is -0.0261, Return on equity ratio mean is -0.1678, EBIT average is -0.0341, return on capital employed mean value is -0.1465, the standard deviation is 0.4800, return on asset ratio average value is -0.1330, return on sales mean is -0.1251, dividend yield

mean is -0.0473, and the standard deviation is 0.3072 and CSR spend average value is 0.1104 whereas standard deviation is 0.2010.

It can be concluded that only beta, closing price, market capitalization, enterprise value, and CSR spend average scores were positive.

### 5.2.3 Analysis of Social Performance

This sub-section relates to the social performance variable computed using a scoresheet for calculating corporate social responsibility performance of sample 100 NIFTY companies. The total CSP score computed has been named as the social performance variable.

The social performance or corporate social responsibility is an essential indicator of sustainable and prosperous practices followed by companies. It has a close relationship with the FP of companies as it impacts the future profits, perception and brand value of the company. Good social performance is generally linked with companies with good CG practices that fulfil the norms, believe in equality, transparency, full disclosure, and protect the rights of stakeholders. Thus, these three variables, namely CG practices, financial performance and social performance, are closely knit.

The CSP has been analysed for its characteristics and its relationship with demographic factors and CG practices of companies.

### 5.2.3.1 Descriptive Statistics

The descriptive statistics of the social performance variable has been reported in Table 5.24.

**Table 5.24- Descriptive Statistics of Corporate Social Performance Score**

| | | Mean | Std. Deviation | Minimum | Maximum |
|---|---|---|---|---|---|
| **Age** | **0-25 Years** | 20.7368 | 2.66338 | 17.00 | 25.00 |
| | **25-50 Years** | 21.0217 | 2.82441 | 14.00 | 29.00 |
| | **50- 75 Years** | 22.4286 | 1.88604 | 19.00 | 26.00 |
| | **Above 75 Years** | 21.8571 | 2.56776 | 14.00 | 24.00 |
| **Private vs PSU ownership** | **Private** | 21.2785 | 2.54668 | 14.00 | 26.00 |
| | **PSU** | 21.7619 | 2.94796 | 14.00 | 29.00 |
| **MNCs vs Nationally-located ownership** | **Nationally-located** | 21.2360 | 2.71788 | 14.00 | 29.00 |
| | **MNC** | 22.5455 | 1.29334 | 20.00 | 24.00 |
| **Promoter-owned vs Institutional vs Widely-held ownership** | **Promoter-owned** | 21.6316 | 2.62725 | 14.00 | 29.00 |
| | **Institutional** | 20.2778 | 2.67462 | 15.00 | 24.00 |
| | **Widely-held** | 21.5000 | 1.87083 | 19.00 | 24.00 |
| **Industry Classification** | **HealthCare** | 21.0000 | 2.23607 | 17.00 | 23.00 |
| | **Information Technology** | 21.3333 | 2.42212 | 17.00 | 23.00 |
| | **Financials** | 19.7200 | 2.90861 | 14.00 | 24.00 |
| | **Consumer Staples** | 22.0000 | 2.10819 | 17.00 | 24.00 |
| | **Energy** | 21.9000 | 1.52388 | 19.00 | 24.00 |
| | **Materials** | 23.7333 | 1.75119 | 21.00 | 29.00 |
| | **Consumer Discretionary** | 21.0000 | 3.03822 | 14.00 | 26.00 |
| | **Industrials** | 22.2222 | 1.30171 | 20.00 | 24.00 |
| | **Utilities and Telecom** | 20.2500 | 1.89297 | 19.00 | 23.00 |
| **Corporate Governance practices** | **Leadership** | 20.2500 | 2.06155 | 18.00 | 22.00 |
| | **Good** | 21.3333 | 2.67478 | 15.00 | 29.00 |
| | **Fair** | 21.6383 | 2.54887 | 14.00 | 26.00 |
| | **Basic** | 20.5714 | 3.30944 | 17.00 | 24.00 |

Table 5.24 presents descriptive statistics of the corporate social performance score. To understand the nature of CSR score, the classification has been done into various demographic groups like age, private vs PSU categories, MNC vs nationally-located, ownership wise, industry sector-wise and CG practices.

For the age group, 0-25 years means score is 20.7368, 25-50 years is 21.017, 50-75 years is 22.486 and for above 75 years average score is21.8571.This shows that the average score of 50-75 years is relatively higher than other age groups. This implies that 50–75-years companies contribute more towards CSR activities than other age groups. Standard deviation is maximum among 25-50 years (2.82441) and the least standard deviation is for 50-75 years (1.88604). PSU vs private sector status scores shows that average scores of PSUs (21.7619) is higher as compared to private sector companies (21.2785). The standard deviation for private is 2.94796 and for PSU it is 2.54668. With respect to MNC and nationally-located status, it was found that MNC average score (22.5455) is relatively higher than the nationally-located status (21.2360).In the case of ownership-wise differences highest average score is of promoter-owned (21.6316) companies followed by widely-held (21.500) and institutional-owned is at last 20.2778. The standard deviation of promoter-owned is 2.62725, institutional-owned is 2.67462 and widely-held is 1.87083. Under the CG practices category, fair category practices have the highest mean score (21.6383), second highest mean score is of good category practice (21.333) followed by basic (20.5714) and leadership (20.2500) at last. Leadership category scores have the least dispersion 2.06155 whereas basic category practices have a higher standard deviation value 3.30944.

As per industry sector classification, the highest average score is of materials 23.7333, followed by industrials 22.2222, consumer staples 22.0000, energy 21.9000, information technology 21.3333, consumer discretionary 21.0000 and utilities and telecom 20.2500. The highest standard deviation value is of consumer discriminatory 3.03822 and least standard deviation value is of industrials 1.30171.

It can be summarized that companies within 50–75-years age group contribute more towards CSR activities than other age groups. PSUs have better social performance scores as compared to private sector companies. MNCs have better CSR scores as compared to nationally-located status. Promoter-owned companies contribute more in social performance. Industrial-sector wise classification shows that CSR scores are highest for the materials sector, industrials sector, and consumer staples sector. As per the relationship of CG practices with social performance scores, it is found that companies with fair CG practices and good CG practices have better social performance than other groups.

## 5.2.3.2 Demographic Characteristics wise Differences in Social Performance Variable

The demographic characteristics wise differences of CSP score have been analysed on the basis of age, MNC vs. nationally-located status, ownership, private vs. PSU, industrial sector and CG total score.

**Table 5.25- ANOVA results of Demographic Wise Differences in Social Performance Score**

|  | F | Sig. |
|---|---|---|
| **Age** | 1.991 | .120 |
| **MNC vs. Nationally-located** | 2.467 | .119 |
| **Ownership** | 1.976 | .144 |
| **Industrial Sector** | 3.856 | **.001** |
| **Corporate Governance total Score** | .616 | .606 |
| **PSU vs. Private** | .559 | .456 |

Table 5.25 presents ANOVA results for the demographic wise difference in CSP score. The table shows that for age-wise distribution of companies and their CSP score, F value 1.991 is insignificant at 0.05 level of significance. This indicates that the *null hypothesis*

$H_{08a}$is accepted, and there is no significant difference between the company's corporate social performance score and age.

Ownership-wise differences in CSR score also show insignificant ANOVA results thus, the *null hypothesis $H_{08b}$*is supported. ANOVA test result for private vs PSU shows that F value is 0.559 is not significant at 0.05 level of significance. This indicates no significant relationship between corporate social performance score and PSU versus private sector companies. Thus, accepting the *null hypothesis ($H_{08c}$)* is supported. For MNC vs. nationally-located status *null hypothesis ($H_{08d}$)*is accepted that there is no significant difference between corporate social performance score and MNC vs nationally-located classification of companies as ANOVA result shows that F value (2.467) is not significant at 0.05 level of significance. For industrial sector-wise classification of CSR score, F value (3.856) is significant at 0.05 level of significance, which shows that *null hypothesis ($H_{08e}$)* is rejected and there is a significant difference between corporate social performance score and industrial sector-wise classification of companies. Similarly, for CSR spending and CG score, ANOVA results show an insignificant value(0.616)which is not significant at 0.05 level of significance. Thus, the *null hypothesis ($H_{09}$)* is supported, and it is found that CG practices do not influence social performance scores.

**Table 5.26- Duncan Post Hoc Test Result of Social Performance Score**

| Industry Classification | N | Subset for alpha = 0.05 | |
| --- | --- | --- | --- |
| | | 1 | 2 |
| Financials | 25 | 19.7200 | |
| Utilities and Telecom | 4 | 20.2500 | |
| HealthCare | 7 | 21.0000 | |
| Consumer Discretionary | 14 | 21.0000 | |
| Information Technology | 6 | 21.3333 | 21.3333 |
| Energy | 10 | 21.9000 | 21.9000 |

| | | | |
|---|---|---|---|
| Consumer Staples | 10 | 22.0000 | 22.0000 |
| Industrials | 9 | 22.2222 | 22.2222 |
| Materials | 15 | | 23.7333 |
| Sig. | | .064 | .063 |
| Means for groups in homogeneous subsets are displayed. | | | |
| a. Uses Harmonic Mean Sample Size = 8.582. | | | |
| b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed. | | | |

The results of Duncan post hoc test for industrial sector-wise classification of social performance variable is shown in Table 5.26. The results show that the Industry sectors are found to be statistically significantly different with F value of 3.856, which is statistically significantly different at 0.05 percent level of significance.

This shows that the null hypothesis is rejected and there is a significant difference in the industry sector wise classification of companies and CSP score. Two homogeneous subsets are formed as per post hoc results, according to subset 1 mean values; results reveal that there is a statistically significant difference between financial, utilities and telecom, health care, consumer discretionary and materials.

It can be concluded that the null hypothesis $(H_{08})$ is partially supported for the industrial sector-wise classification of companies and their CSR initiatives. The null hypothesis $(H_{09})$ is supported, and it is found that CG practices do not influence corporate social performance scores.

## 5.3  Conclusion

The analysis of CG scores reveals that companies have scored reasonably well in the total CG practices (average score is 74.252) and in its four categories. However, in Category – II, companies have scored the least (minimum = 11.1), and the standard deviation is also

highest in this category (16.1151). In Categories II and III, companies have obtained a maximum score of 100. Age-wise analysis of companies shows that above 75 years age group companies have better CG practices as their mean score is the highest mean score in all the categories. Thus, it can be inferred that the above 75 years age group of companies have better CG practices than any other age group company. From maximum values, we can conclude that in category I and IV, none of the age group companies have secured 100 scores; however, in category II except 50-75 years companies, all other age group companies have obtained 100 scores. For category III only 0-25 years companies have got 100score in CG practices. Private companies mean CG scores are better than PSU in categories I, II and IV. However, in category III, PSUs have better average scores. Thus, indicating that except in category three i.e. disclosure and transparency, private companies have better practices. Nationally-located companies have better CG practices as compared to MNCs. However, in category II average score of MNCs is higher than nationally-located companies. Ownership wise, it was found that widely-held companies have the highest CG total scores compared to promoter-owned and institutional-owned companies. The category I, category II and category III scores are also better for widely held companies. Under category IV, institutional-owned companies have better scores. The industrial sector-wise classification shows that the IT sector has a relatively high score than other industries. The healthcare sector, financial, materials have similar kind of CG practices. Under category I mean score of energy (73.698) is highest, category II scores are best for consumer staples (81.667), in category III, the energy sector is performing the best, and in category IV financial sector has the highest mean score (69.986). The overall

analysis concludes that there are many differences in the Corporate Governance (CG) scores and its four category components for various demographic variables.

**Table 5.27- Summary of Results of Hypotheses**

| | Hypothesis Statement | Accepted/ Rejected |
|---|---|---|
| | $H_{01}$: *There is no significant difference between the demographic characteristics of companies and their corporate governance practices.* | partially supported |
| | $H_{01a}$: *There is no significant difference between the age of companies and their corporate governance practices.* | supported |
| | $H_{01b}$: *There is no significant difference between the ownership status of companies and their corporate governance practices.* | not supported |
| | $H_{01c}$: *There is no significant difference between private and PSU companies and their corporate governance practices.* | supported |
| | $H_{01d}$: *There is no significant difference between MNC and nationally-located companies and their corporate governance practices.* | supported |
| | $H_{01e}$: *There is no significant difference between the industry-wise classification of companies and their corporate governance practices.* | supported |
| | $H_{02}$: *There is no significant difference in the demographic characteristics of companies and their corporate governance scores.* | partially supported |
| | $H_{02a}$: *There is no significant difference between the age of companies and their corporate governance scores.* | supported |
| | $H_{02b}$: *There is no significant difference between the ownership status of companies and their corporate governance scores.* | supported |
| | $H_{02c}$: *There is no significant difference between private and PSU companies and their corporate governance scores.* | supported |
| | $H_{02d}$: *There is no significant difference between MNC and nationally-located companies and their corporate governance scores.* | not supported |
| | $H_{02e}$: *There is no significant difference between the industry-wise classification of companies and their corporate governance scores.* | supported |
| | $H_{03}$: *There is no significant difference in demographic characteristics of companies and their Rights and Equitable Treatment of Shareholders scores.* | supported |
| | $H_{03a}$: *There is no significant difference in the age of companies and their Rights and Equitable Treatment of Shareholders scores.* | supported |
| | $H_{03b}$: *There is no significant difference in ownership status of companies and their Rights and Equitable Treatment of Shareholders scores.* | supported |
| | $H_{03c}$: *There is no significant difference in private and PSU companies and their Rights and Equitable Treatment of Shareholders scores.* | supported |
| | $H_{03d}$: *There is no significant difference in MNC and nationally-located companies and their Rights and Equitable Treatment of Shareholders scores.* | supported |
| | $H_{03e}$: *There is no significant difference in industry-wise classification of companies and their Rights and Equitable Treatment of Shareholders scores.* | supported |
| | $H_{04}$: *There is no significant difference in demographic characteristics of companies and their practices related to the Role of stakeholders scores.* | supported |

| | |
|---|---|
| $H_{04a}$: *There is no significant difference in the age of companies and their practices related to the Role of stakeholders scores.* | supported |
| $H_{04b}$: *There is no significant difference in ownership status of companies and their practices related to the Role of stakeholders scores.* | supported |
| $H_{04c}$: *There is no significant difference in private and PSU companies and their practices related to the Role of stakeholders scores.* | supported |
| $H_{04d}$: *There is no significant difference in MNC and nationally-located companies and their practices related to the Role of stakeholders scores.* | supported |
| $H_{04e}$: *There is no significant difference in the industry-wise classification of companies and their practices related to the Role of stakeholders scores.* | supported |
| $H_{05}$: *There is no significant difference in demographic characteristics of companies and their practices related to disclosures and transparency scores.* | not supported |
| $H_{05a}$: *There is no significant difference in the age of companies and their practices related to disclosures and transparency scores.* | not supported |
| $H_{05b}$: *There is no significant difference in ownership status of companies and their practices related to disclosures and transparency scores.* | not supported |
| $H_{05c}$: *There is no significant difference in private and PSU companies and their practices related to disclosures and transparency scores.* | not supported |
| $H_{05d}$: *There is no significant difference in MNC and nationally-located companies and their practices related to disclosures and transparency scores.* | not supported |
| $H_{05e}$: *There is no significant difference in industry-wise classification of companies and their practices related to disclosures and transparency scores.* | not supported |
| $H_{06}$: *There is no significant difference in demographic characteristics of companies and their practices related to responsibilities of the board scores.* | partially supported |
| $H_{06a}$: *There is no significant difference in the age of companies and their practices related to responsibilities of the board scores.* | not supported |
| $H_{06b}$: *There is no significant difference in ownership status of companies and their practices related to responsibilities of the board scores.* | not supported |
| $H_{06c}$: *There is no significant difference in private and PSU companies and their practices related to the responsibilities of the board scores.* | supported |
| $H_{06d}$: *There is no significant difference in MNC and nationally-located companies and their practices related to responsibilities of the board scores.* | supported |
| $H_{06e}$: *There is no significant difference in industry-wise classification of companies and their practices related to responsibilities of the board scores.* | not supported |
| $H_{07}$: *There is no significant difference in the demographic characteristics of companies and their financial performance variables.* | partially supported |
| $H_{07a}$: *There is no significant difference in the age of companies and their financial performance variables.* | **partially supported** for Beta and Enterprise Value |
| $H_{07b}$: *There is no significant difference in the ownership status of companies and their financial performance variables.* | **partially supported** for Tobin's Q, Return on Equity, Return on Capital Employed and Return on Assets ratio |

| | | |
|---|---|---|
| | *$H_{07c}$: There is no significant difference in private and PSU companies and their financial performance variables.* | **partially supported** for Price to Earning ratio, Tobin's Q, Dividend Yield and CSR Spend |
| | *$H_{07d}$: There is no significant difference in MNC and nationally-located companies and their financial performance variables.* | **partially supported** for Tobin's Q, Return on Equity, Return on Capital Employed and Return on Assets ratio |
| | *$H_{07e}$: There is no significant difference in the industry-wise classification of companies and their financial performance variables.* | **partially supported** for Beta, Tobin's Q, Return on Equity, Earning before interest and tax, Return on Capital Employed, Return on Assets ratio, Dividend Yield, Price to Book Ratio and Total Debt Ratio |
| *$H_{08}$: There is no significant difference in demographic characteristics of companies and their corporate social performance scores.* | | partially supported |
| | *$H_{08a}$: There is no significant difference in the age of companies and their corporate social performance scores.* | supported |
| | *$H_{08b}$: There is no significant difference in ownership status of companies and their corporate social performance scores.* | supported |
| | *$H_{08c}$: There is no significant difference in private and PSU companies and their corporate social performance scores.* | supported |
| | *$H_{08d}$: There is no significant difference in MNC and nationally-located companies and their corporate social performance scores.* | supported |
| | *$H_{08e}$: There is no significant difference in the industry-wise classification of companies and their corporate social performance scores.* | not supported |
| *$H_{09}$: There is no significant difference in corporate governance practices of companies and their corporate social performance scores.* | | supported |

Out of private sector companies and PSUs, Cipla Ltd. has got the highest corporate governance score, 91.8, Infosys Ltd. got second rank 90.5, Kotak Mahindra Bank Ltd. 88.5, which are private sector companies. The highest score of PSUs is of Oil and Natural Gas Corporation Ltd. has scored the highest, 80.5, followed by SAIL Ltd. (79.9). GAIL India Ltd. (79.3), Oil India Ltd. (79.3). Thus we can conclude that private sector companies have better CG scores as compared to PSUs.

The analysis reveals that NIFTY 100 sample companies follow leadership (4 percent), good (42 percent), fair (47 percent) and basic (7 percent) CG practices. Based on its

relationship with demographic characteristics wise differences, it has been found that ownership status of companies has a significant impact on CG practices, but age, private vs PSU, MNC vs nationally-located companies and industrial sector based classification does not impact their CG practices. Thus null hypothesis $H_{01}$ is partially supported. The summary of the results of the hypothesis tested is given in Table 5.26. The overall analysis indicates that null hypothesis $H_{02}$ is partially supported as there is a significant difference in the MNC vs nationally-located companies for CG total score (CG). The null hypothesis $H_{03}$ is partially supported as MNC vs nationally-located companies and their right and equitable treatment of shareholders score significantly differ. There is no difference in demographic characteristics and their practices related to the Role of stakeholders scores, and null hypothesis $H_{04}$ is supported. The null hypothesis $H_{05}$ is partially supported as there is a significant difference in the demographic characteristics like age, private vs PSU, MNC vs nationally-located companies and industrial sector based classification of companies and their practices related to disclosures and transparency scores. The null hypothesis $H_{06,}$ which indicates that there is no significant difference in the demographic characteristics of companies and their practices related to responsibilities of the board, is partially rejected as there is a significant difference in the practices related to the responsibility of the board with respect to age, ownership and industry sector. Overall we can conclude that CG score is impacted by the MNC vs nationally-located status of companies. Age significantly matters with respect to disclosure and transparency scores where it was found that young companies have better disclosures and with respect to the responsibilities of the board old companies have performed better which was from the age category of 50-75 years the disclosure and transparency scores also differ between the

private sector companies and PSU. Industrial sector wise classification has indicated that companies that belong to utility, consumer staples, financials, and IT sector significantly differ regarding disclosure and transparency scores and board responsibilities. The companies which belong to promoter-owned and institutional-owned categories have significantly different disclosures and transparency scores and responsibilities of the board. Overall, the above analysis shows that MNC vs. nationally-located status, industry sector-wise differences, and ownership characteristics do affect the CG practices of Indian companies.

Analysis of financial performance variables of these 100 companies shows Beta mean value is 0.9260 and the standard deviation value is 0.4761. The closing price mean value is 1970.1378, with a standard deviation of 634.4857. The average score of market capitalization is 1059560.3633, Enterprise value mean is 1153392.3312. The earnings per share mean score is 72.0407 with a standard deviation of 2.1848. Price to Earnings ratio average score is 40.9603 with a standard deviation value of 65.2940, the price to book ratio mean is 6.0800, total debt ratio mean is 126858. Tobin's Q mean score is 3.3470 and the standard deviation is 5.0503. Return on equity ratio mean is 0.1491 and the standard deviation is 0.1476, return on capital employed mean value is 0.1651, the standard deviation is 0.1581, return on asset ratio average value is 0.0913 and standard deviation as 0.0908, return on sales mean is 0.1942, and the standard deviation is 0.1751. The dividend yield mean is 58.5516, and the standard deviation is 128.0504. CSR spending minimum is 0.0034, whereas the maximum is 0.1135. CSR spend average value is 0.0238, whereas the standard deviation is 0.0173. Therefore, *null hypothesis$H_{07}$* is partially supported, and there is no significant difference in the demographic characteristics of companies and their

FP variables. The financial performance variables which are significantly different for various demographic characteristics include Beta, Tobin's Q, Return on Equity, Earning before interest and tax, return on Capital Employed, Return on Assets ratio, Dividend Yield, Price to Book Ratio and Total Debt Ratio. Descriptive statistics of 5-year compound annual growth rate (CAGR) values of financial performance variables of 100 companies. The beta mean value is 0.0189, and the standard deviation value is 0.0536. Closing price mean value is 0.0632. The average score value for market capitalization is 0.0723, enterprise value mean score is 0.0571. Earnings per share mean is -0.1933, whereas the standard deviation is 0.6394. Price to earnings ratios average score is -0.0487 and standard deviation value is 0.2730, price to book ratio mean is -00258. The total debt ratio mean is -0.847. Tobin's Q mean score is -0.0261, Return on equity ratio mean is -0.1678, EBIT average is -0.0341, return on capital employed mean value is -0.1465, the standard deviation is 0.4800, return on asset ratio average value is -0.1330, return on sales mean is -0.1251, dividend yield mean is -0.0473 and standard deviation is 0.3072 and CSR spend average value is 0.1104 whereas standard deviation is 0.2010.It can be concluded that only beta, closing price, market capitalization, enterprise value, and CSR spend average scores were positive.

Analysis of CSP reveals that companies within 50–75-years age group contribute more towards CSR activities than other age groups. PSUs have better CSP scores as compared to private sector companies. MNCs have better CSR scores as compared to nationally-located status. Promoter-owned companies contribute more to social performance. Industrial-sector wise classification shows that CSR scores are highest for the materials sector, industrials sector, and consumer staples sector. As per the relationship of CG

practices with social performance scores, companies with fair CG practices and good CG practices have better social performance than other groups. The null hypothesis $(H_{08})$ is partially supported for the industrial sector-wise classification of companies and its CSR initiatives. The null hypothesis $(H_{09})$ is supported, and it is found that corporate governance practices do not influence social performance score.

# Chapter-6

# Impact of Corporate Governance on Financial Performance and Social Performance of Companies

Corporate governance practices followed by companies can impact the companies' strategic decision-making, which influences companies' financial and operating performance. Good governance practices can also make companies follow more sustainable practices and focus on fulfilling the social responsibility of business. Companies that contribute to society have better goodwill and positive stakeholder's perception, leading to higher market value.

This chapter analyses the impact of corporate governance on the financial performance and social performance of companies. The chapter is divided into four sections, i.e., Methodology, Results and Discussions, Analysis of CG Variables, and Conclusion.

## 6.1 Methodology

The study's main objective is to analyze the impact of CG on the financial performance of companies. To fulfil this objective, data has been compiled for CG total score using a scoresheet and social performance score using another score sheet for a sample of 100 companies. The corporate governance total score (CG) has been classified into four categories, i.e. leadership, good, fair, and basic practices. The social performance score thus calculated has also been categorized into two subgroups: high social performance and low social performance. The data relating to 16 financial performance variables have been

collected from PROWESS for 2015 to 2019. Compound annual growth rate (CAGR) has been calculated for all the financial variables to analyze the long term impact of CG and social performance practices followed by companies. Exploratory Factor Analysis (EFA) has also been carried out to simplify the financial data and summarize these financial performance variables, which have been further classified into five factors extracted from EFA. Additionally, a detailed analysis of CG characteristics has been carried concerning ten variables, including board size, board independence, gender diversity, CEO duality, board meetings, audit committee members, and transparency of financial statements.

**Hypotheses:**

The following hypotheses have been framed for testing:

$H_{010}$: *There is no significant impact of corporate governance on the financial performance of companies.*

$H_{011}$: *There is no significant impact of other firm characteristics on the financial performance of companies.*

$H_{012}$: *There is no significant impact social performance score on the financial performance of companies.*

$H_{013}$: *There is no significant difference in financial performance variables and corporate governance practices followed by companies*

$H_{014}$: *Change in the five-year financial performance of companies is not impacted by corporate governance score.*

$H_{015}$: *Change in the five-year financial performance of companies is not impacted by other firm characteristics.*

$H_{016}$: *Change in the five-year financial performance of companies is not impacted by the social performance of companies.*

$H_{017}$: *There is no significant difference in the five financial factors extracted and corporate governance practices followed by companies.*

$H_{018}$: *There is no significant difference in the five financial factors extracted and the social performance score of companies.*

*$H_{019}$: There is no significant difference in social performance score and corporate governance practices of companies*

*$H_{020}$: There is no significant difference in financial performance variables and social performance scores of companies*

*$H_{021}$: There is no significant difference in Board size of companies based on demographic characteristics.*

*$H_{022}$: Board size is not significantly related to different corporate governance practices.*

*$H_{023}$: Board size does not differ with social performance scores.*

*$H_{024}$: Board size does not impact firm performance.*

*$H_{025}$: There is no significant difference in board independence of companies based on demographic characteristics.*

*$H_{026}$: Board independence is not significantly related to different corporate governance practices.*

*$H_{027}$: Board independence does not differ with social performance scores.*

*$H_{028}$: Board independence does not impact firm performance.*

*$H_{029}$: There is no significant difference in the gender diversity of companies based on demographic characteristics.*

*$H_{030}$: Gender diversity is not significantly related to different corporate governance practices.*

*$H_{031}$: Gender diversity in board does not differ with social performance scores.*

*$H_{032}$: Gender diversity in board does not impact firm performance.*

*$H_{033}$: There is no significant difference in CEO duality of companies based on demographic characteristics.*

*$H_{034}$: CEO duality is not significantly related to different corporate governance practices.*

*$H_{035}$: CEO duality does not differ with social performance scores.*

*$H_{036}$: CEO duality does not impact firm performance.*

*$H_{037}$: CEO duality does not impact corporate governance characteristics*

*$H_{038}$: CEO duality does not impact financial performance variables*

*$H_{039}$: There is no significant difference in board meetings of companies based on demographic characteristics.*

*H$_{040}$: Board meetings are not significantly related to different corporate governance practices.*

*H$_{041}$: Board meetings do not differ with social performance scores.*

*H$_{042}$: Board meetings do not impact firm performance.*

*H$_{043}$: There is no significant difference in audit committee members of companies based on demographic characteristics.*

*H$_{044}$: Audit committee members are not significantly related to different corporate governance practices.*

*H$_{045}$: Audit committee members do not differ with social performance scores.*

*H$_{046}$: Audit committee members does not impact firm performance.*

*H$_{047}$: There is no significant difference in the audit firm category of companies based on demographic characteristics.*

*H$_{048}$: The audit firm category is not significantly related to different corporate governance practices.*

*H$_{049}$: The audit firm category does not differ from social performance scores.*

*H$_{050}$: Audit firm category does not impact firm performance.*

*H$_{051}$: Audit firm category does not impact corporate governance characteristics*

*H$_{052}$: Audit firm category does not impact financial performance variables*

*H$_{053}$: There is no significant difference in transparency in the financial statements of companies based on demographic characteristics.*

*H$_{054}$: Transparency in the disclosure of financial statements is not significantly related to different corporate governance practices.*

*H$_{055}$: Transparency in disclosure of financial statements does not differ with social performance scores.*

*H$_{056}$: Transparency in disclosure of financial statements does not impact firm performance.*

*H$_{057a}$: Audit concerns on financial statements does not impact corporate governance characteristics*

*H$_{057b}$: Concerns of secretarial audit does not impact corporate governance characteristics*

*H$_{058a}$: Audit concerns on financial statements do not impact financial performance variables*

*H$_{058b}$: Concerns of secretarial audit does not impact financial performance variables*

*$H_{059}$: There is no significant impact of financial variables on the firm performance of companies.*

## 6.2 Results and Discussions

The analysis of results has been carried out in four sub-sections. Sub-section one covers correlation analysis of all variables used for the study, sub-section two analyses the impact of CG on the financial performance of companies, sub-section three analyses impact of firm characteristics on change in financial performance using CAGR data, and sub-section four explains the relationship of social performance with financial performance variables.

### 6.2.1 Correlation Analysis of Variables

The correlation analysis aims to determine the relationship between CG score and 16 financial performance variables. It helps to know the direction and the degree of the relationship. This also helps to identify variables that need to be dropped due to multi-co linearity.

**Table 6.1- Correlation Between Variables**

| | CG Score | Beta | Closing Price | Market Cap | Enterprise Value | EPS | P/E ratio | P/B ratio | Total Debt ratio | Tobin's Q | ROE ratio | EBIT | ROCE | ROA ratio | Return on Sales ratio | Dividend Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **CG Score** | 1 | | | | | | | | | | | | | | | |
| **Beta** | -.040 | 1 | | | | | | | | | | | | | | |
| **Closing Price** | -.076 | -.001 | 1 | | | | | | | | | | | | | |
| **Market Cap** | .434[**] | -.079 | -.049 | 1 | | | | | | | | | | | | |
| **Enterprise Value** | .397[**] | .021 | -.052 | .947[**] | 1 | | | | | | | | | | | |
| **EPS** | -.043 | .026 | .930[**] | -.051 | -.048 | 1 | | | | | | | | | | |
| **P/E ratio** | -.049 | .042 | **.049** | -.034 | -.087 | -.045 | 1 | | | | | | | | | |
| **P/B ratio** | -.097 | -.220[*] | .101 | .123 | .086 | -.017 | .339[**] | 1 | | | | | | | | |
| **Total Debt ratio** | .042 | .077 | -.089 | .251[*] | .336[**] | -.071 | -.156 | -.219[*] | 1 | | | | | | | |
| **Tobin'sQ** | -.111 | -.359[**] | .108 | .056 | .001 | -.017 | .419[**] | .896[**] | -.211[*] | 1 | | | | | | |
| **ROE ratio** | -.062 | -.337[**] | .015 | .095 | .003 | .022 | -.054 | .627[**] | -.201 | .517[**] | 1 | | | | | |
| **EBIT** | .461[**] | -.066 | -.070 | .789[**] | .722[**] | -.031 | -.166 | -.085 | .230[*] | -.091 | .179 | 1 | | | | |
| **ROCE** | -.046 | **-.412[**]** | .055 | .123 | .010 | .066 | -.036 | .651[**] | -.281[**] | .572[**] | .922[**] | .162 | 1 | | | |
| **ROA ratio** | -.052 | **-.419[**]** | .018 | .125 | .019 | .040 | -.049 | .515[**] | -.270[**] | .524[**] | .905[**] | .179 | .921[**] | 1 | | |
| **Return on Sales ratio** | -.017 | -.131 | -.034 | .072 | .045 | -.021 | .078 | .204[*] | -.298[**] | .346[**] | .434[**] | .227[*] | .413[**] | .563[**] | 1 | |
| **Dividend Yield** | .136 | .086 | -.126 | .092 | .081 | -.091 | -.193 | -.177 | .347[**] | -.139 | .133 | .426[**] | .047 | .123 | .195 | 1 |
| **CSR Spend** | .030 | .254[*] | -.106 | -.088 | -.122 | -.090 | .017 | -.092 | .029 | -.061 | .058 | .018 | -.016 | .082 | .078 | .168 |

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 6.1 shows that closing price is positively and highly correlated with Earnings per share (0.930). Market capitalization is positively and significantly related to Enterprise value (0.947) and Earnings Before Interest and Tax (EBIT) (0.789). CG score is significantly positively associated with Earnings Before Interest and Tax (EBIT), i.e. 0.461. Enterprise value is positively and highly correlated with EBIT (0.722).

Price to earnings ratio is positively correlated with Tobin's Q (0.419). The price to book ratio is positively correlated with Tobin's Q (0.896), Return on equity (0.627), return on capital employed (0.651) and return on assets ratio (0.515). This shows that the Price to book ratio might have multicollinearity as it is highly correlated with other variables. Thus, it can be dropped for regression analysis.

Similarly, Tobin's Q also has a high degree of positive correlation with Return on equity (0.517), Return on capital employed (.572), Return on assets (.542) and Return on sales (.346). All these variables are statistically significantly related at a significance level of 0.05. Return on equity is significantly positively associated with return on capital employed (0.922) and return on assets (0.905). This implies that one of these variables need to be dropped for further regression analysis.

EBIT has a strong degree of correlation with Dividend yield (0.426). Return on capital employed is also statistically significantly related with a high degree of positive relationship with Return on assets (0.921) and Return on sales ratio (0.413). Return on asset is again highly correlated with Return on sales (0.563), which is statistically significantly related at 0.05 level of significance. This indicates that Return on sales variable should be dropped for further analysis.

It is seen that many variables are highly correlated with each other, and data is suitable for further analysis.

## 6.2.2 Impact of Corporate Governance on Financial Performance

This sub-section is divided into two parts. Part one is regression analysis, where the financial performance variable is taken as the dependent variable with a CG score as the independent variable. Part two interpret the outcome of ANOVA, w.r.t. association between CG practices and 16 financial performance variables.

### 6.2.2.1 Regression Analysis

This study tries to determine which variables have a significant impact on the financial performance of companies. For this purpose, multiple regression analysis has been chosen. The initial regression model includes all potentially important variables from Table – 3.7 (Table defining financial performance variables). After this backward method of eliminating variables, the optimum regression model covering the ten independent variables has arrived at.

**Table 6.2- Multiple-Regression Model for Impact of Corporate Governance on Financial Performance**

| | Unstandardied Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | -1413386.096 | 625589.706 | | -2.259 | .027 |
| Corporate Governance Score | 18635.598 | 8345.293 | .082 | 2.233 | .028 |
| Ownership | -106835.233 | 88096.568 | -.043 | -1.213 | .229 |
| Industry Sector | 50684.692 | 23582.757 | .077 | 2.149 | .035 |
| Beta Measure of volatility | -267049.006 | 140693.556 | -.074 | -1.898 | .061 |
| Enterprise Value | .878 | .034 | .975 | 25.748 | .000 |
| Price to Earning ratio | 1796.483 | 778.416 | .084 | 2.308 | .024 |
| Total Debt ratio | -.333 | .164 | -.070 | -2.026 | .046 |

| | | | | | |
|---|---|---|---|---|---|
| **Tobin's Q** | -15648.683 | 12085.450 | -.056 | -1.295 | .199 |
| **CSR Spend** | 3061387.722 | 2708415.446 | .036 | 1.130 | .262 |
| **Return on Equity ratio** | 893582.973 | 413475.575 | .089 | 2.161 | .034 |
| Dependent Variable: Market Capitalization | | | | | |
| **Explanation of the model:** | | | **Significance of the Model:** | | |
| **R Square** | .932 | | F | 104.088 | |
| **Adjusted R Square ($R^2$)** | .923 | | Sig. | .000[i] | |
| **Durbin-Watson test = 1.826** | | | | | |

Table 6.2 shows the multiple regression model to analyze the impact of CG on FP. After correlation analysis, few of the variables were dropped, and for this analysis, only 10 variables were put in the regression model. This helps understand the relationship between CG and FP by studying the impact on firm's performance. Since financial performance is not just affected by CG but also has other contributing factors, 12 financial performance variables are used in the model and the CG score. Descriptive variables like ownership; industry; MNC versus nationally-located, private versus public, ownership were also independent variables in this model.

All the variables in the final model follow a normal distribution. This is as tested by the Kolmogorov-Smirnov test. The evaluated regression model is highly significant as the F ratio is 104.088 at a 0 percent significance level. The autocorrelation of residuals in SPSS 22 is tested with the use of the "Durbin-Watson test". Because of the calculated value of 1.826 and the Table of critical values, there is no problem in the auto correlation of residuals in the evaluated model. Residuals are also tested out for normality using the "Kolmogorov-Smirnov test", which shows that residual follows the normal distribution. The problem of heteroscedasticity does not exist. So, the data is fit for the application of regression analysis.

The primary regression equation followed is presented below.

*Financial Performance = a + Demographic Characteristics + CG score + social performance score + firm characteristics*

The degree of explanation of the model is very high as the adjusted $R^2$ is 92.3 percent. This also tells us about the robustness of the model, as it tries to explain the maximum variables.

The dependent variable in the model is market capitalization. Market capitalization is calculated by the market price of the share X Number of outstanding shares. This is an accurate indicator for understanding the wealth maximization principle because it depicts the actual (market-accepted) value of a 100 percent equity stake of a company, i.e. Price that a buyer may have to pay to acquire a company without considering the premium completely. Any increase or decrease in the market capitalization indicates improvement/ decline in the operating performance of a company that results from the efficiency of the top management. Price of a share in the stock market is a true reflector of the performance not only from an operational perspective but also based on the qualitative growth factors. Shares whose prices are rising indicate that the company's overall performance is good, and with this premise, for this study, market capitalization was chosen as an indicator of the company's financial performance.

If we look at the significance level of all the ten variables loaded significantly, the CG score is highly significant. It has a coefficient value(B) of 18635.598, which shows a high explanation and contribution of CG in the final model. Thus, indicating that it is an important variable contributing to the company's financial performance. So, *the null hypothesis ($H_{010}$)* that there is no significant impact of CG on the financial performance of

companies is not supported. If the CG score improves, then market capitalization also enhances. CG score and market capitalization have a positive relationship.

Similarly, the industry sector has a positive relationship (coefficient value is 50684.692). Beta shows an inverse relationship (-267049.066), if volatility is high, then its market price will tend to fall or will have an inverse effect on the market capitalization ratio. Total debt also has an inverse relationship, but the coefficient value is very low (-0.333), more debt leads to lower market capitalization. CSR spend also shows a positive correlation (3061387.722) to financial performance or market capitalization, and the degree is also positive. Return on equities also has a positive coefficient (893582.973), which is very high. Ownership (promoter, institutional and widely held) has an inverse relationship (-106835.233), but it has a low degree of significance in the model. Thus, the *null hypothesis* ($H_{011}$) that there is no significant impact of other firm characteristics on the financial performance of companies is partially supported as the model is significant for the price to earnings ratio, CSR spends, Industry sector, Enterprise Value, and ROE. The null hypothesis ($H_{012}$) that there is no significant impact social performance score on the financial performance of companies is supported as the social performance score was eliminated by the model.

The final computed model for the study is given hereunder.

*Market capitalisation = -1413386.096 +50684.692 (industry sector) -106835.233 (Ownership) + 18635.598 (Corporate Governance score) -267049.006 (Beta) + .878 (Enterprise value) + 1796.483 (Price to earnings ratio) - 0.333 (Total debt ratio) - 15648.683 (Tobin's Q) + 3061387.722 (CSR Spend) + 893582.973 (Return on Equity ratio)*

From the above analysis, it can be concluded that CG score, industry sector, enterprise value, Price to earnings ratio, CSR spend and return on equity positively correlate with market capitalization. Ownership, Tobin's Q, Beta and Total debt ratio are inversely loaded on the model. So, market capitalization is influenced by CG score, Price to earnings ratio, CSR spend, industry sector, Enterprise value and Return on equity. Thus, $H_{010}$is not supported,$H_{011}$is partially supported, and $H_{012}$is supported.

## 6.2.2.2 Relationship of Corporate Governance Practices with Financial Performance Variables

The impact of corporate governance practices on FP variables has also been identified by analyzing the financial performance variables for different companies following different corporate governance practices. The corporate governance practices have been classified based on CG score as leadership practices, good practices, fair practices and basic practices. Table 6.3 shows ANOVA results for differences in CG practices of companies and their financial performance variables.

Table 6.3 - ANOVA Results of Differences in Corporate Governance Practices and Financial Performance Variables

|  |  | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| Return on Equity ratio | Between Groups | .168 | 3 | .056 | 2.716 | **.049** |
|  | Within Groups | 1.859 | 90 | .021 |  |  |
|  | Total | 2.027 | 93 |  |  |  |
| CSR Spend | Between Groups | .000 | 3 | .000 | .050 | .985 |
|  | Within Groups | .026 | 83 | .000 |  |  |
|  | Total | .026 | 86 |  |  |  |
| Dividend Yield ratio | Between Groups | 52100.683 | 3 | 17366.894 | 1.061 | .370 |
|  | Within | 1472812.502 | 90 | 16364.583 |  |  |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Groups | | | | | |
| | Total | 1524913.184 | 93 | | | |
| **Return on Sales ratio** | Between Groups | .051 | 3 | .017 | .542 | .655 |
| | Within Groups | 2.801 | 90 | .031 | | |
| | Total | 2.851 | 93 | | | |
| **Return on Assets ratio** | Between Groups | .043 | 3 | .014 | 1.803 | .152 |
| | Within Groups | .723 | 90 | .008 | | |
| | Total | .767 | 93 | | | |
| **Return on Capital Employed** | Between Groups | .148 | 3 | .049 | 2.046 | .113 |
| | Within Groups | 2.175 | 90 | .024 | | |
| | Total | 2.324 | 93 | | | |
| **Earnings Before Interest and Tax (EBIT)** | Between Groups | 131502647220.082 | 3 | 43834215740.027 | 6.312 | **.001** |
| | Within Groups | 625054889287.924 | 90 | 6945054325.421 | | |
| | Total | 756557536508.006 | 93 | | | |
| **Tobin'sQ** | Between Groups | 143.554 | 3 | 47.851 | 1.933 | .130 |
| | Within Groups | 2228.455 | 90 | 24.761 | | |
| | Total | 2372.009 | 93 | | | |
| **Total Debt ratio** | Between Groups | 254335630206.292 | 3 | 84778543402.097 | .827 | .483 |
| | Within Groups | 9231704489383.580 | 90 | 102574494326.484 | | |
| | Total | 9486040119589.870 | 93 | | | |
| **Price by book ratio** | Between Groups | 337.445 | 3 | 112.482 | 1.661 | .181 |
| | Within Groups | 6500.076 | 96 | 67.709 | | |
| | Total | 6837.521 | 99 | | | |
| **Price to Earning ratio** | Between Groups | 19391.834 | 3 | 6463.945 | 1.541 | .209 |
| | Within Groups | 402674.943 | 96 | 4194.531 | | |
| | Total | 422066.777 | 99 | | | |
| **Earning Per** | Between | 106051.785 | 3 | 35350.595 | .436 | .727 |

| | | | | | | |
|---|---|---|---|---|---|---|
| share | Groups | | | | | |
| | Within Groups | 7777148.804 | 96 | 81011.967 | | |
| | Total | 7883200.589 | 99 | | | |
| **Enterprise Value** | Between Groups | 31374099508570.200 | 3 | 10458033169523.400 | 4.790 | **.004** |
| | Within Groups | 209615238126062.000 | 96 | 2183492063813.140 | | |
| | Total | 240989337634632.000 | 99 | | | |
| **Market Capitalization** | Between Groups | 30788531446115.000 | 3 | 10262843815371.700 | 6.204 | **.001** |
| | Within Groups | 158817380805622.000 | 96 | 1654347716725.230 | | |
| | Total | 189605912251737.000 | 99 | | | |
| **Closing Price** | Between Groups | 150683340.486 | 3 | 50227780.162 | 1.253 | .295 |
| | Within Groups | 3846885977.774 | 96 | 40071728.935 | | |
| | Total | 3997569318.261 | 99 | | | |
| **Beta-Measure of volatility** | Between Groups | .366 | 3 | .122 | .531 | .662 |
| | Within Groups | 22.072 | 96 | .230 | | |
| | Total | 22.438 | 99 | | | |

ANOVA test (Table- 6.3) was carried out, where Return on equity ratio has F value of 2.716, which is statistically significant at 0.049 level of significance, indicating that Return on equity significantly impacts the CG practices of the companies. It also shows that the null hypothesis ($H_{013}$) that there is no significant difference in the CG practices of companies based on Return on equity is rejected. CSR spending and its relationship with the CG practices of companies has a low F value of 0.050, which is not significant at a 5 percent level of significance. This indicates that CSR spend does not influence or does not impact the CG practices followed by the companies. There is no significant impact of CSR spends on CG practices are supported by the null hypothesis. Earnings before interest and tax (EBIT) has an F value of 6.312, which is statistically significant at a 0.001 level of

significance, indicating a significant difference in the CG practices of companies with different levels of earnings before interest and tax (EBIT). Profitability has a direct relationship with the CG practices of companies.

More profitable companies have better CG as compared to less profitable companies. Enterprise value has an F value of 4.790, which is a statistically significant 0.04 level of significance. This indicates that the null hypothesis is not supported, and there is a difference in the CG practices having different enterprise values. Similarly, market capitalization has an F value of 6.204, which is significant at a 0.001 significance, showing that the null hypothesis is not supported. Thus null hypothesis ($H_{013}$) is partially supported.

**Table 6.4- Duncan Post Hoc Test on Differences in Corporate Governance Practices and Return on Equity**

| Corporate Governance Practices | N | Subset for alpha = 0.05 |
|---|---|---|
| | | 1 |
| Basic | 7 | .041592493628534 |
| Leadership | 4 | .096993013896994 |
| Good | 39 | .130835897534364 |
| Fair | 44 | .187106214293970 |
| Sig. | | .050 |

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 9.066.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

To analyze the significant relationship between a few of the financial performance variables which significantly impact the corporate governance practices, the Duncan Table 6.5 shows the findings of a post-hoc test to see if there are any changes in CG policies regarding return on equity.

The results indicate that companies with fair corporate governance practices have their Return on equity levels different from those with basic corporate governance practices. Thus *null hypothesis $H_{013}$* is not supported for Return on equity and corporate governance practices.

**Table 6.5- Duncan Post-Hoc Test on Differences in Corporate Governance Practices and Earnings Before Interest and Tax**

| Corporate Governance Practices | N | Subset for alpha = 0.05 | | |
|---|---|---|---|---|
| | | 1 | 2 | 3 |
| **Basic** | 7 | -839.357 | | |
| **Fair** | 44 | 29422.598 | 29422.598 | |
| **Good** | 39 | | 87471.182 | 87471.182 |
| **Leadership** | 4 | | | 155013.200 |
| **Sig.** | | .441 | .142 | .088 |

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 9.066.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Table 6.5 shows the results of the Duncan Post-hoc test on differences in the CG practices and Earnings before Interest and Tax (EBIT). It was found that companies in the leadership and basic category have significantly different Earnings before interest and Tax (EBIT). However, leadership category companies have higher Earnings before interest and Tax (EBIT) than companies following basic CG practices. The result also indicates that if a company has higher Earnings before interest and Tax (EBIT), it can make the CG practices better for the company. So, *null hypothesis $H_{013}$* is not supported for EBIT and CG practices.

**Table 6.6- Duncan Post Hoc Test on Differences in Corporate Governance Practices and Enterprise Value**

| Corporate Governance Practices | N | Subset for alpha = 0.05 | |
| --- | --- | --- | --- |
| | | 1 | 2 |
| Fair | 47 | 699533.3543 | |
| Basic | 7 | 805448.1329 | |
| Good | 42 | 1536897.4164 | |
| Leadership | 4 | | 3068334.2625 |
| Sig. | | .258 | 1.000 |

Table 6.6 indicates the results of the Duncan Post-hoc test on differences in corporate governance practices and Enterprise value. It shows that the companies under leadership category practices have their enterprise value standout significantly high with a value of 3068334.265 compared to other groups. This indicates that enterprise value is very high for leadership category companies compared to the rest of the three groups of CG practices. It also conveys that Enterprise value does get influenced by the CG practices of companies. So, *null hypothesis $H_{013}$* is not supported for Enterprise value and CG practices.

**Table 6.7- Duncan Post Hoc Test on Differences in Corporate Governance Practices and Market Capitalization**

| Corporate Governance Practices | N | Subset for alpha = 0.05 | |
| --- | --- | --- | --- |
| | | 1 | 2 |
| Basic | 7 | 530501.4186 | |
| Fair | 47 | 669554.9123 | |
| Good | 42 | 1386777.3445 | |
| Leadership | 4 | | 3132199.2625 |
| Sig. | | .184 | 1.000 |

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 9.134.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Duncan Post-hoc test results, as shown in Table 6.7, analyse the differences in the CG practices based on the market capitalization of companies. The companies that follow leadership CG practices have significantly different or very high market capitalization than those following basic, fair and good practices.

This reveals that companies with higher market capitalization have better CG practices, and these companies might improve their CG practices with time. This also implies that having well CG practices may impact the market capitalization of the firm positively. Thus, *null hypothesis $H_{013}$* is not supported for market capitalization and CG practices.

Overall, it can be summarized that companies' level of CG practices has a significant influence on some of the financial variables like Return on Equity ratio, Enterprise value, Earnings before Interest and Tax (EBIT) and Market capitalization. This indicates that if companies start performing better in their CG practices, they will do well in terms of these ratios, which are very important financial performance indicators. The *null hypothesis$H_{013}$*that there is no significant difference in financial performance variables and CG practices followed by companies is partially supported as the values are significant for Return on Equity ratio, Enterprise value, Earnings before Interest and Tax (EBIT) and Market capitalization.

### 6.2.3 Impact of Firm Characteristics on Change in Financial Performance (CAGR Analysis)

This sub-section has been divided into three sub-parts. Part one carries out regression analysis with CAGR values of financial performance variables and CG score. Part two conducts Exploratory Factor Analysis (EFA) for summarizing financial performance

variables into factors. And part three analyses differences in CG practices of companies for five financial factors extracted by EFA.

## 6.2.3.1 Regression Analysis (CAGR)

For this analysis, five-year data of financial performance variable was used (2015-2019) to calculate the CAGR values (compound annual growth rate of companies). The basic premises that CG practices were made compulsory after the Companies Act, 2013, and the companies had adopted CG practices after this time. Since companies were using these practices for a more extended period and CG being a strategic decision is not revised daily. An analysis of CAGR values of five years performance of the company would give a true insight on the effectiveness of CG practices followed by companies. It will also depict that whether CG practices have a long term impact on financial performance or not. The five-year CAGR values of these variables were taken along with CG score, social performance score, demographic characteristics like age of the company, industry sector, ownership, public-private, MNC versus National located status were inserted in the model, and backward method of regression analysis was carried out.

**Table 6.8- Multiple-Regression Model of Impact of Firm Characteristics on Change in Financial Performance (CAGR)**

|  | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
|  | **B** | **Std. Error** | **Beta** |  |  |
| **(Constant)** | -.363 | .265 |  | -1.370 | .175 |
| **Ownership** | -.055 | .040 | -.141 | -1.363 | .177 |
| **Industry Sector** | -.021 | .010 | -.206 | -2.213 | .030 |
| **Dividend Yield ratio (CAGR)** | .000 | .000 | -.250 | -2.743 | .008 |
| **Return on Equity ratio (CAGR)** | -.144 | .131 | -.104 | -1.101 | .274 |
| **Tobin'sQ (CAGR)** | .008 | .004 | .188 | 1.884 | .063 |
| **Earning Per share (CAGR)** | .000 | .000 | -.556 | -2.279 | .025 |
| **Enterprise Value (CAGR)** | 4.713E-08 | .000 | .335 | 3.559 | .001 |

| | | | | | |
|---|---|---|---|---|---|
| Corporate Governance Score | .007 | .004 | .211 | 2.038 | .045 |
| Closing Price (CAGR) | 1.666E-05 | .000 | .498 | 2.036 | .045 |
| Dependent Variable: Change In Market Capitalization (CAGR) | | | | | |
| Explanation of the model: | | | Significance of the model: | | |
| R Square | .467 | | F | 7.503 | |
| Adjusted R Square ($R^2$) | .405 | | Sig. | .000[i] | |

Table 6.8 shows an analysis of the regression model to analyze the impact of firm characteristics on changes in financial performance. By the backward method of elimination of variables, only nine variables could load in the final model. The final regression model is significant with the F value of 7.503, which is highly significant at 0.001 level of significance and the adjusted R square of the model is 0.405, which indicates that the model explains 40.5 percent of the total explanation of the change in the financial performance of the company. Market capitalization (CAGR) was used as the dependent variable because it is a true indicator of companies' financial performance and reflects the top management performance as well, as it captures the perception of investors about the actual performance of the companies through the stock market prices. Five-year CAGR values of change in market capitalization were taken as the dependent variable. The level of significance for the variables which are independently impacting the change in the financial performance of the companies over 5 years period, indicate that industry sector, dividend yield ratio, Tobin's Q, Earning per share, Enterprise value, CG score, Return on equity and Closing price of the company have a significant impact on the changes in the financial performance over a period of five years.

*Financial Performance = a + Demographic Characteristics + corporate governance score + social performance score + firm characteristics*

The final significant computed model for the study is given hereunder.

*Change in Market capitalisation = -0.363- 0.021 (industry sector)-0.055(Ownership) + 0.007(Corporate Governance score)+ 0.000(Earnings per share CAGR) + 4.713E-08(Enterprise value CAGR)+1.666E-05(Closing price CAGR) + 0.000(Dividend yield ratio CAGR)+0.008(Tobin's Q CAGR) - 0.144(Return on Equity ratio CAGR)*

The industry sector has an inverse relationship. Return on equity CAGR has an inverse relationship. However, the Return on equity is not highly significant, and also the value of the coefficient is very low -0.144. All other variables load positively on the model. The CG score is significant at a 5 percent level, but the coefficient value is low (0.007). However, it significantly contributes to the change in the market capitalization of companies. The *null hypothesis ($H_{014}$)* that the difference in the five-year financial performance of companies is not impacted by CG score is not supported. Enterprise value (CAGR) and closing price (CAGR) are also loading in the model significantly, but their coefficient values are very low.

It can be interpreted that this model has an explanatory power of 40.5 percent, and it reconfirms the previous model of Table 6.2.Changes in market capitalization over five years depending upon the company's dividend yield, Return on equity, Tobin's Q, Earnings per share, CG total score, Closing price, Enterprise value, ownership, and Industry sector. Thus *null hypothesis ($H_{015}$)* that other firm characteristics do not impact change in the five-year financial performance of companies is partially supported. *The null hypothesis ($H_{016}$)* that the social performance of companies does not influence change in the five-year financial performance of companies is supported as the model eliminated social performance. Thus $H_{014}$ is not supported,$H_{015}$is partially supported, and $H_{016}$is supported.

It can be concluded from the above analysis that the current year performance of the company is dependent on the variables which have been discussed in Table 6.2. However, these variables are also relevant and impact changes in the financial performance of companies over five years. Variables that have held their place in the regression model explained in Tables 6.2, and 6.8 indicate that these variables are significant and impact the company's financial performance. These variables are of strategic importance and should be studied and analyzed while taking any decisions related to how to improve the financial performance of companies as they can have a significant impact on the strategic decision making by the company. As a result, ownership, industrial sector, enterprise value, return on equity ratio, Tobin's Q, and CG total score have emerged as major characteristics that influence a company's market cap in both the short (annual) and long term (five-year).

### 6.2.3.2 Exploratory Factor Analysis (EFA) of Financial Performance Variables

Bartlett's test of sphericity (Table –6.9) shows the chi-square value (1277.372) is high and makes data fit for factor analysis. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is 0.585, indicating that data is appropriate for factor analysis.

**Table 6.9- KMO and Bartlett's Test**

| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .585 |
|---|---|---|
| Bartlett's Test of Sphericity | **Approx. Chi-Square** | 1277.372 |
| | **df** | 120 |
| | **Sig.** | .000 |

Table – 6.10 shows Varimax rotated factor matrix results for all 16 financial variables. Five factors have been extracted, which account for 76.996 percent of cumulative variance. It shows that 76.996 percent of the total variance is explained by the information in the varimax rotated matrix. The principal component analysis yielded five factors with Eigen values greater than 1.

**Table 6.10- Rotated Component Matrix and Factor Naming**

| Component Variables | Resultant Factor Names | | | | |
|---|---|---|---|---|---|
| | F1: Return on Assets Ratios | F2: Valuation-related factor | F3: Long term market growth factor | F4: Replacement Value factor | F5: Stakeholder-related factor |
| Return on Assets ratio | .960 | | | | |
| Return on Capital Employed | .947 | | | | |
| Return on Equity ratio | .935 | | | | |
| Return on Sales ratio | .523 | | | | |
| Market Capitalization | | .943 | | | |
| Enterprise Value | | .941 | | | |
| EBIT | | .891 | | | |
| Total Debt ratio | | .539 | | | |
| Earnings Per share | | | .980 | | |
| Closing Price | | | .977 | | |
| Price by book ratio | | | | .615 | |
| Price to Earnings ratio | | | | .853 | |
| Tobin's Q | | | | .696 | |
| CSR Spend | | | | | .757 |
| Dividend Yield ratio | | | | | .596 |
| Beta | | | | | .528 |
| **Eigen values** | 4.359 | 3.132 | 1.976 | 1.685 | 1.167 |
| **percentage of Variance** | 27.246 | 19.574 | 12.351 | 10.532 | 7.293 |
| **Cumulative percentage** | 27.246 | 46.821 | 59.171 | 69.703 | 76.996 |

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Factor loadings represent the coefficient of correlation between a variable and its factors.

The factor loading below 0.40 has been left. The name of factors and factor loading are summarised in Table – 6.10.

The principal component analysis technique was used to generate the rotated component matrix. Results show that all the 16 component variables were clubbed into five factors. The names of these factors have been defined based on the component variables, which are included in a particular factor. These are discussed hereunder:

***F1: Return on Assets Ratios***- Factor one has been named on return ratios. In this, almost all the Return related ratios like Return on assets ratio, which has a factor loading of

0.960, return on capital employed has a factor loading of.947, return on equity which also has a very high factor loading of 0.35 and return on sales which load significantly on this factor, has a factor loading of 0.523, are incorporated. So factor one, which comes out, is the principal component for this analysis and explains 27.2 46 percent of the total variance.

*F2: Valuation-Related Factor*- The second factor, which is named after the valuation-related factor, includes four variables, market capitalization, which has a very high factor loading of 0.93, enterprise value, EBIT and total debt ratio. These four variables reflect the company's valuation and other vital ratios used at the time of valuation. This particular factor explains 19.574 percent of the total variance.

*F3: Long-term market growth factor* - The third factor, which explains 12.351 percent of the total variance, is the long-term market growth factor. It includes two crucial variables that are essentially seen when the long-term market growth of a company is checked: earnings per share and the company's closing price.

*F4: Replacement Value factor*- The fourth factor which explains 10.532 percent of the total variance includes three variables: Price to book ratio; Price to earnings ratio, and Tobin's Q. These ratios are important when a company wants to check its replacement value or when a company has to replace certain assets.

*F5: Stakeholder-related factor*- The fifth factor explains 7.293 percent of the total variance associated with stakeholders' related factors. It loads three significant variables: CSR spending (how companies giving back to the society); dividend yield ratio (how much shareholders returns in the form of dividend), and Beta, which talks about the

volatility of the stock in the market (affect the risk and return relationship of the stakeholder). This factor has been named as a stakeholder-related factor.

The exploratory factor analysis (EFA) summarized 16 financial performance variables into five factors: Return on assets ratio, Valuation-related factor; long-term market growth factor; replacement value factor and stakeholder-related factor.

The standardized regression scores of these five factors were saved in SPSS 22 and used to analyze the relationship of five factors extracted with CG practices and social performance scores.

### 6.2.3.3 Extracted Financial Factors and Corporate Governance Practices

The five factors computed from EFA, i.e. Return on assets ratio; valuation-related factor; long-term market growth factor; replacement value factor and stakeholder-related factor, have been used to analyze their relationship with companies' corporate governance practices. Table 6.11 discusses ANOVA results to identify the differences in CG practices of companies and these five financial factors which have been extracted.

**Table 6.11- ANOVA Results for Difference in Corporate Governance Practices of Companies and Extracted Financial Factors**

|  |  | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **Return on Assets Ratio** | **Between Groups** | 2.742 | 3 | .914 | .911 | .439 |
|  | **Within Groups** | 83.258 | 83 | 1.003 |  |  |
|  | **Total** | 86.000 | 86 |  |  |  |
| **Valuation-related factors** | **Between Groups** | 12.913 | 3 | 4.304 | 4.888 | **.004** |
|  | **Within Groups** | 73.087 | 83 | .881 |  |  |
|  | **Total** | 86.000 | 86 |  |  |  |
| **Long term market growth** | **Between Groups** | 2.124 | 3 | .708 | .701 | .554 |
|  | **Within Groups** | 83.876 | 83 | 1.011 |  |  |
|  | **Total** | 86.000 | 86 |  |  |  |
| **Replacement** | **Between Groups** | 3.448 | 3 | 1.149 | 1.156 | .332 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Value | Within Groups | 82.552 | 83 | .995 | | |
| | Total | 86.000 | 86 | | | |
| Stakeholder-related factor | Between Groups | 1.240 | 3 | .413 | .405 | .750 |
| | Within Groups | 84.760 | 83 | 1.021 | | |
| | Total | 86.000 | 86 | | | |

To understand the significant differences between CG practices followed by companies and the financial factors identified, ANOVA results show that the valuation-related factor F value is 4.888, which is statistically significant at the 0.05 level of significance. This indicates that CG practices vary for companies for valuation-related factors. The valuation-related factor has variables like market capitalization, Enterprise value, EBIT and Total debt ratio.

So it is an important variable that will impact the CG practices followed by companies, or we can say that CG practices will impact their valuation-related factor. However, the ANOVA results are insignificant for the rest of the four factors, i.e. Return on assets ratio, Long term market growth factor, Replacement value factor and Stakeholder-related factor.

**Table 6.12- Duncan Post Hoc Results for Differences in Valuation-Related Ratios and Corporate Governance Practices Categories**

| Corporate Governance Practices | N | Subset for alpha = 0.05 | |
|---|---|---|---|
| | | 1 | 2 |
| Basic | 5 | -.3806456 | |
| Fair | 42 | -.3174238 | |
| Good | 36 | .3035263 | .3035263 |
| Leadership | 4 | | 1.0770202 |
| Sig. | | .174 | .104 |

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 7.975.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

From Duncan Post-hoc results, Table 6.12, wherein the corporate governance practices have been classified into four groups- basic, fair, good and leadership practices, it is found

that company' leadership practices and basic practices significantly differ for valuation-related factors. So, the null hypothesis ($H_{017}$), that there is no significant difference in five financial factors extracted and corporate governance practices followed by companies, is partially supported only for valuation-related factors.

### 6.2.4 Relationship of Social Performance with Financial Performance Variables

This sub-part of the analysis discusses the relationship of social performance with financial performance variables. Here, research has been carried out with three different perspectives; CSP relationship with financial factors which has been extracted is studied; then the association of social performance with CG practices has been analyzed, and in third, the relationship of CG CSP with financial performance variable has been investigated.

The company's social performance score was categorized into two categories- high social performance score and low social performance score.

Table 6.13 discusses ANOVA results for differences in the social performance of companies and financial factors extracted by PFA.

Table 6.13- ANOVA Results for Difference in Social Performance of Companies and Extracted Financial Factors

| | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **Return on Assets ratio** | Between Groups | .182 | 1 | .182 | .180 | .673 |
| | Within Groups | 85.818 | 85 | 1.010 | | |
| | Total | 86.000 | 86 | | | |
| **Valuation-related factor** | Between Groups | .143 | 1 | .143 | .141 | .708 |
| | Within Groups | 85.857 | 85 | 1.010 | | |
| | Total | 86.000 | 86 | | | |
| **Long term** | Between Groups | .817 | 1 | .817 | .815 | .369 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **market growth** | Within Groups | 85.183 | 85 | 1.002 | | |
| | Total | 86.000 | 86 | | | |
| **Replacement Value** | Between Groups | .067 | 1 | .067 | .067 | .797 |
| | Within Groups | 85.933 | 85 | 1.011 | | |
| | Total | 86.000 | 86 | | | |
| **Stakeholder-related factor** | Between Groups | 9.849 | 1 | 9.849 | 10.994 | **.001** |
| | Within Groups | 76.151 | 85 | .896 | | |
| | Total | 86.000 | 86 | | | |

Analysis of the results shows that stakeholder-related factors are significantly different with the F value of 10.994, which is statistically significant at the 0.01 level of significance. This indicates that the social performance of companies is statistically significantly different for stakeholder-related factor.

Stakeholder-related factors (including values like CSR spending of the company, dividend yield ratio and Beta) were significantly different for different levels of social performance. Shareholders and society look at how much company are spending on CSR-related activities, how companies are giving back to society; and how companies perform on social aspects and fulfil the SDG.

For the rest of the variables like Return on asset ratio, valuation-related factor, long-term growth factors, and replacement value factor, the ANOVA results were insignificant, indicating that these factors are not significantly different for a high or low degree of social performance followed by the companies. The null hypothesis ($H_{018}$) that there is no significant difference in the five financial factors extracted and social performance score of the companies is partially supported for stakeholder-related factors. The CG practices were further analyzed for understanding the differences in the Corporate Governance (CG) practices followed by companies and the social performance of the companies.

**Table 6.14- ANOVA Results for Difference in Social Performance of Companies and Corporate Governance Practices**

| Corporate Governance Practices | | CSP Score category | | Total |
|---|---|---|---|---|
| | | Low | High | |
| Leadership | N | 2 | 2 | 4 |
| | percent | 50.0% | 50.0% | 100.0% |
| Good | N | 15 | 27 | 42 |
| | percent | 35.7% | 64.3% | 100.0% |
| Fair | N | 13 | 34 | 47 |
| | percent | 27.7% | 72.3% | 100.0% |
| Basic | N | 4 | 3 | 7 |
| | percent | 57.1% | 42.9% | 100.0% |
| Total | N | 34 | 66 | 100 |
| | percent | 34.0% | 66.0% | 100.0% |
| ANOVA | | F | Sig. | |
| | | 0.014 | 0.908 | |

The results of the ANOVA, as shown in Table 6.14, show insignificant results with an F value of 0.014, which is not statistically significant at 0.05 level of significance. This indicates that corporate governance practices do not vary or are not statistically significantly different for different companies' social performance levels. This means that it will not affect their social performance if they follow good corporate governance practices, fair practices, or basic practices. This also indicates that the social performance of companies is dependent on financial performance more than the corporate governance of the company. So, the null hypothesis ($H_{019}$) that there is no significant difference in companies' social performance scores and corporate governance practices is supported.

Finally, to analyze the relationship between the social performance of companies and the 16 financial performance variables taken for the study, results are compiled in Table 6.15. As discussed earlier, the social performance score of the company's was divided into two categories- high social performance score and low social performance score.

**Table 6.15- ANOVA Results for Difference in Social Performance of Companies and Financial Performance Variables**

| | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **Beta-Measure of volatility** | Between Groups | .693 | 1 | .693 | 3.124 | **.080** |
| | Within Groups | 21.745 | 98 | .222 | | |
| | Total | 22.438 | 99 | | | |
| **Closing Price** | Between Groups | 37155961.914 | 1 | 37155961.914 | .919 | .340 |
| | Within Groups | 3960413356.346 | 98 | 40412381.187 | | |
| | Total | 3997569318.261 | 99 | | | |
| **Market Capitalization** | Between Groups | 953655823849.700 | 1 | 953655823849.700 | .495 | .483 |
| | Within Groups | 188652256427888.000 | 98 | 1925023024774.360 | | |
| | Total | 189605912251737.000 | 99 | | | |
| **Enterprise Value** | Between Groups | 727500926960.214 | 1 | 727500926960.214 | .297 | .587 |
| | Within Groups | 240261836707672.000 | 98 | 2451651394976.240 | | |
| | Total | 240989337634632.000 | 99 | | | |
| **Earnings Per share** | Between Groups | 86350.375 | 1 | 86350.375 | 1.085 | .300 |
| | Within Groups | 7796850.214 | 98 | 79559.696 | | |
| | Total | 7883200.589 | 99 | | | |
| **Price to Earnings ratio** | Between Groups | 7579.052 | 1 | 7579.052 | 1.792 | .184 |
| | Within Groups | 414487.725 | 98 | 4229.467 | | |
| | Total | 422066.777 | 99 | | | |
| **Price by book ratio** | Between Groups | 18.691 | 1 | 18.691 | .269 | .605 |
| | Within Groups | 6818.829 | 98 | 69.580 | | |
| | Total | 6837.521 | 99 | | | |
| **Total Debt ratio 2019** | Between Groups | 35539580549.480 | 1 | 35539580549.480 | .346 | .558 |
| | Within Groups | 9450500539040.390 | 92 | 102722831946.091 | | |
| | Total | 9486040119589.870 | 93 | | | |
| **Tobin's Q** | Between Groups | 8.327 | 1 | 8.327 | .324 | .571 |
| | Within Groups | 2363.682 | 92 | 25.692 | | |
| | Total | 2372.009 | 93 | | | |
| **Return on Equity ratio** | Between Groups | .062 | 1 | .062 | 2.906 | **.092** |
| | Within Groups | 1.965 | 92 | .021 | | |
| | Total | 2.027 | 93 | | | |
| **Earnings** | Between | 3223067836.308 | 1 | 3223067836.308 | .394 | .532 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Before Interest and Tax (EBIT) | Groups | | | | | |
| | Within Groups | 753334468671.698 | 92 | 8188418137.736 | | |
| | Total | 756557536508.006 | 93 | | | |
| Return on Capital Employed | Between Groups | .015 | 1 | .015 | .617 | .434 |
| | Within Groups | 2.308 | 92 | .025 | | |
| | Total | 2.324 | 93 | | | |
| Return on Assets ratio | Between Groups | .010 | 1 | .010 | 1.182 | .280 |
| | Within Groups | .757 | 92 | .008 | | |
| | Total | .767 | 93 | | | |
| Return on Sales ratio | Between Groups | .103 | 1 | .103 | 3.463 | **.066** |
| | Within Groups | 2.748 | 92 | .030 | | |
| | Total | 2.851 | 93 | | | |
| Dividend Yield ratio | Between Groups | 75584.532 | 1 | 75584.532 | 4.798 | **.031** |
| | Within Groups | 1449328.653 | 92 | 15753.572 | | |
| | Total | 1524913.184 | 93 | | | |
| CSR Spend | Between Groups | .001 | 1 | .001 | 4.686 | **.033** |
| | Within Groups | .024 | 85 | .000 | | |
| | Total | .026 | 86 | | | |

Beta, a measure of volatility, shows a significant F value of 3.124, indicating statistical significance at a 0.05 level. This shows that companies having different levels of Beta have different social performance scores. Similarly, the results are significant for the Return on equity ratio with the F value of 4.906 which is statistically significant at a 10 percent level of significance. The return on equity ratio was also found to be statistically significantly different for different levels of social performance. Return on sales ratio was also found to be statistically significantly different with an F value of 3.463, which is significant at a 5 percent level of significance. This indicates that different social performance companies have different Return on sales ratio. The dividend yield ratio was also statistically significantly different with the F value of 4.798, meaning that high social performance companies and low social performance companies have different dividend

yields .Finally, the CSR spends ratio shows a significant F value of 4.686, implying that the results are statistically significantly different at a 0.5 percent level of significance. This means that high-performance companies will have high CSR spending, and low-performance companies will have low CSR spending in their financial reports.

Thus, the null hypothesis ($H_{020}$) is partially supported for Beta, ROE, ROS ratio, Dividend yield ratio, and CSR spend ratio. However, the rest of the variables were found to be insignificant.

The overall analysis reveals that the social performance score of companies impacts the stakeholder-related factor. Social performance is not significantly associated with the corporate governance practices of companies. Social performance may impact Beta, Return on equity, Return on sales ratio, Dividend yield ratio, and CSR spend ratio.

## 6.3   Analysis of Corporate Governance Variables

This analysis explains the main CG variables that influence its performance. These variables have been extensively researched and significantly impact firm's performance. These include ten main corporate governance variables, namely board size, board independence, gender diversity in the board, CEO duality, number of board meetings, audit committee members, audit firm category from Big four(KPMG, Deloitte, EY and PWC) or non-big four, (Transparency of financial statements) audit concerns on financial statements, and concerns of secretarial audits. This sub-section is divided into nine sub-sections. The relationship of corporate governance variables has been analysed concerning corporate governance total score, corporate governance score categories, corporate governance practices, social performance score, demographic variables, sixteen financial

variables, five financial factors extracted, and finally suggesting a best-fit regression model explain firm performance.

## 6.3.1 Descriptive Analysis of Corporate Governance Variables

This part includes two sub-parts. Part one covers the descriptive analysis of ten corporate governance variables, and part two discusses their correlation analysis with all variables.

## 6.3.1.1 Descriptive Statistics

The descriptive analysis of main corporate governance variables has been carried out in Tables 6.16 to 6.18. These include ten characteristics: board size, independent directors, number of board meetings, number of members in audit committee, number of independent directors in audit committee, percentage of women directors, Common CEO and Chairman, audit firm category, and audit concern on financial statements and concern of secretarial audit. This data has been collected for 100 companies. The ten variables have been studied for differences in Private vs PSU firms and Industry sector-wise differences.

Table 6.16 - Descriptive Statistics of Corporate Governance Variables

|  | Mean | Std. Deviation | Minimum | Maximum |
|---|---|---|---|---|
| **Board Size** | 11.50 | 2.852 | 6 | 22 |
| **Independent Director** | 4.96 | 1.979 | 0 | 9 |
| **Women Directors ( percent)** | 16.00 | 8.759 | 0 | 43 |
| **Number of Board Meetings** | 7.31 | 4.153 | 0 | 31 |
| **CEO Duality** | .65 | .479 | 0 | 1 |
| **Number of Members in Audit Committees** | 4.33 | 1.364 | 0 | 9 |
| **Number of Independent Directors in Audit Committee** | 1.24 | 1.670 | 0 | 7 |
| **Audit firm category** | .66 | .476 | 0 | 1 |
| **Audit Concerns on Financial Statements** | .21 | .409 | 0 | 1 |

| Concerns of Secretarial Audit | .09 | .288 | 0 | 1 |
|---|---|---|---|---|

Table 6.16 explains descriptive statistics of corporate governance variables. The table shows that board size has a mean value of 11.50, a standard deviation of 2.852. Independent directors in a company's mean value are 4.96, the percentage of women directors is 16 percent on average, and the number of board meetings held in a year in a company average score is 7.31. The maximum numbers of meetings are 31, CEO duality has a mean score of 0.65. The numbers of members in the audit committee mean value is 4.3 with a standard deviation of 1.364, the maximum number of members in the audit committee are 9 in a company, the number of independent directors in the audit committee mean value is1.24. The audit firm category variable is categorized into big four firms ((KPMG, Deloitte, EY and PWC) and non-big four firms. The mean value is 0.66. Audit concerns that consider any matter raised by the auditor related to the problems in the financial statements have a mean value of 0.21. Concerns of secretarial audit associated with the company secretary's corporate governance audit have a mean value of 0.09.

**Table 6.17 - Descriptive Statistics of Corporate Governance Variables based on Public vs Private Sector**

|  |  | Private | PSU |
|---|---|---|---|
| **Board Size** | **Mean** | 11.13 | 12.9 |
|  | **Std. Deviation** | 2.784 | 2.719 |
|  | **Minimum** | 6 | 8 |
|  | **Maximum** | 22 | 18 |
| **Independent Director** | **Mean** | 4.54 | 6.52 |
|  | **Std. Deviation** | 1.873 | 1.569 |
|  | **Minimum** | 0 | 4 |
|  | **Maximum** | 9 | 9 |
| **Women Directors ( percent)** | **Mean** | 17.61 | 9.95 |
|  | **Minimum** | 0 | 0 |
|  | **Maximum** | 43 | 29 |
| **Number of Board Meetings** | **Mean** | 6.47 | 10.48 |
|  | **Std. Deviation** | 2.717 | 6.577 |
|  | **Minimum** | 0 | 0 |
|  | **Maximum** | 18 | 31 |
| **Number of Members in Audit** | **Mean** | 4.19 | 4.86 |

| Committees | Std. Deviation | 1.262 | 1.621 |
|---|---|---|---|
| | Minimum | 0 | 3 |
| | Maximum | 8 | 9 |
| **Number of Independent Director in Audit committee** | Mean | 1.253 | 1.19 |
| | Std. Deviation | 1.698 | 1.6 |
| | Minimum | 0 | 0 |
| | Maximum | 7 | 4 |

Further companies were divided into two groups private and PSU sector companies. The results of descriptive statistics of differences in corporate governance characteristics based on the private vs PSU sector are given in Table 6.17. The table shows that for board size, the mean value of PSU is higher (12.9) than the private sector company mean value (11.13). In terms of independent directors, again PSU has a larger number of independent directors (6.52) than private sector companies (4.54). The percentage of women directors on the company's board, private sector companies, has a better average percentage (17.6 1) than PSU (9.95). The number of board meetings held in a year shows that PSU has more board meetings, with an average value of 10.48 than private sector companies, which have an average of 6.47 meetings held in a year. The number of members in the audit committee reflects that both the public and private sectors have an almost similar number of members. For audit committee members, the average value in the private sector is 4.19 and 4.86 in the public sector. With regard to the number of IDs in the audit committee, private sector companies came with a better average value (1.253) than PSU (1.19).

**Table 6.18 - Descriptive Statistics of Corporate Governance Characteristics based on Industry Sector**

| | | HealthCare | Information Technology | Financials | Consumer Staples | Energy | Materials | Consumer Discretionary | Industrials | Utilities and Telecom |
|---|---|---|---|---|---|---|---|---|---|---|
| **Board Size** | Mean | 10.00 | 10.17 | 10.60 | 11.10 | 14.00 | 12.53 | 11.43 | 12.22 | 11.25 |
| | Std. Deviation | 1.291 | .753 | 2.160 | 2.514 | 2.108 | 2.875 | 3.056 | 5.167 | .500 |
| | Minimum | 8 | 9 | 7 | 7 | 10 | 7 | 6 | 6 | 11 |
| | Maximum | 12 | 11 | 14 | 15 | 18 | 17 | 16 | 22 | 12 |
| **Independent Director** | Mean | 4.29 | 5.33 | 5.52 | 3.90 | 6.50 | 4.60 | 4.29 | 4.67 | 5.25 |
| | Std. Deviation | 1.799 | 1.033 | 2.023 | 1.663 | 1.841 | 2.261 | 1.139 | 2.828 | .500 |
| | Minimum | 2 | 4 | 0 | 1 | 4 | 0 | 2 | 1 | 5 |
| | Maximum | 7 | 7 | 9 | 6 | 9 | 8 | 6 | 8 | 6 |
| **Women Directors percent** | Mean | 20.86 | 23.67 | 13.52 | 16.50 | 8.90 | 17.80 | 18.79 | 15.22 | 13.25 |
| | Minimum | 13 | 20 | 0 | 8 | 0 | 8 | 10 | 0 | 0 |
| | Maximum | 30 | 30 | 29 | 30 | 20 | 43 | 33 | 25 | 27 |
| **Number of Board Meetings** | Mean | 5.57 | 7.17 | 8.76 | 5.60 | 13.10 | 5.93 | 5.50 | 6.22 | 5.25 |
| | Std. Deviation | 1.272 | 2.787 | 4.371 | 1.578 | 7.031 | 2.187 | 1.286 | 2.774 | 3.775 |
| | Minimum | 4 | 5 | 0 | 4 | 5 | 0 | 4 | 0 | 0 |
| | Maximum | 8 | 12 | 18 | 8 | 31 | 8 | 8 | 9 | 9 |
| **Number of Members in Audit Committees** | Mean | 4.00 | 4.33 | 4.36 | 5.20 | 4.40 | 4.33 | 4.07 | 3.78 | 4.50 |
| | Std. Deviation | 1.155 | 1.862 | 1.823 | 1.317 | 1.075 | 1.113 | 1.141 | .667 | 1.000 |
| | Minimum | 3 | 3 | 0 | 3 | 3 | 3 | 2 | 3 | 4 |
| | Maximum | 6 | 8 | 9 | 7 | 6 | 7 | 6 | 5 | 6 |
| **Number of Independent Directors in Audit Committees** | Mean | 1.714 | 0.666 | 1.08 | 1.8 | 0.8 | 0.733 | 1.071 | 2.111 | 2.5 |
| | Std. Deviation | 1.38 | 1.632 | 1.823 | 2.097 | 1.475 | 1.387 | 1.328 | 1.833 | 1.732 |
| | Minimum | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Maximum | 3 | 4 | 7 | 6 | 4 | 4 | 3 | 4 | 4 |

The categorization based on industry sector-wise classification of CG variables are shown in Table 6.18. Sample of 100 companies is divided into nine industrial sectors. In terms of board size, the energy sector has the highest number of BoD (14), the second-highest number of BoD is with the material sector (12.53), and the healthcare sector has the lowest number of BoD (10). The number of IDs is highest in the energy sector (6.50), and in the information technology sector, the number of independent directors is 5.52, the lowest number of IDs is 3.90, which is in the consumer staples sector. The percentage of women directors in companies is highest in the Information Technology sector (23.67 percent), the second-highest is in the Healthcare sector (20.86 percent), and the lowest percentage of women directors is in the energy sector (8.90 percent). The number of meetings held during the year is highest for the energy sector (13.10), the second-highest is in the financial sector (8.76), and the lowest numbers of meetings are held in the utilities and telecom sector (5.25). The number of BoD in the AC is highest in consumer staples, with a mean score of 5.20 and the lowest in the industrial sector with a mean value of 3.78. In the number of independent directors in the audit committee, the highest independent directors are in the utilities and telecom sector (2.5), and the lowest number of IDs is in information technology (0.666).

### 6.3.1.2 Correlation Analysis

To understand and explain the descriptive of corporate governance variables, correlation analysis has been carried out for corporate governance variables and some other important financial variables. As shown in Table 6.19, the correlation analysis reveals that the CG total score is highly directly correlated with market capitalization with a 0.434 value of correlation. Board size is highly correlated with the number of independent directors, with

a high degree of positive correlation of 0.553. Independent directors are again highly directly correlated with the number of meetings of the BoD (0.493) and the number of IDs in the audit committee (0.466). The number of board meetings held in a year is also positively correlated with IDs in the audit committee, with a high degree of positive correlation of 0.555. It is also associated with concerns of secretarial audit (0.425), which is a high degree of positive correlation. Finally, CEO duality has a high degree of significant positive correlation with the audit firm category with a value of 0.491.

Table 6.19- Correlation Analysis of Corporate Governance Characteristics

| | Market Capitalization | Return on Assets ratio | Age (in Years) | CG | Social Performance Total Score | Board Size | Independent Directors | Women Directors | Number of Board Meetings | CEO Duality | Number of Members in Audit Committee | Number of independent directors in Audit committee | Audit Firm Category | Audit Concerns on the financial statements | Concerns of Secretarial Audit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Market Capitalization | 1 | | | | | | | | | | | | | | |
| Return on Assets ratio | .125 | 1 | | | | | | | | | | | | | |
| Age (in Years) | -.013 | .079 | 1 | | | | | | | | | | | | |
| CG | .434** | -.052 | .097 | 1 | | | | | | | | | | | |
| Social Performance Total Score | -.077 | .006 | .212* | -.019 | 1 | | | | | | | | | | |
| Board Size | -.152 | -.175 | .037 | .003 | -.032 | 1 | | | | | | | | | |
| Independent Directors | -.200* | -.213* | .017 | -.011 | -.052 | .553** | 1 | | | | | | | | |
| Women Directors | .032 | .262* | .051 | -.116 | -.114 | -.269** | -.359** | 1 | | | | | | | |
| Number of Board Meetings | -.009 | -.021 | .036 | -.020 | -.093 | .270** | .493** | -.290** | 1 | | | | | | |
| CEO Duality | .102 | .172 | .022 | .060 | -.030 | -.280** | -.322** | .222* | -.199* | 1 | | | | | |
| No. of Member in Audit Committee | .018 | -.158 | -.125 | .002 | -.047 | .196 | .207* | -.197* | .233* | -.022 | 1 | | | | |
| No. of independent director in Audit committee | -.184 | .082 | -.017 | -.281** | -.067 | .189 | .466** | -.133 | .555** | -.240* | .203* | 1 | | | |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Audit Firm Category** | .014 | .017 | -.009 | -.093 | -.073 | -.165 | -.313** | .342** | -.294** | **.491**** | -.208* | -.283** | 1 | | |
| **Audit Concerns on the financial statements** | -.056 | .036 | -.110 | -.073 | -.094 | .156 | .226* | -.017 | .181 | -.188 | .129 | .016 | -.200* | 1 | |
| **Concerns of Seceterial Audit** | -.052 | .040 | -.015 | .130 | -.059 | .227* | .290** | -.232* | **.425**** | -.355** | .040 | .322** | -.364** | .267** | 1 |

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The above analysis indicates that board size has a high degree of positive correlation with independent directors, which suggests that the greater the board size of a company, the larger the number of independent directors in a company. Similarly, the companies which have more independent directors also have more board meetings during the year. Further, companies that have more independent directors also have more independent members in the audit committee. It is also seen that the number of board meetings is significantly positively correlated with concerns of secretarial audit and the number of independent directors in the audit committee. So if a secretarial audit has found some concerns in the financial statements, it has a direct relationship with the number of board meetings that are held in a year. Also, companies that have more IDs in the audit committee have more board meetings. CEO duality is also directly correlated with the audit form category, indicating that companies with dual roles of CEO and Chairman of the BoD give the auditing contract to big four firms (KPMG, Deloitte, EY and PWC)rather than small or non-big four audit companies.

So, to summarise the analysis of corporate governance variables, we can conclude that the mean value of board size is 11.50. The mean of independent directors in a company is 4.96, the average percentage of women directors in a company is 16 percent, and 7 is the number of board meetings and which board meetings are held in a company. The number of board members in the audit committee mean is 4.33, and the number of IDs in the audit committee is 1.24.

The public sector companies have performed relatively better for board size, independent directors, number of board meetings held in a year and number of members in the audit committee compared to private sector companies.

The corporate governance variables concerning industrial sector classification show that the energy sector has a higher level of corporate governance characteristics in terms of board size, the number of Independent Directors (IDs), number of board meetings held in a year. Information technology has the highest average percentage of women directors. The consumer staples industry has the most audit committee members, whereas the industrial sector has the most independent audit committee members.

Further, board size is positively correlated with the number of independent directors, and independent directors are positively correlated with the number of meetings of the board, held in a year, and the number of IDs in the audit committee. CEO duality is positively related to the audit firm categories. Board meetings are again positively correlated with the concerns of the secretarial audit and the number of independent members in the audit committee.

## 6.3.2   Board Size and Firm Performance

This subpart analysis of board size and firm performance tries to explain the relationship between the size of the board and firm social performance variables. An ANOVA test has been carried out for this analysis, and demographic characteristics wise differences in board sizes have been evaluated. This test helps to understand whether demographic variables influence the size of the board or not.

(Note: Levene test was applied before ANOVA to know homogeneity of variance, since all values of levene statistics were found insignificant. Thus,  data was fit for ANOVA)

**Table 6.20 - Demographic-wise Differences in Board Size**

|  | ANOVA | | Duncan's Post Hoc |
|---|---|---|---|
| **Age** | F | 1.183 |  |

| | | | |
|---|---|---|---|
| | Sig. | .320 | |
| **Private Vs. PSU** | F | 6.831 | Private vs PSU |
| | Sig. | **.010** | |
| **MNC vs Nationally-located** | F | .153 | |
| | Sig. | .697 | |
| **Ownership** | F | .054 | |
| | Sig. | .948 | |
| **Industry Sector** | F | 2.227 | HealthCare, IT, Financials and Energy |
| | Sig. | **.032** | |
| **Corporate Governance Practices** | F | 1.179 | |
| | Sig. | .322 | |
| **Social Performance Score** | F | 4.446 | High and Low |
| | Sig. | **.038** | |

It was found that for age, the F value of 1.183 was insignificant at 0.320 level of significance for differences in board size, indicating that the size of the board does not vary with age. For the private sector and PSU, it is found that ANOVA(F value 6.831) is statistically significant at 0.010 level of significance, which indicates that for the private vs PSU sector, the size of the board varies. For the industry sector, ANOVA results are statistically significantly different with an F value of 2.227 and 0.032 level of significance for HealthCare, IT, financials and energy sector as shown in Duncan post hoc test in Table 6.20. Results indicate that board size is impacted by the industrial sector a company belongs to and whether it is a private sector and PSU sector undertaking. It is found that board size has no relationship with corporate governance practices followed by the companies, but social performance score is found to be statistically significantly different with the F value of 4.446 and 0.038 significance, meaning that the board size of companies with high social performance scores is different as compared to the board size of companies with low social performance scores.

The result of Table 6.20 indicates *null hypothesisH₀₂₁* that there is no statitical difference in the board size of companies based on demographic characteristics is partially supported. The board size of companies is influenced by public vs private sector companies and the industry sector to which it belongs. The *null hypothesis H₀₂₂*is supported, that there is no significant difference in the board size based on different corporate governance practices followed by the companies. The *null hypothesis H₀₂₃*that the board size does not differ with social performance score is not supported as companies with high social performance and low social performance has different board sizes.

### 6.3.3  Board Independence and Firm Performance

Because Independent Directors (IDs) have no personal stake in the company, having them on board is often regarded as the best corporate governance practise in the world. The Companies Act of 2013 and SEBI both have mandated the nomination of an independent director in light of recent corporate scandals/frauds. SEBI, through its listing requirements, recommends that half of the board comprise IDs in the case of executive chairman and 1/3 of the board members should be IDs, in the case of non-executive chairman. Independent directors make choices that are neutral, favourable to the Company. They bring their experience and expertise, help conflict resolution and hold management and other directors responsible for their actions, views and decisions.

Table 6.21 results show the relationship between independence of the BoD and FP. The table shows demographic wise differences in board independence.

Table 6.21 - Demographic-wise Differences in Board Independence

| | ANOVA | | Duncan's Post Hoc |
|---|---|---|---|
| **Age** | F | .499 | |
| | Sig. | .684 | |

| | | | |
|---|---|---|---|
| **Private Vs. PSU** | F | 19.734 | Private vs PSU |
| | Sig. | **.000** | |
| **MNC vs Nationally-located** | F | 8.662 | MNC vs Nationally-located |
| | Sig. | **.004** | |
| **Ownership** | F | .814 | |
| | Sig. | .446 | |
| **Industry Sector** | F | 1.929 | Consumer Staples, Healthcare, Consumer discretionary and Energy |
| | Sig. | **.045** | |
| **Corporate Governance Practices** | F | 3.043 | Good and basic |
| | Sig. | **.033** | |
| **Social Performance Score** | F | 1.224 | |
| | Sig. | .271 | |

Table 6.21 tests that are there any statistically difference in the demographic characteristics and the number of independent directors. Concerning the age of the company and the number of independent directors on the board, the ANOVA test F value shows that there is no statistical difference. For private vs PSU companies, the ANOVA test F value is 19.734, which is statistically significantly different at a 0.05 level of significance. This indicates that the number of independent directors in PSU and private companies are different. It is also found that the F value, 1.929, is statistically significant for the board independence at 0.045 significance level. Duncan Post-hoc test also indicates that consumer staples, healthcare, consumer discretionary and energy sector have different numbers of independent directors on the board as compared to the rest of the industry sectors. Results also show a statistically significant difference in the number of independent directors companies and governance practices, as ANOVA F value 3.043 is significant at 0.033 level of significance. Duncan Post-hoc test indicates that the companies that follow good governance practices and the basic governance practices are found to have different numbers of independent directors on the board compared to the rest of the groups.

The results show, the null hypothesis $H_{025}$, that there is no statistical difference in the board independence of companies based on demographic characteristics, is partially supported, as the results are statistically significantly different for private vs PSU, MNC vs Nationally-located and based on industry sector. The null hypothesis $H_{026}$ that there is no significant difference in the board independence of companies based on different corporate governance practices is not supported. However, the null hypothesis $H_{027}$, that there is no significant difference in the board independence of companies based on social performance score, is supported as the ANOVA F value (1.224) is insignificant.

### 6.3.4 Gender Diversity and Firm Performance

SEBI (LODR) has mandated at least one women director on the board for bringing gender diversity. Women directors' roles and responsibilities, tenure, penalties for non-compliance are similar to any other board of directors.

To study gender diversity and its relationship with firm performance and to understand whether there are demographic differences in gender diversity and the number of women directors, the ANOVA test was conducted.

Table 6.22 - Demographic-wise Differences in Gender Diversity in Board

|  | ANOVA | | Duncan's Post Hoc |
|---|---|---|---|
| **Age** | F | .094 | |
|  | Sig. | .963 | |
| **Private Vs. PSU** | F | 14.384 | Private vs PSU |
|  | Sig. | **.000** | |
| **MNC vs Nationally-located** | F | .065 | |
|  | Sig. | .800 | |
| **Ownership** | F | .707 | |
|  | Sig. | .495 | |
| **Industry Sector** | F | 2.505 | Energy and IT |

| | | | |
|---|---|---|---|
| | Sig. | **.017** | |
| | F | .403 | |
| **Corporate Governance Practices** | Sig. | .751 | |
| | F | .520 | |
| **Social Performance Score** | Sig. | .472 | |

Before Uday Kotak Committee, many companies already had women directors. However, the committee observed that most of these companies had appointed such women directors from their families. Committee noted that companies were doing this to comply with the law in the letter merely. Therefore, to preserve the spirit of the law, Uday Kotak Committee recommended an independent women director on board.

Table 6.22 reflects the result of ANOVA, and it shows that age, MNC versus Nationally-located, ownership does not show any significant ANOVA results. This indicates that the four aforementioned demographic variables are not significant and does not impact the gender diversity on the board. For PSU and private sector companies, ANOVA(F value 14.384) is statistically significantly different at 0.000 level of significance, indicating that private companies have more women directors on their board than PSU. Industry sector-wise results show F value of 2.505 is statistically significant at the 0.017 level of significance and Duncan Post-hoc test shows a statistically significant difference between women director percentage in the energy sector and IT sector. It also indicates that these two industry sectors are statistically different concerning gender diversity on their board.

It can be concluded that the *null hypothesis* $H_{029}$ that there is no significant difference in the gender diversity of companies based on demographic characteristics is partially supported. The results are significant for private vs PSU companies and the industry

sector. The *null hypothesis* $H_{030}$, that gender diversity is not significantly related to different corporate governance practices, is supported as ANOVA(F value =0.403)is insignificant. Similarly, the social performance score (F=0.520) value is also insignificant. This indicates that the null hypothesis $H_{031}$, that gender diversity on board does not differ with social performance score, is supported.

### 6.3.5   CEO Duality and Firm Performance

CEO is a person that holds the highest position in the management and is appointed to maximize the firm value. Whereas, in the board of directors chairman/managing director is a member with the highest power. Combining them can enhance the power of a single person. Overlapping of roles can also lead to a conflict of interest. To keep management and board of directors independent; avoid any influence of management on board decisions, SEBI (LODR)mandated that top 500 companies must separate the role of CEO and chairman by 2020. However, due to Covid-19, it has been extended till 2022.

Table 6.23 - Demographic-wise Differences in CEO Duality

| | ANOVA | | Duncan's Post Hoc |
|---|---|---|---|
| **Age** | F | 2.680 | 0-25 years and 50-75 years |
| | Sig. | **.050** | |
| **Private Vs. PSU** | F | 42.104 | Private vs PSU |
| | Sig. | **.000** | |
| **MNC vs Nationally-located** | F | 1.529 | MNC vs Nationally-located |
| | Sig. | .219 | |
| **Ownership** | F | 2.900 | |
| | Sig. | .060 | |
| **Industry Sector** | F | 2.395 | Energy |
| | Sig. | **.022** | |
| **Corporate Governance Practices** | F | 2.450 | |
| | Sig. | .068 | |

| Social Performance Score | F | 4.837 | |
|---|---|---|---|
| | Sig. | **.030** | High and Low |

Table 6.23 helps to understand that whether there are any demographic wise differences in CEO duality. For age, the ANOVA (F value 2.680) is statistically significant at a 0.05 level of significance. Duncan Post-hoc test shows that companies under the age group 0-25 years have significantly different CEO duality patterns than companies that belong to 50-75 years age group.

Regarding the private vs PSU sector, the ANOVA results show significant results with F value of 42.104, indicating that PSU and private companies have a significantly different level of CEO duality patterns. For MNC vs nationally-located variable, results show a statistically significant ANOVA F value of 1.529, which indicates that MNC and national located companies will have different CEO duality patterns. The industry sector was also statistically significantly different with the F value of 2.395, which is significant at 0.022 level of significance. Duncan Post-hoc test result shows that the energy sector is showing significantly different results than the rest of the sectors.

The above analysis indicates that the *null hypothesis $H_{033}$*, that no significant difference in CEO duality pattern based on demographic characteristics, is partially supported. The results are significant for age, private vs PSU, MNC versus nationally-located and industry sector-wise classification. The null hypothesis *$H_{034}$*, that CEO duality is not significantly related to different corporate governance practices, is supported as the ANOVA F value is insignificant. The social performance score also indicates significant F values= 4.37, which implies that companies with high social performance scores have different CEO duality patterns compared to companies with low social performance

scores. Thus, the null hypothesis $H_{035}$, that there is no significant difference in CEO duality based on social performance score, is not supported.

**Table 6.24 - ANOVA Results on CEO Duality wise Differences in Firm Performance**

| | F | Sig. |
|---|---|---|
| **Board Size** | 7.242 | **.008** |
| **Independent Director** | 7.731 | **.007** |
| **Women Directors** | 6.410 | **.013** |
| **Number of Board Meetings** | 4.026 | **.048** |
| **Number of Members in Audit Committees** | .152 | .697 |
| **Number of Independent directors in Audit Committee** | 1.197 | .277 |
| **Audit firm category** | 31.176 | **.000** |
| **Audit Concerns on Financial Statements** | 3.586 | **.041** |
| **Concerns of Secretarial Audit** | 14.160 | **.000** |
| **CSR Score category** | 4.837 | **.030** |
| **Disclosures and Transparency Score** | 11.484 | **.001** |
| **Responsibilities of the Board Score** | 4.955 | **.028** |
| **Total Debt ratio** | 8.162 | **.005** |
| **Earnings before interest and tax** | 4.772 | **.031** |
| **Dividend Yield ratio** | 11.912 | **.001** |
| **Stakeholder-related factor** | 9.025 | **.003** |

Table 6.24 shows ANOVA results on CEO duality wise differences in firm performance. For this analysis, sixteen financial performance variables, five financial factors extracted, corporate governance categories and corporate governance scores have been taken. It also includes all corporate governance characteristics. ANOVA tests have been performed for CEO duality. CEO duality is a dummy variable, and it studies two scenarios, i.e. whether the company have the same individual as Chairman and CEO or not.

The results indicate that the board size, ANOVA test (F=7.242) is statistically significant at 0.08 level of significance. Similarly, there is a significant difference for independent

directors in companies with CEO duality and without CEO duality as the ANOVA test (F value 7.731) is significant at a 0.07 level of significance. The percentage of women directors is also significantly different for the two groups, i.e., CEO duality and without CEO duality. The number of meetings of the board is also noted to be statistically related, with the F value of 4.026 and 0.048 level of significance. The audit firm category (big four audit firm and non-big four audit firm) has significant ANOVA values (31.176) at 0.000 level of significance, for CEO duality. Similarly, audit concerns on financial statements and concerns of the secretarial audit are also found to be statistically significantly different.

This indicates that the *null hypothesis$H_{037}$* that CEO duality does not impact corporate governance characteristics is not supported. As for almost all the characteristics like board size, independent directors, women directors, number of board meetings, audit firm categories and concerns of secretarial audit, the results are statistically significantly different.

Total debt ratio, dividend yield ratio, dividend yield ratio are also found to be statistically different for the two groups. Out of the five factors extracted, stakeholder-related factors are statistically significant with respect to CEO duality in the company. For CEO duality, the CSR score, disclosure and transparency scores, and board responsibility score are all statistically significant different.

The analysis indicates that the null hypothesis $H_{038}$ that CEO duality does not impact financial performance variables has been rejected for most of the variables. CEO duality has a vital role in the firm's performance because it affects the corporate governance characteristics and practices followed by the company. It also affects the Earnings before

interest and tax, Dividend yield ratio and total debt ratio. It also impacts the stakeholder-related factors of the company and the amount the company will contribute towards the CSR activities. Thus, the CEO duality variable is significant and of high importance concerning the corporate governance practices, the operational efficiency and the stakeholder-related practices followed by the company.

## 6.3.6 Board Meetings and Firm Performance

The number of BoD meetings held each year is a key indicator of a company's performance. A corporation's number of board meetings demonstrates that all of the board's designated members are appropriately active in all levels of strategic decision-making. A company's ability to hold more meetings signals greater transparency and fairness. Literature also suggests a direct relationship between the number of board meetings and the firm performance. As per the Companies Act, 2013, at least once in three months board shall meet, and a minimum of four board meetings should be held during the year.

Table 6.25 - Demographic-wise Differences in Board Meetings

| | ANOVA | | Duncan's Post Hoc |
|---|---|---|---|
| Age | F | .260 | |
| | Sig. | .854 | |
| Private Vs. PSU | F | 18.124 | Private vs PSU |
| | Sig. | **.000** | |
| MNC vs Nationally-located | F | 3.322 | |
| | Sig. | .071 | |
| Ownership | F | .674 | |
| | Sig. | .512 | |
| Industry Sector | F | 5.265 | Energy |
| | Sig. | **.000** | |
| Corporate Governance Practices | F | .438 | |
| | Sig. | .727 | |

| Social Performance Score | F | 4.603 | High and Low |
|---|---|---|---|
| | Sig. | **.034** | |

Table 6.25 shows the demographic wise difference in board meetings. It explains the relationship between board meetings and demographic variables.

Age, MNC versus nationally-located and ownership wise there is no significant difference in the number of board meetings held by the company. The ANOVA (F values 18.124) for the private vs PSU sector is statistically significantly different at 0.000 level of significance. This indicates that PSU and private companies have different numbers of board meetings held during the year. Concerning the industry sector, again, the ANOVA F value (5.265) is significant. It indicates that the energy sector is different from the other sectors regarding the number of board meetings held in a year. Social performance score ANOVA F value is 4.603, which is significant at 0.034 level of significance, which indicates that companies number of board meetings differ for high social performance score companies and low social performance score companies.

The results are significantly different for PSU versus private companies, industry sector and social performance score. The *null hypothesis H039* that there is no significant difference in board meetings of the companies based on demographic characteristics is partially supported. The *null hypothesis H040,* that board meeting is not significantly related to corporate governance practices, is supported, but the *null hypothesis H041* that board meetings do not differ with social performance score is not supported.

### 6.3.7   Audit Committee and Firm Performance

Section 177 of the 2013 Act and SEBI (LODR) requires that "every listed entity shall constitute an Audit Committee". SEBI (LODR) mandates that every audit committee shall

have a minimum of three directors, with two-thirds of them being, including the chairman, independent. SEBI (LODR) also required that the appointed directors are financially literate and at least one member has accounting or related financial management expertise. The audit committee and the number of members in the audit committee and independent directors play an important role in implementing corporate governance norms. The audit committee should function independently, so it is recommended to have more independent directors. The audit committee should have more participation of members from the board of directors as it impacts strategic decision-making. Even the number of meetings held by the audit committee is significant and is directly related with firm's performance since it reflects how well the company manages its financial statements and whether the financial statements present a "true and fair view" of the company.

**Table 6.26 - Demographic-wise Differences in Audit Committee Members**

| | Audit Committee Size | | | Independent Directors in Audit Committee | |
|---|---|---|---|---|---|
| | ANOVA | | Duncan's Post Hoc | ANOVA | |
| Age | F | 1.050 | | F | 1.576 |
| | Sig. | .374 | | Sig. | .200 |
| Private Vs. PSU | F | 4.096 | | F | .074 |
| | Sig. | **.046** | Private vs PSU | Sig. | .786 |
| MNC vs Nationally-located | F | 2.257 | | F | .041 |
| | Sig. | .136 | | Sig. | .839 |
| Ownership | F | 1.821 | | F | 2.449 |
| | Sig. | .167 | | Sig. | .092 |
| Industry Sector | F | .807 | | F | 1.149 |
| | Sig. | .598 | | Sig. | .339 |
| Corporate Governance Practices | F | 1.573 | | F | 1.854 |
| | Sig. | .201 | | Sig. | .143 |
| Social Performance Score | F | 1.863 | | F | .467 |
| | Sig. | .175 | | Sig. | .496 |

Table 6.26 shows demographic wise differences in the audit committee members and the number of independent directors in the audit committee. The number of members in the

audit committee is statically significantly different for the private sector vs PSU with an ANOVA F value of 4.096, which is significant at a 0.05 level of significance. Concerning age, MNC vs Nationally-located, ownership and industry sector, the results are found to be insignificant. This indicates that PSU has a different style of managing their audit committee in terms of number of members in their audit committee compared to private sector companies. The number of independent directors in the audit committee was not found to be significantly related to any of the demographic variables, including age, private vs PSU, MNC vs Nationally-located, ownership, industry sector, corporate governance practices and social performance score. The *null hypothesis $H_{043}$* that there is no significant difference in the audit committee members of companies based on demographic characteristics is partially supported for private vs PSU. The *null hypothesis $H_{044}$* that audit committee members is not significantly related to different corporate governance practices is supported, and the *null hypothesis $H_{045}$,* which shows that audit committee members do not differ with social performance score, is also supported, as social performance score-wise no statistically significant difference is found in the number of audit committee members. This indicates that the audit committee members are not influenced by the demographic factors related to the company, and they are not related to the corporate governance practices and social performance practices. But as a variable, its role is vital to achieving corporate governance practices followed by the company.

### 6.3.8 Transparency of Financial Statements and Firm Performance

This subsection discusses the transparency of financial statements and their relationship with firm performance. It has three components: the first one is the audit firm category, whether the audit company is a big four firm (KPMG, Deloitte, EY and PWC) or not.

Audit firm category is a dummy variable; second is audit concerns on the financial statement, whether there is a concern in the financial statements submitted by the auditor in its report, audit concerns on the financial statement is again a dummy variable and lastly concerns of secretarial audit, which the company secretary conducts for ensuring that the company follows the corporate governance practices. The concern of secretarial audit is also a dummy variable.

Audit firm category, audit concerns on financial statement and concerns of secretarial audit reflect the fairness and transparent behaviour of auditors for disclosures about the financial statements. They also help to identify whether the corporate governance norms have been fulfilled or not and whether the company's financial statements are showing a true and fair picture of the company.

One of the critical roles of the Audit Committee is to appoint the Company's external auditors. Companies Act, 2013 requires that every company is required to get its account audited. The external auditors are responsible for preparing an audit report, based on the company's financial statements, and comment on whether the financial statements provide a "true and fair view" of the company. These statements are relied upon by every single stakeholder of the Company for all the major decisions. The investor relies on these statements for their investment decision, the financial institutions and suppliers rely on them to judge the company's creditworthiness, and even the regulatory and other government authorities rely on these audited statements to understand the company's compliance with the applicable legal and regulatory framework. Therefore, it is of utmost importance that the external auditors are independent and audit the company's financial statements with due diligence while ensuring compliance with the standards of auditing

issued by the ICAI and accounting standards that are applicable on the Company. The Companies Act, 2013 and SEBI (LODR) have also stipulated that no listed company or other company as prescribed shall appoint or re-appoint an individual as auditor for more than one term of five years, or an audit firm as auditor for more than two terms of five years, to ensure that the appointed statutory auditors are independent.

**Table 6.27- Demographic-wise Differences in Transparency of Financial Statements**

| | | Audit Firm Category | | Audit Concerns on Financial Statements | | Concerns of Secretarial Audit | |
|---|---|---|---|---|---|---|---|
| | | ANOVA | Duncan's Post Hoc | ANOVA | Duncan's Post Hoc | ANOVA | Duncan's Post Hoc |
| Age | F | 1.070 | | 1.570 | | .861 | |
| | Sig. | .366 | | .202 | | .464 | |
| Private Vs. PSU | F | 104.483 | Private vs PSU | 12.551 | Private vs PSU | 37.128 | Private vs PSU |
| | Sig. | **.000** | | **.001** | | **.000** | |
| MNC vs Nationally-located | F | 1.369 | | .288 | | 1.213 | |
| | Sig. | .245 | | .593 | | .273 | |
| Ownership | F | 1.690 | | .041 | | 1.564 | |
| | Sig. | .190 | | .960 | | .215 | |
| Industry Sector | F | 4.087 | Energy | 2.062 | Healthcare, materials, utilities and Telecom | 4.069 | Energy |
| | Sig. | **.000** | | **.048** | | **.000** | |
| Corporate Governance Practices | F | .491 | | .774 | | .407 | |
| | Sig. | .690 | | .511 | | .748 | |
| Social Performance Score | F | .038 | | .343 | | .603 | |
| | Sig. | .846 | | .559 | | .439 | |

Table 6.27 analyses audit firm category, audit concerns on financial statement and concerns of secretarial audit and its relationship with firm performance.

The result shows that, for the audit firm category, private vs PSU companies have a statistical significance value of 104.483.This indicates that that private company and PSU are different in choosing the audit firm, so have different audit firms for external audit. Similarly, for industry-wise classification, it is found that the energy sector F value 4.08 is

statically significantly different from all the other sectors. It indicates that the energy sector is significantly different in choosing the external auditor, i.e., big four audit firms (KPMG, Deloitte, EY and PWC) and non-big four. Thus, the *null hypothesisH047*, that there is no significant difference in the audit firm category of companies based on demographic characteristics, is partially supported for private vs PSU and industry sector-wise classification. However, the audit firm category is not significantly different based on corporate governance practices. So the *null hypothesisH048* is supported, and the *null hypothesisH049* for social performance score is also supported as ANOVA F value is insignificant for social performance score.

Similarly, results also show that for audit concern on financial statement and concerns of Secretarial Audit, results are significant for private versus PSU companies and Industrial sector only.

**Table 6.28 - ANOVA Results on Audit Firm Category-wise Differences in Firm Performance**

|  | F | Sig. |
|---|---|---|
| **Board Size** | 2.219 | .140 |
| **Independent Director** | 7.171 | **.009** |
| **Women Directors** | 14.903 | **.000** |
| **Number of Board Meetings** | 9.241 | **.003** |
| **Number of Members in Audit Committees** | 1.863 | .175 |
| **Number of IDs in Audit Committees** | 1.137 | .289 |
| **CEO Duality** | 31.176 | **.000** |
| **Audit Concerns on Financial Statements** | 4.086 | **.046** |
| **Concerns of Secretarial Audit** | 15.005 | **.000** |
| **CSR Score category** | .038 | .846 |
| **Disclosures and Transparency Score** | 3.614 | **.050** |
| **Market Capitalisation** | 3.328 | **.071** |
| **P/E ratio** | 8.536 | **.004** |
| **P/B ratio** | 3.846 | **.043** |
| **Dividend yield ratio** | 10.715 | **.001** |
| **Replacement factor** | 6.289 | **.014** |
| **Stakeholder-related factor** | 7.063 | **.009** |
| **Corporate Governance Total Score** | 0.382 | 0.538 |

Table 6.28 show the audit firm category wise differences in firm performance. This analysis is done for the other corporate governance characteristics, sixteen financial performance variables, corporate governance score and the financial factors extracted using factor analysis.

The results indicate that independent directors are significantly different in the two groups of audit firms, i.e., big four or non-big four company. For women directors firms, companies that have an external audit by the big four and non-big four are also statistically significantly different with an F value of 14.903, which is significant at a 0.05 level of significance. Similarly, the numbers of board meetings held in a year are different for an external audit firm. CEO duality is found to be statistically different. Audit concerns on financial statements and secretarial auditors' concerns were also statistically significantly different for companies that get the external audit done from a big four company or non-big four audit firm. This indicates that *null hypothesisH051*, that audit firm category does not impact corporate governance characteristics, stands partially supported for independent directors, gender diversity, number of board meetings, CEO duality, concerns on financial statements and concerns of the secretarial auditor. Disclosure and transparency scores are also statistically significantly different for an external audit done by a big four or a non-big four audit firm.

From the sixteen financial variables, it is seen that the F value is significantly different for market capitalization. Price to earnings ratio, price to book ratio, dividend yield ratio is found to be statistically significantly different for external audit. The *null hypothesisH052* that the audit firm category does not impact the financial performance variables is partially supported. For financial factors extracted using factor analysis, the replacement and

stakeholder-related factors are statistically significantly different for companies getting external audits done by a big four or non-big four firms.

So choosing an audit firm that is big four or a non-big four firm is a decision that impacts the shareholder's perception about the company and the transparency of its disclosures in the financial statements.

Results also show that audit concerns on financial statements and concerns of the secretarial audit are statistically significantly different for PSU vs private companies as well as for industry sector-wise classification. So, the *null hypothesis H053*, that there is no significant difference in transparency in financial statements of companies based on demographic characteristics, is partially supported for public vs private sector and industry sector-wise classification.

The *null hypothesis H054*, that transparency in disclosure of financial statements is not significantly related to different corporate governance practices, stand supported, and *null hypothesis H055* that transparency in disclosure of financial statements is not significantly related to social performance score, is also supported. Indicating that transparency in disclosure will not impact companies' governance practices and social performance score, but it will affect the stakeholder's perception.

**Table 6.29 - ANOVA Results on Audit Concerns in Financial Statements wise Differences in Firm Performance**

|  | F | Sig. |
|---|---|---|
| **Board Size** | 2.578 | .112 |
| **Independent Director** | 5.722 | **.019** |
| **Women Directors** | .028 | .867 |
| **Number of Board Meetings** | 3.325 | **.041** |
| **Number of Members in Audit Committees** | 2.135 | .147 |
| **Number of IDs in Audit Committee** | .026 | .872 |
| **External Auditor- Big four or not** | 4.086 | **.046** |

| | | |
|---|---|---|
| CEO Duality | 3.586 | **.041** |
| Concerns of Secretarial Audit | 7.511 | **.007** |
| CSR Score category | .343 | .559 |
| Disclosures and Transparency Score | 11.484 | **.001** |
| Responsibilities of the Board Score | 4.955 | **.028** |
| Price by book ratio | 3.205 | **.046** |
| Total Debt ratio | 10.517 | **.002** |
| Stakeholder-related factor | 4.083 | **.046** |
| Corporate Governance Total Score | .308 | .580 |

Table 6.29 shows ANOVA results of audit concerns in financial statement wise differences in firm performance. Audit concerns reflect that there is some concern in the financial statement.

It is found that independent directors, number of board meetings held in a year, external audit firm, i.e. big four firm or non-big four; CEO duality and concerns of the secretarial audit are statistically significant different audit concerns in financial statements given by companies. So the *null hypothesis H057a*that transparency in disclosure of financial statements does not impact corporate governance characteristics is partially supported.

For financial variables, it is found that the corporate governance categories like disclosure and transparency scores, board responsibility score is significantly different. Price to book ratio, total debt ratio, and stakeholder-related factors are statistically significantly different for audit concerns in financial statements given by companies. Thus, the *null hypothesis H058a*, that the transparency in disclosure score of financial statement does not impact financial performance variables, is partially supported.

So if the auditor has shown some concern in the financial statement and has mentioned it in the audit report, it will also impact the stakeholder-related factor and the impact the company's book value.

**Table 6.30 - ANOVA Results on Secretarial Concerns in Financial Statements wise Differences in Firm Performance**

|  | F | Sig. |
|---|---|---|
| Board Size | 5.366 | **.023** |
| Independent Director | 9.017 | **.003** |
| Women Directors | 5.602 | **.020** |
| Number of Board Meetings | 21.554 | **.000** |
| Number of Members in Audit Committees | .269 | .605 |
| Number of Independent Directors in Audit Committee | .270 | .604 |
| External Auditor- Big four or not | 15.005 | **.000** |
| CEO Duality | 14.160 | **.000** |
| Audit Concerns on Financial Statements | 7.511 | **.007** |
| CSR Score category | .603 | .439 |
| Role of Stakeholders Score | 4.388 | **.039** |
| Earnings before Interest and Tax | 5.777 | **.018** |
| Total Debt ratio | 18.551 | **.000** |
| Stakeholder-related factor | 30.797 | **.000** |
| Replacement factor | 5.001 | **.028** |
| Dividend Yield ratio | 44.195 | **.000** |
| CSR spend | 9.073 | **.003** |
| Corporate Governance Total Score | .176 | .675 |

Table 6.30 shows ANOVA results on secretarial concerns in financial statement wise differences on firm performance.

The result shows that the two groups of companies, i.e., companies that have secretarial concerns in financial statements and companies which do not have secretarial concerns in financial statements is statistically significantly different for board size, independent directors, women directors, number of board meetings, external audit- big four or non-big four, CEO duality and audit concerns on the financial statement. So, the *null hypothesis H057b*, that concerns of secretarial audit do not impact corporate governance characteristics, is not supported.

For corporate governance total score and the financial performance variables, the table shows that Role of Stakeholders score, CSR spending, Earnings before interest and tax, total debt ratio, stakeholder-related factor, dividend yield ratio, and replacement factor

have significantly different results for those companies which have secretarial concerns in financial statements and those companies which do not have secretarial concerns in financial statements. So, the company's financial performance, the replacement value, stakeholder-related factors, debt levels, earnings before interest and tax are influenced by the level of corporate governance practices the transparency in financial statements. Thus, the *null hypothesis H058b*,that concerns of secretarial audit do not impact financial performance variables, is partially supported.

## 6.3.9 Regression Analysis of Impact of Corporate Governance Variables on Firm Performance

The main corporate governance variables which have been chosen for this study discussed above have been used for conducting a multiple regression analysis to analyse their impact on firm financial performance. The firm performance or the financial performance has been taken as the dependent variable which is measured through the Return on Assets of a company. Apart from the main corporate governance characteristics, the financial variables have also been taken, and a backward method of elimination of variables in multiple regressions has been used.

**Table 6.31- Multiple-Regression Model of Impact of Corporate Governance Variables on Firm Performance**

| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | .011 | .040 | | .277 | .783 |
| Independent Director | -.005 | .004 | -.105 | -1.123 | .265 |
| Women Directors | .002 | .001 | .178 | 2.107 | **.038** |
| Number of Board Meetings | .006 | .002 | .288 | 3.239 | **.002** |
| CEO Duality | -.025 | .016 | -.129 | -1.577 | .119 |
| Number of Members in Audit | .010 | .006 | .129 | 1.619 | .110 |

| | | | | | |
|---|---|---|---|---|---|
| Committees (ACs) | | | | | |
| Market Capitalization | 5.404E-08 | .000 | .870 | 3.408 | **.001** |
| Tobin's Q | .011 | .002 | .620 | 6.932 | **.000** |
| Price to Earnings ratio | -.001 | .000 | -.403 | -4.693 | **.000** |
| Enterprise Value | -5.192E-08 | .000 | -.927 | -3.644 | **.000** |
| *Dependent Variable: Return on Assets* | | | | | |
| **Explanation of the model:** | | | **Significance of the model:** | | |
| **R Square** | .567 | | **F** | 11.224 | |
| **Adjusted R Square (R$^2$)** | .517 | | **Sig.** | .000[i] | |

The results indicate that independent directors, women directors, board meetings, same CEO and Chairman, number of members in the ACs, market capitalisation, Tobin's Q, Price-earnings ratio and Enterprise value are significant variables that finally loaded into the model. The model has an explanatory power of adjusted R square of 51.7 percent, and the model is the best fit model with an F value of 11.224, which is significant at a 0.05 percent level of significance. So, this indicates that nine variables significantly loaded or explain 51 percent of the firm performance by the company.

Out of these variables, women directors are statistically significant and positively related to the firm performance, indicating that more women directors will improve the Return on assets or improve the financial performance of companies. Similarly, the number of board meetings held in a company is again positively related with the coefficient value of 0.006, which indicates that if the number of board meetings is high, that will improve the firm performance quality. CEO duality is found to be inversely related with the beta coefficient of -0.025, which shows that if a company does not have a dual role vested with the CEO, then the financial performance of the company will improve, but this variable is having low significance (11 percent level of significance). The number of members in the audit committee is also positively related to the firm performance, but the significance level was

low at 11 percent. Market capitalisation is a highly significant variable that is positively related to firm performance.

Similarly, Tobin's Q is a highly significant variable that is positively related to firm performance. The Price-earnings ratio is negatively loading in the model, and the Enterprise value is also negatively loading in the market but are also significant. Independent directors are found to be negatively loading in the model, but the level of significance is very low, at 26 percent, which indicates that it is inversely related to the firm performance. This reveals that more independent directors may inversely impact the Return on assets of the company. This model indicates that the *null hypothesisH028, null hypothesisH032, null hypothesisH036, null hypothesisH042*, and *null hypothesisH046*are not supported. The *null hypothesisH059* is partially supported. This implies that board independence, gender diversity, board meetings, CEO duality, number of members in audit committee, market capitalisation, Tobin's Q, price-earnings ratio, and Enterprise value are very important variables that influence the firm performance of companies.

Overall, it can be concluded that out of all the variables, audit committee, CEO duality, gender diversity, board independence, and board size impact firm performance. These corporate governance characteristics have impact on improving the financial performance of companies along with social performance.

## 6.4 Conclusion

This chapter analyses the impact of corporate governance practices on the financial performance and social performance of companies. Correlation analysis, multiple regression analysis, exploratory factor analysis, ANOVA has been used to analyse the

data. It is seen that many variables are highly correlated with each other and makes data

suitable for further research. The summary of results is presented below in Table 6.32.

**Table 6.32 - Summary of Results of Hypotheses Tested**

| Hypotheses | Hypotheses supported/not supported | Significant variables |
|---|---|---|
| $H_{010}$: There is no significant impact of corporate governance on the financial performance of companies. | not supported | corporate governance total score |
| $H_{011}$: There is no significant impact of other firm characteristics on the financial performance of companies. | partially supported | Ownership, industry sector, Beta, enterprise value, price to earnings ratio, Total debt ratio, Return on equity, ratio, CSR spend, Tobin's Q |
| $H_{012}$: There is no significant impact social performance score on the financial performance of companies. | supported | |
| $H_{013}$: There is no significant difference in financial performance variables and corporate governance practices followed by companies | partially supported | Return on equity, Earnings before interest and tax, Enterprise value and Market capitalisation |
| $H_{014}$: Change in the five-year financial performance of companies is not impacted by corporate governance score. | not supported | corporate governance total score |
| $H_{015}$: Change in the five-year financial performance of companies is not impacted by other firm characteristics. | partially supported | Ownership, industry sector, Closing price, enterprise value, Earnings per share, Dividend yield ratio, Return on equity ratio, Tobin's Q |
| $H_{016}$: Change in the five-year financial performance of companies is not impacted by the social performance of companies. | supported | |
| $H_{017}$: There is no significant difference in the five financial factors extracted and corporate governance practices followed by companies. | partially supported | Valuation-related factor |
| $H_{018}$: There is no significant difference between the five financial factors extracted and the social performance score of companies. | partially supported | Stakeholder-related factor |
| $H_{019}$: There is no significant difference in social performance score and corporate governance practices of companies | supported | |
| $H_{020}$: There is no significant difference in financial performance variables and social performance scores of companies | partially supported | Beta, return on equity, return on sales ratio, dividend yield, CSR spend |
| $H_{021}$: There is no significant difference in Board size of companies based on demographic characteristics. | partially supported | Private vs PSU, industry sector |
| $H_{022}$: Board size is not significantly related to different corporate governance practices. | supported | |
| $H_{023}$: Board size does not differ with social performance scores. | not supported | social performance score |
| $H_{024}$: Board size does not impact firm performance. | supported | |

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| | | |
|---|---|---|
| *$H_{025}$: There is no significant difference in board independence of companies based on demographic characteristics.* | partially supported | Private vs PSU, MNC vs Nationally-located, industry sector |
| *$H_{026}$: Board independence is not significantly related to different corporate governance practices.* | not supported | corporate governance practices |
| *$H_{027}$: Board independence does not differ with social performance scores.* | supported | |
| *$H_{028}$: Board independence does not impact firm performance.* | not supported | Return on Assets |
| *$H_{029}$: There is no significant difference in the gender diversity of companies based on demographic characteristics.* | partially supported | Private vs PSU, industry sector |
| *$H_{030}$: Gender diversity is not significantly related to different corporate governance practices.* | supported | |
| *$H_{031}$: Gender diversity in board does not differ with social performance scores.* | supported | |
| *$H_{032}$: Gender diversity in board does not impact firm performance.* | not supported | Return on Assets |
| *$H_{033}$: There is no significant difference in CEO duality of companies based on demographic characteristics.* | partially supported | Age, Private vs PSU, MNC vs Nationally-located, industry sector |
| *$H_{034}$: CEO duality is not significantly related to different corporate governance practices.* | supported | |
| *$H_{035}$: CEO duality does not differ with social performance scores.* | not supported | social performance score |
| *$H_{036}$: CEO duality does not impact firm performance.* | not supported | Return on Assets |
| *$H_{037}$: CEO duality does not impact corporate governance characteristics* | not supported | board size, board independence, gender diversity, board meeting, audit firm category, audit concerns in financial statements, concerns of secretarial audit, disclosure and transparency score, the responsibility of board score |
| *$H_{038}$: CEO duality does not impact financial performance variables* | partially supported | total debt ratio, Earnings before interest and tax, dividend yield ratio, stakeholders related factor |
| *$H_{039}$: There is no significant difference in board meetings of companies based on demographic characteristics.* | partially supported | Private vs PSU, industry sector |
| *$H_{040}$: Board meetings is not significantly related to different corporate governance practices.* | supported | |
| *$H_{041}$: Board meetings does not differ with social performance scores.* | not supported | social performance score |
| *$H_{042}$: Board meetings does not impact firm performance.* | not supported | Return on Assets |
| *$H_{043}$: There is no significant difference in audit committee members of companies based on demographic characteristics.* | partially supported | Private vs PSU |
| *$H_{044}$: Audit committee members is not significantly related to different corporate governance practices.* | supported | |
| *$H_{045}$: Audit committee members does not differ with social performance scores.* | supported | |
| *$H_{046}$: Audit committee members does not impact firm* | not supported | Return on Assets |

| | | |
|---|---|---|
| *performance.* | | |
| $H_{047}$: *There is no significant difference in audit firm category of companies based on demographic characteristics.* | partially supported | Private vs PSU, industry sector |
| $H_{048}$: *Audit firm category is not significantly related to different corporate governance practices.* | supported | |
| $H_{049}$: *Audit firm category does not differ from social performance scores.* | supported | |
| $H_{050}$: *Audit firm category does not impact firm performance.* | supported | |
| $H_{051}$: *Audit firm category does not impact corporate governance characteristics* | not supported | board independence, gender diversity, board meeting, CEO duality, audit concerns in financial statements, concerns of secretarial audit, disclosure and transparency score |
| $H_{052}$: *Audit firm category does not impact financial performance variables* | partially supported | Market capitalisation, Price to earnings ratio, dividend yield ratio, price to book ratio, replacement factor, stakeholder-related factor |
| $H_{053}$: *There is no significant difference in transparency in the financial statements of companies based on demographic characteristics.* | partially supported | Private vs PSU, industry sector |
| $H_{054}$: *Transparency in the disclosure of financial statements is not significantly related to different corporate governance practices.* | supported | |
| $H_{055}$: *Transparency in disclosure of financial statements does not differ with social performance scores.* | supported | |
| $H_{056}$: *Transparency in disclosure of financial statements does not impact firm performance.* | supported | |
| $H_{057a}$: *Audit concerns on financial statements does not impact corporate governance characteristics* | not supported | board independence, board meeting, audit firm category, CEO duality, audit concerns in financial statements, concerns of secretarial audit, disclosure and transparency score, the responsibility of board score |
| $H_{057b}$: *Concerns of secretarial audit does not impact corporate governance characteristics* | not supported | board size, board independence, gender diversity, board meeting, audit firm category, audit concerns in financial statements, CEO duality, the role of stakeholder score |
| $H_{058a}$: *Audit concerns on financial statements do not impact financial performance variables* | partially supported | Total debt ratio, price to book ratio, stakeholder-related factor |
| $H_{058b}$: *Concerns of secretarial audit does not impact financial performance variables* | partially supported | Total debt ratio, Earnings before interest and tax, dividend yield ratio, CSR spend, replacement factor, stakeholder-related factor |
| $H_{059}$: *There is no significant impact of financial variables on the firm performance of companies.* | partially supported | Market capitalisation, Price to earnings ratio, Tobin's Q and Enterprise value |

Multiple regression analysis of financial data of 2019 shows that corporate governance

score, industry sector, enterprise value, Price to earnings ratio, CSR spend and return on

equity have a positive relationship with the market capitalization (financial performance). Ownership, Tobin's Q, Beta and Total debt ratio are inversely loaded on the model. So, market capitalization is influenced by corporate governance score, Price to earnings ratio, CSR spend, industry sector, Enterprise value and Return on equity. The degree of explanation of the model is very high as the adjusted $R^2$ is 92.3 percent. This also tells us about the robustness of the model, as it tries to explain the maximum variables. Thus, $H_{010}$ is not supported, $H_{011}$ is partially supported, and $H_{012}$ is supported (Table 6.16).

Companies' level of corporate governance practices significantly influences some of the financial variables like Return on Equity ratio, Enterprise value, Earnings before Interest and Tax (EBIT) and Market capitalization. This indicates that if companies start performing better in their corporate governance practices, they will do well in these ratios, which are very important financial performance indicators. The null hypothesis $H_{013}$ that there is no significant difference in financial performance variables and corporate governance practices followed by companies is partially supported as the values are significant for Return on Equity ratio, Enterprise value, Earnings before interest and tax (EBIT) and Market capitalization.

Multiple regression analysis of CAGR values of financial performance variables shows that the model is having an explanation power of 40.5 percent, and it reconfirms the previous model. Changes in market capitalization over five years depending upon the company's dividend yield, Return on equity, Tobin's Q, Earnings per share, Corporate governance total score, Closing price, Enterprise value, ownership, and ownership Industry sector. Thus *null hypothesis* ($H_{015}$) that other firm characteristics do not impact

change in five-year financial performance of companies is partially supported. *The null hypothesis ($H_{016}$)* that the social performance of companies does not affect change in the five-year financial performance of companies is supported as the model eliminated social performance. Thus, $H_{014}$ is not supported, $H_{015}$ is partially supported, and $H_{016}$ is supported.

It can be concluded from the above analysis that the current year performance of the company is dependent on the variables discussed in Table 6.2. However, these variables are also relevant and impact changes in the financial performance of companies over five years. Variables that have held their place in the regression model explained in Tables 6.2, and 6.8 indicate that these variables are significant and impact the company's financial performance. These variables are of strategic importance and should be studied and analyzed while taking any decisions related to how to improve the financial performance of companies as they can have a great impact on the strategic decision making by the company. Thus, ownership, industry sector, enterprise value, Return on equity ratio, Tobin's Q, and corporate governance total score have emerged as important variables that impact a company's market cap both in the short (annual) and the long term (five years).

The exploratory factor analysis (EFA) summarized 16 financial performance variables into five factors: Return on assets ratio; valuation-related factor; long-term market growth factor; replacement value factor, and stakeholder-related factor.

It is found that companies' leadership practices and basic practices significantly differ for valuation-related factors. So, the null hypothesis $H_{017}$, that there is no significant difference in five financial factors extracted and corporate governance practices followed by companies, is partially supported only for valuation-related factors.

The overall analysis reveals that the social performance score of companies impacts the stakeholder-related factor. Social performance is not significantly associated with the corporate governance practices of companies. Social performance may impact Beta, Return on equity, Return on sales ratio, Dividend yield ratio, and CSR spend ratio.

It is found that corporate governance only impacts the valuation-related factors of a company. Implying corporate governance is directly related to investors' sentiments, which ultimately reflects in the company's valuation. Market capitalization and enterprise value that form part of this group are simply byproducts of the share price and the number of shares outstanding in the capital market. The total debt is also a component used for the calculation of enterprise value, which is the valuation of the company after taking the impact of total borrowings, cash and equivalent that the company holds, i.e. the price that the investor will have to pay to acquire the 100 percent stake in a company.

Earnings before interest and tax are among the most widely used multiples that investment bankers see in merger and acquisition deals. Therefore, it is concluded that corporate governance does not impact the operating efficiency of the firm. However, it does impact the valuation of the firm, performance of the firm in the capital market, which decides the company's total debt or equity raising power. It can also be inferred that, theoretically, corporate governance should impact the firm's operational efficiency that the company is only complying with the law in letter and not in the spirit. However, investors and other stakeholders are giving importance to good corporate governance practices and reflect them in the company's valuation.

The analysis of corporate governance characteristics shows that the mean value of board size is 11.50. The mean of independent directors in a company is 4.96, the average percentage of women directors in a company is 16 percent, and 7 is the number of board meetings and which board meetings are held in a company. The number of board members in the audit committee mean is 4.33, and the number of independent directors in the audit committee is 1.24.

The public sector companies have performed relatively better for board size, independent directors, number of board meetings held in a year and number of members in the audit committee compared to private sector companies.

The corporate governance characteristics concerning industrial sector classification show that the energy sector has a higher level of corporate governance characteristics in terms of board size, the number of independent directors, number of board meetings held in a year. Information technology has the highest average percentage of women directors. The number of members in the audit committee are highest in the consumer staples sector, and independent members in the audit committee is highest for industrial.

Further, board size is positively correlated with the number of independent directors, and IDs are positively correlated with the frequency of meetings of the BoD, held in a year, and the number of IDs in the audit committee. CEO duality is positively related to the audit firm categories. Board meetings are again positively correlated with the concerns of the secretarial audit and the number of independent members in the audit committee

The Board size is different for private sector vs PSU companies and industrial sector-wise classification only. The *null hypothesisH021* that there is no significant difference in the

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board size of companies based on demographic characteristics is partially supported. The board size of companies is influenced by public vs private sector companies and the industry sector to which it belongs. The *null hypothesis $H_{022}$* is supported, that there is no significant difference in the board size based on different corporate governance practices followed by the companies. The *null hypothesis $H_{023}$* that the board size does not differ with social performance score is not supported as companies with high social performance, and low social performance have different board sizes. The *null hypothesis $H_{023}$* that board size does not impact firm performance is also supported.

Board independence, which is related to the number of independent directors on the board, is significantly different for private vs PSU, MNC vs Nationally-located and based on industry sector classification. Companies that follow leadership, good or fair practices have differences in the number of independent directors on board. The *null hypothesis $H_{028}$* indicates that board independence significantly impacts firm performance.

Gender diversity which is indicated by the percentage of women directors on the board differs significantly with private vs PSU companies and the industry sector classification. Gender diversity also considerably influences firm performance, so *null hypothesis $H_{032}$* is not supported.

CEO Duality is significantly different for age, private vs PSU, MNC versus nationally-located and industry sector wise classification. It is also significantly influenced by high and low social performance levels of companies. CEO duality also significantly influence firm performance so *null hypothesis $H_{036}$* is not supported.

CEO duality has a vital role in the firm's performance because it affects the corporate governance characteristics and practices followed by the company. It also affects the Earnings before interest and tax, Dividend yield ratio and total debt ratio. It also impacts the stakeholder-related factors of the company and the amount the company will contribute towards the CSR activities. Thus, the CEO duality variable is significant and of high importance for the corporate governance practices, the operational efficiency and the stakeholder-related practices followed by the company. Board meetings also significantly influence firm performance, so *null hypothesis$H_{042}$* is not supported.

The audit committee is found to be significantly different for Private vs PSU companies. This indicates that PSU has a different style of managing their audit committee in terms of number of members in their audit committee compared to private sector companies. The number of independent directors in the audit committee was not significantly related to any demographic variables including age, private vs PSU, MNC vs. Nationally-located, ownership, industry sector, corporate governance practices, and social performance score.

This indicates that the audit committee members are not influenced by the demographic factors related to the company, and they are not associated with the corporate governance practices and social performance practices. But as a variable, its role is crucial to achieve corporate governance practices followed by the company. Results show that audit firm category, audit concern on financial statement and concerns of ssecretarial audit, are significant for private versus PSU companies and iindustrial sector.

This indicates that *null hypothesis$H_{051}$*, that audit firm category does not impact corporate governance characteristics, stands partially supported for independent directors, gender

diversity, number of board meetings, CEO duality, concerns on financial statements and concerns of the secretarial auditor. Disclosure and transparency scores are also statistically significantly different for an external audit done by a big four or a non-big four audit firm.

The *null hypothesisH052* that the audit firm category does not impact the financial performance variables is partially supported. For financial factors extracted using factor analysis, the replacement and stakeholder-related factors are statistically significantly different for companies getting external audits done by a big four or non-big four firms.

So choosing an audit firm that is big four or a non-big four firm is a decision that impacts the shareholder's perception about the company, transparency of its disclosures in the financial statements. Indicating that transparency in disclosure will not impact companies' governance practices and social performance score, but it will impact the stakeholder's perception.

It is found that independent directors, number of board meetings held in a year, external audit firm, i.e. big four firm or non-big four; CEO duality and concerns of the secretarial audit are statistically significant different audit concerns in financial statements given by companies.

For financial variables, it is found that the corporate governance categories like disclosure and transparency scores, the responsibility of the board score is significantly different. Price to book ratio, total debt ratio and stakeholder-related factors are statistically significantly different for audit concerns in financial statements given by companies. So if the auditor has shown some concern in the financial statement and has mentioned it in the

audit report, it will also impact the stakeholder-related factor and the impact the company's book value.

The result shows that the two groups of companies, i.e., companies that have secretarial concerns in financial statements and companies which do not have secretarial concerns in financial statements is statistically significantly different for board size, independent directors, women directors, number of board meetings, external audit- big four or non-big four, CEO duality and audit concerns on the financial statement. So, the *null hypothesis $H_{057b}$*, that concerns of secretarial audit do not impact corporate governance characteristics, is not supported.

The regression model indicates that the *null hypothesis $H_{028}$, null hypothesis $H_{032}$, null hypothesis $H_{036}$, null hypothesis $H_{042}$*, and *null hypothesis $H_{046}$* are not supported. The *null hypothesis $H_{059}$* is partially supported. This implies that board independence, gender diversity, board meetings, CEO duality, number of members in audit committee, market capitalisation, Tobin's Q, price-earnings ratio, and Enterprise value are very important variables that influence the firm performance measured by Return on Assets of companies.

Overall, it can be concluded that out of all the variables, audit committee, CEO duality, gender diversity, board independence, and board size impact firm performance. These corporate governance characteristics have an impact on improving the financial performance of companies along with social performance.

# Chapter-7

# Findings and Policy Implications

Corporate governance is a structure that board and senior management of the company rely upon to manage company ethically and with accountability. The principles of CG are based on transparency, accountability, responsibility and fairness.

To carry out analysis, the data was collected for NIFTY 100 companies, using Corporate Governance (CG) scoresheet, CSR scoresheet, and Financial Performance (FP) variables.

The chapter summarizes the findings and suggests policy implications for the companies, policy makers, and investors. The chapter is divided into 3 parts highlighting findings, suggestions and policy implications and scope of future research.

## 7.1 Findings of the Study

This section has been divided into three sub-sections based on the three main objectives of the study. 7.1.1 discusses corporate governance practices of Indian companies, 7.1.2 explains the main findings relating to CG score of Indian companies, and 7.1.3 elaborates main findings on the impact of CG on the financial performance and corporate social performance of the firms selected for study.

### 7.1.1 Corporate Governance Practices of Indian Companies

The results from Chapter 4 have been discussed here. The results relate to corporate governance practices followed by sample NIFTY 100 Indexed companies. The following are the key findings relating to CG practices of the companies:

- The statement-wise analysis of Category I – "Rights and Equitable Treatment of Shareholders", based on 19 parameters reveals that 83 percent of companies have reasonable good practices or practices close to global standards particularly with regard to quality of shareholders' meetings. Further, managing the conflict of interest, the disclosure made by 84 percent of companies comes under reasonable practices and close to global standards.

- Nine parameters were selected to understand the practices being followed by the NIFTY 100 companies concerning the OECD principle, Category II – "Role of Stakeholders". Disclosure regarding supplier management and employee welfare practices were found to be reasonably sound and close to global practices for 92 percent of companies. Business responsibility initiatives were also reasonably good and near to global practices for 85 percent of NIFTY 100 companies. Investor engagement initiatives and whistle-blower mechanism relating to disclosure indicate that 96 percent of companies follow reasonably good practices and are close to global standard practices.

- Category III, OECD principle i.e. "Disclosures and Transparency", include analysis of 23 parameters of NIFTY 100 companies. The results show that majority of companies follow global standards in terms of disclosure and

transparency in filing of the reports. All companies have followed audit integrity practices and 70 percent companies follow global standards about audit practices. Only 10 percent of the companies have managed to keep the roles of Chairperson and CEO separate, and the CEO is an independent director. 29 percent of companies have women directors, who are not from the promoter's family. In 85 percent of the companies, director or key managerial personnel in the past three years have not been fined or penalised for any violation and unethical behaviour. Only 23 percent of the companies have independent directors, higher than the regulatory requirements. With regard to the audit committee, CSR committee, nomination, remuneration committee, role of independent directors, meeting frequency, experience and expertise of board members, CEO duality, and women directors, it was found that the majority of Indian companies follow global standards.

- Nineteen parameters were examined to understand the practices being followed by the NIFTY 100 companies about Category IV – "Responsibilities of the Board". About remuneration, ESOPs and relationship of compensation with company's performance. The results show that only half of the companies follow global standards. In this regard, succession planning is essential for the long term success of the business and only one-third of the Indian companies follow the global standard, and another one third follow reasonable practices. Board evaluation practices need to be strengthened in Indian companies as most of them have reasonable review and evaluation practices for the board.

## 7.1.2 Corporate Governance Score of Sample Companies

Chapter 5 gives a detailed analysis of corporate governance total score, company-wise analysis, demographic-wise differences in corporate governance scores, financial performance and social performance of companies. These results highlight the nature of corporate governance, financial performance and social performance of NIFTY 100 Index companies as under.

- The mean value of corporate governance total score (CG) is 74.252, the maximum score is 91.8 and the minimum is 56.1. The average score indicates that companies are involved in fair corporate governance practices. The standard deviation value is 6.2670, indicating that data is relatively distributed near the mean value.

- The mean score of Category I - Rights And Equitable Treatment of Shareholders is 71.252, with a maximum of 85.3 and a minimum value of 57.9. The average score shows that companies have scored adequately in the rights and equitable treatment of shareholders' category. The standard deviation is 5.7749, indicating that data is closely distributed near the mean value.

- In Category II - the "Role of Stakeholders", the mean value is 77.2, the maximum score is 100, and the minimum is 11.1, which indicates that companies have scored maximum in this category. By looking at mean value is can be concluded that companies have made sufficient efforts in this category. The standard deviation is 16.1151, indicating relatively larger variations in data value from the mean value.

- Under Category III – "Disclosure and Transparency", the mean value is 85.879, the maximum is 100, and the minimum is 58.7, which shows that the companies

have scored maximum in this category. The average score indicated that companies have made fair and adequate disclosures. The standard deviation is 7.880 which indicates that the data is fairly distributed in the region of the mean value.

- In Category IV – "Responsibilities of the Board", the mean value is 64.634, the maximum score is 94.7, and the minimum score is 44.7. This conveys that companies have performed reasonably well under this category. However, the standard deviation shows more dispersion from the mean value.

- Age-wise analysis of companies show that above 75 years age group of companies have better corporate governance practices as their mean score is the highest. Thus, it can be inferred that the above 75 years age group of companies have better corporate governance practices as compared to any other age group company.

- Private companies mean corporate governance scores are better than PSUs in categories I, II and IV. However, in category III, PSUs have better average scores. Thus, indicating that except in category III. i.e. disclosures and transparency, private companies have better practices.

- Nationally-located companies have better corporate governance practices as compared to MNCs. However, in category II average score of MNCs is higher than nationally-located companies.

- Ownership wise, it was found that widely-held companies have the highest corporate governance total scores as compared to promoter-owned and institutional-owned companies. The category I, category II and category III scores

are also better for widely held companies. Under category IV, institutional-owned companies have better scores.

- The industrial sector-wise classification shows that the IT sector has a relatively high score than other industries. The healthcare sector, financial and materials have similar kind of corporate governance practices. Under category I mean score of energy (73.698) is highest in category II scores are the best for consumer staples (81.667), in category III, the energy sector is performing the best, and in category IV, the financial sector has the highest mean score (69.986). The overall analysis concludes that there are many differences in the corporate governance scores and its four category components concerning industry wise classification of companies.

- Company-wise analysis of private sector companies under corporate governance total score (CG) reveals that out of 79 private sector companies, Cipla Ltd. has the highest corporate governance score of 91.8, Infosys Ltd. got second rank 90.5, Kotak Mahindra Bank Ltd. 88.5 and L&T Finance Holding Ltd. got the last rank. In the case of category I, Cipla Ltd. (85.3) has got the highest score, Vedanta Ltd. (83.3) got $2^{nd}$ rank, $3^{rd}$rank is of Tata Consultancy Services (82.4). From category II score, ACC Ltd., Bandhan Bank Ltd., Biocon Ltd., Cipla Ltd., Infosys Ltd., scored highest (100). For category III, Infosys Ltd. with a 100 score is the leader, followed by Cipla Ltd., Dr. Reddy Laboratories Ltd., Mahindra and Mahindra Ltd. with 97.8 score is at $2^{nd}$ position. As per category IV score, Infosys Ltd. had the highest score (94.7), Kotak Mahindra Bank Ltd. got $2^{nd}$(92.1), Cipla Ltd. got $3^{rd}$ rank (89.5).

- Under PSUs categories out of 21 PSUs for corporate governance total score (CG), Oil and Natural Gas Corporation Ltd. has scored the highest, 80.5, followed by SAIL Ltd. (79.9). GAIL India Ltd., Oil India Ltd. are in 3$^{rd}$ position with score of 79.3. Bharat Heavy Electricals Ltd. (67.8) is in the last position. Under category I scores, it can be seen that GAIL India Ltd. has got the highest score (79.4), the second rank is of Bank of Baroda (76.5). NTPC Ltd.(76.3) has the next best score. For category II, Petronet LNG Ltd.(94.4) has got the highest score. NHPC Ltd., Oil India Ltd. have got second position (88.9). Container Corporation of India Ltd., NMDC Ltd., State Bank of India and SAIL Ltd. with 83.3 score is at third rank. The highest score in category III is achieved by SAIL Ltd.(97.8), GAIL India Ltd.(95.7) gets the second place, Indian Oil Corporation Ltd., NHPC Ltd., NMDC Ltd., Petronet LNG Ltd., SBI Life Insurance Company Ltd. have got 93.5 score thus, are at the third position. Under category IV score of Oil and Natural Gas Corporation of India Ltd. is the highest (76.7). Power Grid Corporation of India Ltd. and State Bank of India is in the second position with a 73.3 score. SBI Life Insurance Company Ltd. is in the third position with a 71.1 score. The comparison of private sector companies and PSUs, shows that Cipla Ltd. has the highest corporate governance score of 91.8, Infosys Ltd. got the second rank of 90.5, Kotak Mahindra Bank Ltd. (88.5), which are private sector companies. The highest score of PSUs is Oil, and Natural Gas Corporation Ltd. which has scored the highest (80.5), followed by SAIL Ltd. (79.9), GAIL India Ltd. (79.3) and Oil India Ltd. (79.3). Thus we can conclude that private sector companies have better CG scores as compared to PSUs.

- The null hypothesis $H_{01a}$, which shows no significant relationship between companies' age and corporate governance practices, is accepted. This reveals that there is no relationship between the age of the companies and their corporate governance practices. Of those companies which have leadership corporate governance position, 75 percent have institutional ownership; this indicates that the ownership status of companies does significantly impact the corporate governance practices of the companies, and specifically, the companies with higher promoter ownership have good and fair practices. Further, the null hypothesis $H_{01b}$, is rejected as there is a significant relationship between companies' ownership status and corporate governance practices. The *null hypothesis $H_{01c}$* also supports no significant relationship between private and PSU sector with corporate governance practices. As null hypothesis $H_{01d}$ is supported., it can be inferred that there is no significant relationship between MNC and nationally-located classification with corporate governance practices of companies. The null hypothesis $H_{01e}$ is supported that as there is no relationship between industrial sector-wise classification and corporate governance practices of the companies.

- It can be summarised for corporate governance practices that out of 100 sample companies, 4 percent fall into leadership, good have 42 percent, fair have 47 percent and basic have 7 percent companies.

- Based on its relationship with demographic characteristics wise differences, it has been found that only ownership status of companies has a significant impact on corporate governance practices. Thus null hypothesis $H_{01}$ is partially supported.

- The analysis further indicates that null hypothesis $H_{02}$ is partially supported as there is a significant difference in the MNC vs nationally-located companies for corporate governance total score (CG). The null hypothesis $H_{03}$ is partially supported as MNC vs nationally-located companies, and their right and equitable treatment of shareholders score is significantly different. There is no difference in demographic characteristics and their practices related to the Role of Stakeholders scores, and null hypothesis $H_{04}$ is supported. The null hypothesis $H_{05}$ is partially supported. There is a significant difference in the demographic characteristics like age, private vs. PSU, MNC vs. nationally-located companies, and industrial sector based classification of companies and their practices related to disclosures and transparency scores. The null hypothesis $H_{06}$, indicating that there is no significant difference in the demographic characteristics of companies and their practises related to board responsibilities, is partially rejected because there is a significant difference in board practises related to age, ownership, and industry sector.

- Further, it is found that corporate governance score is impacted by the MNC vs. nationally-located status of companies. Age significantly matters for disclosure and transparency scores, where it was found that young companies have better disclosures and the responsibilities of the board of old companies have performed better. Further, the companies from the age category of 50-75 years have the transparency scores that differ between the private sector companies and PSU. Industrial sector-wise classification has indicated that companies that belong to utility, consumer staples, financials and IT sector differ significantly with respect to transparency scores and board responsibilities. The companies which belong to

promoter-owned and institutional-owned categories have significantly different disclosures and transparency scores and responsibilities of the board. Overall, it can be concluded from the above analysis that MNC vs nationally-located status, industry sector-wise differences, ownership characteristics do effect the corporate governance practices of Indian companies.

- The analysis of sixteen financial performance indicators of NIFTY 100 companies show the varying results. The null hypothesis $H_{07}$ that there is no significant difference in the demographic characteristics of companies and their financial performance variables is partially supported. The financial performance variables which are significantly different for various demographic characteristics such as Beta, Tobin's Q, Return on Equity, Earning before interest and tax, Return on Capital Employed, Return on Assets ratio, Dividend Yield, Price to Book Ratio and Total Debt Ratio.

- The descriptive statistics of 5-year compound annual growth rate (CAGR) values of financial performance variables concluded that only beta, closing price, market capitalisation, enterprise value and CSR spend average scores were positive.

- Corporate social responsibility score is measured by social performance score. It is found that companies within the 50–75-years age group contribute more towards CSR activities as compared to other age groups. PSUs have better social performance scores than private sector companies. MNCs have better CSR scores than nationally-located status. Promoter-owned companies contribute more to social performance. Industrial-sector wise classifications show that CSR scores are the highest for the materials, industrials, and consumer staples sectors. As per the

relationship of corporate governance practices with social performance scores, companies with fair corporate governance practices and good corporate governance practices have better social performance as compared to other groups.

- The null hypothesis $H_{08}$ that there is no difference in demographic characteristics and their corporate social performance score is partially supported only for the industrial sector-wise classification of companies and their CSR initiatives. The null hypothesis $H_{09}$ is supported, and it is found that corporate governance practices do not influence social performance score.

### 7.1.3 Impact of Corporate Governance on Financial Performance and Social Performance of Companies

The findings of Chapter 6 have been discussed in this sub-section. The results revolve around analysing the relationship between corporate governance and financial performance, corporate governance and social performance and impact of corporate governance characteristics on firm performance.

**7.1.3.1 Corporate Governance and Financial Performance**

- Financial performance for the year 2019, has been analysed as a dependent variable using Market capitalisation. The degree of explanation of the model is very high as the adjusted $R^2$ is 92.3 percent, and ten variables significantly load on the model. The regression analysis results indicate that corporate governance score, industry sector, enterprise value, Price to earnings ratio, CSR spend and return on equity have a positive relationship with market capitalisation. Ownership, Tobin's Q, beta and Total debt ratio are inversely loaded on the

model. So, market capitalisation is influenced by corporate governance score, Price to earnings ratio, CSR spend, industry sector, Enterprise value and Return on equity. Thus, *null hypothesis$H_{010}$* is not supported as there is a significant impact of corporate governance on the financial performance of companies.The *null hypothesis $H_{011}$* is partially supported as ownership, industry sector, CSR have an impact on financial performance and *null hypothesis$H_{012}$* is supported, i.e. social performance score does not impact financial performance.

- ANOVA results analysing the level of corporate governance practices followed by companies significantly influence some of the financial variables like Return on Equity ratio, Enterprise value, Earnings before Interest and Tax (EBIT) and Market capitalisation. The results indicate that if companies start performing better in their corporate governance practices, they will do well in terms of these ratios, which are fundamental financial performance indicators. The *null hypothesis$H_{013}$,* that there is no significant difference in financial performance variables and corporate governance practices followed by companies, is partially supported as the values are significant for Return on Equity ratio, Enterprise value, Earnings before Interest and Tax (EBIT) and Market capitalisation.

- Financial Performance (FP) has also been analysed using five-year CAGR values from 2015-19 data to study the long term impact of CG practices. The results of multiple regression analysis with a 5-year CAGR value of Market capitalisation indicate an adjusted R square of 40.5 percent, and it reconfirms the short term regression analysis. Changes in market capitalisation over five years depending upon the company's Dividend yield, Return on equity, Tobin's Q, Earning per

share, Corporate governance total score, Closing price, Enterprise value, Ownership and Industry sector. Thus *null hypothesis* ($H_{015}$) that other firm characteristics do not impact change in five year financial performance of companies is partially supported. *The null hypothesis ($H_{016}$) that change in the five-year financial performance of companies is not impacted by the social performance of companies is supported* as the model eliminated social performance. Thus $H_{014}$ is not supported, and it can be concluded that corporate governance has a long term impact on financial performance.

- It can be concluded from the analysis that the current year performance of the company is dependent on the variables which have been discussed in Table 6.2. However, these variables are also relevant and impact changes in the financial performance of companies over five years. Variables that have held their place in the regression model explained in Tables 6.2 and 6.8 indicate that these variables are significant and impact the company's financial performance. These variables are of strategic importance and should be studied and analysed while taking any decisions related to improving the financial performance of companies as they can have a great impact on the strategic decision making by the companies. Thus, ownership, industry sector, enterprise value, return on equity ratio, tobin's Q, corporate governance total score have emerged as important variables that impact the market cap of a company in the short (annual) and long term (five year).

- The exploratory factor analysis (EFA) summarised sixteen financial performance variables into five factors i.e. return on assets ratio; valuation-related factor; long-term market growth factor; replacement value factor, and stakeholder-related

factor. The five factors explain the financial performance indicators for evaluation purpose.

- It is found that companies' leadership practices and basic practices significantly differ with respect to valuation-related factors. So, the null hypothesis ($H_{017}$) that there is no significant difference in five financial factors extracted and corporate governance practices followed by companies is partially supported only for valuation-related factors.

### 7.1.3.2 CG and Social Performance

- The overall analysis reveals that the social performance score of companies impacts the stakeholder-related factor. Social performance is not significantly related to the corporate governance practices of companies. Social performance may impact Beta, Return on equity, Return on sales ratio, Dividend yield ratio, and CSR spend ratio.

### 7.1.3.3 Corporate Governance Variables

- The analysis of corporate governance variables shows that the mean value of board size is 11.50. The mean of Independent Directors (IDs) in a company is 4.96, the average percentage of women directors in a company is 16 percent, and 7 is the number of board meetings and which board meetings are held in a company. The size of audit committee mean it is 4.33, and IDs in the audit committee is 1.24.

- The public sector companies have performed relatively better for board size, independent directors, number of board meetings held in a year and number of members in the audit committee as compared to private sector companies.

- The corporate governance variables concerning industrial sector classification show that the energy sector has higher corporate governance characteristics in terms of board size, the number of independent directors, and the number of board meetings held in a year. Information technology has the highest average percentage of women directors. The number of members in the audit committee are highest in the consumer staples sector, and the number of independent members in the audit committee is the highest in the industrial sector.

- Further, board size is positively correlated with the number of independent directors, independent directors are positively correlated with the number of board meetings held in a year and the number of independent members in the audit committee. CEO duality is positively related to the audit firm categories. Board meetings are again positively correlated with the concerns of the secretarial audit and the number of independent members in the audit committee

### *Board Size*

- The Board size is different for private sector vs PSU companies and industrial sector-wise classification only. The *null hypothesis* $H_{021}$, that there is no significant difference in the board size of companies based on demographic characteristics, is partially supported. The board size of companies is influenced by public vs private sector companies and the industry sector to which it belongs to. The *null*

*hypothesis $H_{022}$*is supported, that there is no significant difference in the board size based on different corporate governance practices followed by the companies. The *null hypothesis $H_{023}$* that the board size does not differ with social performance score is not supported as companies with high social performance and low social performance have different board sizes. The *null hypothesis $H_{024}$* that board size does not impact firm performance is also supported. Board size does not impact firm performance.

## *Board independence*

- Board independence, related to the number of Independent Directors (IDs) on the board, is significantly different for private vs PSU, MNC vs Nationally-located and based on industry sector classification. The companies which follow leadership, good or fair practices have differences in the number of IDs on board. The *null hypothesis $H_{028}$* indicates that board independence significantly impacts firm performance.

- The results show, the *null hypothesis $H_{025}$*, that there is no significant difference in the board independence of companies based on demographic characteristics, is partially supported, as the results are significantly different for private vs PSU, MNC vs Nationally-located and based on industry sector. The *null hypothesis$H_{026}$*, that there is no significant difference in the board independence of companies based on different corporate governance practices, is not supported. However, the *null hypothesis$H_{027}$*, that there is no significant difference in the board

independence of companies based on social performance score, is supported as the ANOVA F value (1.224) is insignificant.

### *Gender Diversity*

- Gender diversity which is indicated by the percentage of women directors on the board differs significantly with private vs PSU companies and the industry sector classification. Gender diversity also considerably influences the firm performance, so *null hypothesis$H_{032}$* is not supported.

- It can be concluded that the *null hypothesis$H_{029}$*, that there is no significant difference in the gender diversity of companies based on demographic characteristics, is partially supported. The results are significant for private vs PSU companies and the industry sector. The *null hypothesis$H_{030}$*, that gender diversity is not significantly related to different corporate governance practices, is supported as ANOVA (F value =0.403) is insignificant. Similarly, the social performance score (F=0.520) value is also insignificant. This indicates that the null hypothesis $H_{031}$, that gender diversity on board does not differ with CSP , is supported.

### *CEO duality*

- CEO Duality is significantly different for age, private vs PSU, MNC versus nationally-located and industry sector-wise classification. It is also significantly influenced by high and low social performance levels of companies. CEO duality also significantly influence firm performance, so *null hypothesis$H_{036}$* is not supported.

- The *null hypothesis $H_{033}$*, that no significant difference in CEO duality pattern based on demographic characteristics, is partially supported. The results are significant for age, private vs PSU, MNC versus nationally-located and industry sector-wise classification. The null hypothesis $H_{034}$, that CEO duality is not significantly related to different corporate governance practices, is supported as the ANOVA F value is insignificant. The social performance score also indicates significant F values= 4.37, which implies that companies with high social performance scores have different CEO duality patterns compared to companies with low social performance scores. Thus, the null hypothesis $H_{035}$, that there is no significant difference in CEO duality based on social performance score, is not supported.

- The *null hypothesis$H_{037}$*, that CEO duality does not impact corporate governance variables, is not supported. As for almost all the characteristics like board size, independent directors, women directors, number of board meetings, audit firm categories and concerns of secretarial audit, the results are statistically significantly different.

- Total debt ratio, dividend yield ratio, and dividend yield ratio are also statistically different for the two groups. Out of the five factors extracted, stakeholder-related factors are statistically significant concerning CEO duality in the company. CSR score, disclosure and transparency scores and board responsibility score are also statistically significantly different for CEO duality. The analysis indicates that the null hypothesis $H_{038}$ that CEO duality does not impact FP variables has been rejected for most of the variables.

- CEO duality has a vital role in the firm's performance because it affects the company's corporate governance characteristics and practices. It also affects the Earnings before interest and tax, Dividend yield ratio and total debt ratio. It also impacts the stakeholder-related factors of the company and the amount the company will contribute towards the CSR activities. Thus, the CEO duality variable is significant and of high importance for the corporate governance practices, the operational efficiency and the stakeholder-related practices followed by the company.

### *Board meetings*

- Board meetings are significantly different for PSU versus private companies, industry sector and social performance score. The *null hypothesis $H_{039}$*, that there is no significant difference in board meetings of the companies based on demographic characteristics, is partially supported. The *null hypothesis $H_{040}$,* that board meeting is not significantly related to corporate governance practices, is supported, but the *null hypothesis $H_{041}$* that board meetings do not differ with social performance score is not supported. Board meetings also significantly influence firm performance, so *null hypothesis$H_{042}$* is not supported.

### *Audit committee*

- The audit committee is found to be significantly different for Private vs PSU companies. This indicates that PSU has a different style of managing their audit committee in terms of number of members in their audit committee compared to private sector companies. The number of independent directors in the audit committee was not significantly related to any demographic variables including

age, private vs PSU, MNC vs. Nationally-located, ownership, industry sector, corporate governance practices, and social performance score.

- The *null hypothesis $H_{043}$*, that there is no significant difference in the audit committee members of companies based on demographic characteristics, is partially supported for private vs PSU. The *null hypothesis $H_{044}$*, that audit committee members is not significantly related to different corporate governance practices, is supported, and the *null hypothesis $H_{045}$*, which shows that audit committee members do not differ with social performance score, is also supported, as social performance score-wise no statistically significant difference is found in the number of audit committee members.

- This indicates that the audit committee members are not influenced by the demographic factors related to the company, and they are not associated with the Corporate Governance (CG) practices and social performance practices.

## *Transparency of Financial Statements*

- The result shows that, for the audit firm category, private vs PSU companies, have a statistically significance F value of 104.483. This indicates that private companies and PSU are different in choosing the audit firm, so they have different audit firms for external audit. Similarly, for industry-wise classification, it is found that the energy sector F value (4.08) is statically significantly different from all the other sectors. It indicates that the energy sector is significantly different in choosing the external auditor, i.e., big four audit firms (KPMG, Deloitte, EY and PWC) and non-big four. Thus, the *null hypothesis $H_{047}$*, that there is no significant difference in the audit firm category of companies based on demographic

characteristics, is partially supported for private vs PSU and industry sector-wise classification. However, the audit firm category is not significantly different based on corporate governance practices. So the *null hypothesis$H_{048}$is* supported, and the *null hypothesis$H_{049}$* for social performance score is also supported as ANOVA F value is insignificant for social performance score.

- Results show that audit firm category, audit concern on financial statement and concerns of secretarial audit, are significant for private versus PSU companies and industrial sector- wise classification.

- The results indicate that independent directors are significantly different in the two groups of audit firms, i.e., big four or non-big four companies. For women directors firms, companies that have an external audit by the big four and non-big four are also statistically significantly different with an F value of 14.903, which is significant at a 0.05 level of significance. Similarly, the numbers of board meetings held in a year are different for an external audit firm. CEO duality is found to be statistically different. Audit concerns on financial statements and secretarial auditors' concerns were also statistically significantly different for companies that get the external audit done from a big four company or non-big four audit firm. This indicates that *null hypothesis$H_{051}$*, that audit firm category does not impact corporate governance characteristics, stands partially supported for independent directors, gender diversity, number of board meetings, CEO duality, concerns on financial statements and concerns of the secretarial auditor. Disclosure and transparency scores are also found to be statistically significantly different for an external audit done by a big four or a non-big four audit firm.

- From the sixteen financial variables, it is seen that for market capitalisation F value is significantly different. Price to earnings ratio, Price to book ratio, dividend yield ratio is found to be statistically significantly different for external audit. The *null hypothesis* $H_{052}$, that the audit firm category does not impact the financial performance variables is partially supported. For financial factors extracted using factor analysis, the replacement and stakeholder-related factors are statistically significantly different for companies getting external audits done by a big four or non-big four firms.

- So choosing an audit firm that is big four or a non-big four firm is a decision that impacts the shareholder's perception about the company and transparency of its disclosures in the financial statements.

- Results also show that audit concerns on financial statements and concerns of the secretarial audit are statistically significantly different for PSU vs private companies and industry sector-wise classification. So, the *null hypothesis* $H_{053}$, that there is no significant difference in transparency in companies' financial statements based on demographic characteristics, is partially supported for public vs private sector and industry sector-wise classification.

- The *null hypothesis* $H_{054}$ that transparency in disclosure of financial statements is not significantly related to different corporate governance practices stand supported, and *null hypothesis* $H_{055}$ that transparency in disclosure of financial statements is not significantly related to social performance score is also supported. Indicating that transparency in disclosure will not impact companies'

governance practices and social performance score, but it will affect the stakeholder's perception.

- It is found that independent directors, number of board meetings held in a year, external audit firm, i.e. big four firm or non-big four, CEO duality and concerns of the secretarial audit are statistically significant different audit concerns in financial statements given by companies. So the *null hypothesis $H_{057a}$* that transparency in disclosure of financial statements does not impact corporate governance characteristics is partially supported.

- For financial variables, it is found that the corporate governance categories like disclosure and transparency scores, the board responsibility score is significantly different. Price to book ratio, total debt ratio, and stakeholder-related factors are statistically significantly different for audit concerns in financial statements given by companies. Thus, the *null hypothesis $H_{058a}$*, that the transparency in disclosure score of financial statement does not impact financial performance variables, is partially supported.

- So, if the auditor has shown some concern in the financial statement and has mentioned it in the audit report, it will also impact the stakeholder-related factor and the impact the company's book value.

- The results show that the two groups of companies, i.e., companies that have secretarial concerns in financial statements and companies which do not have secretarial concerns in financial statements is statistically significantly different for board size, independent directors, women directors, number of board meetings,

external audit- big four or non-big four, CEO duality and audit concerns on the financial statement. So, the *null hypothesis $H_{057b}$*, that concerns of secretarial audit do not impact corporate governance characteristics, is not supported.

- For corporate governance total score and the financial performance variables, results show that Role of Stakeholders score, CSR spending, Earnings before interest and tax, total debt ratio, stakeholder-related factor, dividend yield ratio, and replacement factor have significantly different results for those companies which have secretarial concerns in financial statements and those companies which do not have secretarial concerns in financial statements. So, the company's financial performance, the replacement value, stakeholder-related factors, debt levels, earnings before interest and tax are influenced by the level of corporate governance practices the transparency in financial statements. Thus, the *null hypothesis $H_{058b}$*, that concerns of secretarial audit do not impact financial performance variables, is partially supported.

## *Regression Analysis with Firm Performance*

- The regression model indicates that the *null hypothesis$H_{028}$, null hypothesis$H_{032}$, null hypothesis$H_{036}$, null hypothesis$H_{042}$*, and *null hypothesis$H_{046}$* are not supported. The *null hypothesis$H_{059}$* is partially supported. This implies that board independence, gender diversity, board meetings, CEO duality, number of members in audit committee, market capitalisation, Tobin's Q, price-earnings ratio, and Enterprise value are very important variables that influence the firm performance measured by Return on Assets of companies.

- Overall, it can be concluded that out of all the variables, audit committee, CEO duality, gender diversity, board independence, and board size impact firm performance. These corporate governance characteristics have an impact on improving the financial performance of companies along with social performance.

## 7.2 Suggestions and Policy Implications

Good governance can boost a company's performance, help it become more stable and productive, and open up new doors. It has the potential to lower risks and enable faster and safer growth. It can also help to boost one's reputation and build trust. Higher levels of profitability, relative share prices and liquidity, and lower cost of capital indicate this. In both good and poor economic times, strong administration is beneficial. When the economy and the stock market are booming, the practical benefits of good governance are visible. The companies should focus more on making corporate governance practices to be followed in its true sense.

### 7.2.1 For Regulators and Companies

- **Rights of Shareholders** – Rights of shareholders should be protected, and equitable treatment should be given to shareholders. This includes companies' focus on the quality of shareholder meetings, disclosures and policies and framework of related party transaction, investor grievance policies formulated by the company, and practices of companies about any conflict of interest.

  The mean score of Category I - rights and equitable treatment of shareholders is 71.252, and 83 percent of companies have reasonable practices or practices

close to global standards. The private sector companies, older companies, widely held companies, nationally-located groups, and the Energy sector have better practices, in this regard, than others.

Still, there is the scope of improvement for other sectors like PSUs, various industrial sectors, promoter-owned groups, and younger companies to improve their policies towards shareholders' rights. Protecting the rights of shareholders will go a long way in building sustainable organisations and will reap the benefits of the higher performance of companies.

- **Gender diversity on board** –Gender diversity, i.e. bringing more women directors on board, brings more creative insights on the board and thus improves the quality of decision making. Experts believe that companies with women directors deal more effectively with risk. Not only do they better address the concerns of customers, employees, shareholders, and the local community, but, they also tend to focus on long-term priorities. Women directors are likely to be more in tune with women's needs than men, which helps develop successful products and services.

  The results reveal that only 29 percent of companies have women directors who are not from the promoter's family. Sixty-five percent of companies have women directors from the promoter's family. Women directors on board are significantly different for private vs PSU companies and industrial sector-wise classification. The regression results also indicate that gender diversity on board significantly impacts firm performance.

Thus, Indian companies need to bring more gender diversity on board as women directors will get more innovative and diverse insights to risk and decision-making and overall improve the business's financial performance.

- **CEO Duality** –About the separation of roles between Chairperson and CEO, i.e. CEO duality, it is recommended that such separation bring more objectivity and transparency in the business. Out of the sample Indian companies, only 10 percent of the companies have managed to keep roles of Chairperson and CEO separate, and the Chairman is an independent director. In 29 percent of the companies, CEO duality has not been maintained as the role of Chairperson and CEO is performed by the same person. CEO Duality is significantly different for age, private vs PSU, MNC versus nationally-located and industry sector-wise classification. It is also significantly influenced by high and low social performance levels of companies. CEO duality also considerably affect firm performance, so *null hypothesis$H_{036}$* is not supported. The *null hypothesis$H_{037}$* that CEO duality does not impact corporate governance characteristics is not supported. As for almost all the characteristics like board size, independent directors, women directors, number of board meetings, audit firm categories and concerns of secretarial audit, the results are statistically significantly different.

CEO duality has a very important role in the firm's performance because it affects the corporate governance characteristics and practices followed by the company. Results reveal that it also affects the Earnings before interest and tax, Dividend yield ratio and total debt ratio. It also impacts the stakeholder-related

factors of the company and the amount the company will contribute towards the CSR activities. Thus, the CEO duality variable is significant and of high importance for the corporate governance practices, the operational efficiency and the stakeholder-related practices followed by the company. This indicates that no CEO duality will bring better governance in the organisations and help improve productivity, accountability and transparency.

SEBI has already mandated listed entities to separate the roles of Chairman and CEO by April 2022. However, SEBI will now have to ensure that this is done both in letter and spirit. SEBI must also focus on the independence of the Chairperson. Further, vintage directors, those with a tenure of over 10 years, should not be considered independent for the purpose.

- **Board Independence** – Board independence is concerned with the number of independent directors on the board. Independent directors on board work towards the best interest of shareholders, brings independent decision making, brings focus, depth, expertise about the industry and help mitigate conflict of interest faster.

Regarding independent directors' representation in the board, only 23 percent of the companies have independent directors, higher than the regulatory requirements, but 45 percent of companies have not met the regulatory requirements related to Independent directors. Board independence, which is associated with the number of Independent Directors (IDs) on the board, is significantly different for private vs PSU, MNC vs Nationally-located and

based on industry sector classification. Companies that follow leadership, good or fair practices have differences in the number of IDs on board. The *null hypothesis $H_{028}$* indicates that board independence significantly impacts firm performance.

Indian companies need to bring more independent directors on board to bring more expertise, transparency and achieve higher governance practices. This will bring the improved perception of the shareholders, enhance the company's profitability, and move towards sustainable practices.

- **Board's skill and expertise** –Larger board size and diversity bring more skill and expertise and improve organisations' decision-making quality. The present times require a more interdisciplinary approach from people with diverse skills, qualifications, experience, and industries to solve complex business problems.

  Almost all the 100 sample companies have a director with prior experience in a similar business, and the board having diverse skills. For board evaluation policy and process, only 18 percent of companies have met global standards where companies have mentioned who evaluator, who are evaluated and what was the procedure followed for evaluation; apart from this, companies have also done impact assessment for future improvements is. Regarding the board's evaluation, 57 percent of companies have disclosed the review and evaluation criteria of the board. The Board size is different for private sector vs PSU companies and industrial sector-wise classification only.

Whether the board has sufficient skills, competence and expertise, diversity and big size would influence the company's corporate governance practices and help in complex business problems of present uncertain times.

- **Board Meetings**–Effective boards meet frequently. Good governance can only be achieved if board meetings are more frequent with the active participation of all members and will reap the benefits of diversity, independence, innovation, expertise, transparency and accountability.

  Results show that only 8 percent have full attendance of board members in meetings, and 50 percent have less than 75 percent participated in board meetings in the last three months. Regarding board meetings, 93 percent of companies had at least four meetings in a year. Board meetings are significantly different for PSU versus private companies, industry sector and social performance score. Board meetings also considerably influence firm performance, so *null hypothesis* $H_{042}$ is not supported.

  This implies that the number of board meetings that reflect effective corporate governance impacts the business's financial performance. It should be a critical factor to be implemented in organisations as it directly impacts the financial and social performance of the company. This will also affect the business sustainability.

- **Audit committee** –Audit committee plays a vital role in bringing trust, transparency, and accountability and measures business efficiency. The

number of members, independent members in the audit committee and frequency of meetings are essential aspects of the committee.

Concerning audit committee composition and meeting frequency, it is found that 53 percent of companies have a publicly available charter, meet more than four times in the year, and all directors have finance expertise. Regarding the information regarding robust and internal audit framework, only 40 percent of companies have disclosed internal audit reports to the audit committee directly and have internal audit charter. The audit committee is found to be significantly different for private vs PSU companies. This indicates that PSU has a different style of managing their audit committee in terms of number of members in their audit committee compared to private sector companies. The number of independent directors in the audit committee was not significantly related to any of the demographic variables including age, private vs PSU, MNC vs. Nationally-located, ownership, industry sector, corporate governance practices, and social performance score.

The results indicate that the audit committee members are not influenced by the demographic factors related to the company, and they are not related to corporate governance practices and social performance practices. But it has multiple indirect benefits of building trust and improving investors' perception of investors so is very important to achieve corporate governance practices followed by the company and for the long-term sustainability of the business.

- **Audit Quality and Transparency** –The quality of the financial statements issued by the company should reflect a "true and fair view" of the company. The statutory auditors audit the financial statements and certify if they indeed present a "true and fair view". In case of any concerns, the auditor gives a qualified opinion. Any concerns in the audit report impact the "true and fair view" of the financial statements/annual reports.

In the majority of the companies, that is 72 percent of the companies, and there is no emphasis of matter issued by the auditor. Regarding companies' transparency in disclosing financial performance quarterly, almost all the companies, 98 percent have met the global standards. For disclosure of segmental information, 35 percent have disclosed comprehensive information of all business segments. Regarding disclosure of non-financial information, 43 percent of companies have made detailed and meaningful disclosure. Results show that audit firm category, audit concern on financial statement and concerns of secretarial audit, are significant for private versus PSU companies and industrial sector.

Audit firm category impacts corporate governance characteristics like independent directors, gender diversity, and number of board meetings, CEO duality, concerns on financial statements and concerns of the secretarial auditor. Disclosure and transparency scores are also statistically significantly different for an external audit done by a big four or a non-big four audit firm. So choosing an audit firm that is big four or a non-big four firm is a decision that impacts the shareholder's perception about the company, transparency of

its disclosures in the financial statements. Price to earnings ratio, Price to book ratio, dividend yield ratio is found to be statistically significantly different for external audit.

Transparency in disclosure will not impact companies' governance practices and social performance score, but it will affect the stakeholder's perception. It is found that independent directors, number of board meetings held in a year, external audit firm, i.e., big four firm or non-big four, CEO duality, and concerns of the secretarial audit are found to be statistically significant different audit concerns in financial statements given by companies and secretarial concerns in financial statements. So if the auditor has shown some problem in the financial statement and has mentioned it in the audit report, it will also impact the stakeholder-related factor and the impact the company's book value. The company's financial performance, the replacement value, stakeholder-related factors, debt levels, earnings before interest, and tax are influenced by the level of corporate governance practices the transparency in financial statements.

This indicates that to improve corporate governance practices, firms should focus on bringing external auditors from respectable firms, focus on internal audit, secretarial audit, and fairness must be adopted in the audit process. This is a good governance practice.

- **Stakeholder Relationship and CSR Spending–**Stakeholder relationship committee is necessary for developing stakeholders' relationships. CSR spending has become mandatory for profitable companies in India.

  For stakeholder relationships**,** 32 percent of the companies meet at least four times a year, have two independent directors, and talk about stakeholder welfare. 28 percent of companies meet at least four times a year but do not fulfill the independent director requirement. Forty percent of the companies still do not have a Stakeholders' Relationship Committee. Regarding CSR spend and being a good corporate citizen, only four companies have not spent any amount on CSR activities; however, 27 companies have spent less than 2 percent of average profit for the last three years, and 69 companies have spent 2 percent or more on CSR activities.

  Stakeholder relations and corporate social responsibility are essential for long-term sustainability of the business. Indian companies should emphasise more on them.

- **Whistle-blowing –**Whistle-blower policy/mechanism allows everyone to raise red flags against the wrong going or unethical practices within an organisation, without the fear of disclosing their identity. Whistle-blowing helps an organisation to maintain an open and transparent culture in an organisation.

  Regarding effective whistle-blower mechanisms for stakeholders and filing complaints, only 53 percent of the companies have an effective whistle-blower policy covering all stakeholders. Forty-four percent of companies have a

whistle-blower policy for employees but not for external stakeholders. Seventy-nine percent of the companies have formulated a policy for investor grievances and address them through an escalation mechanism.

Indian companies should focus on bringing transparency and protecting the rights of all stakeholders through an effective whistle-blowing policy.

- **Succession planning** –The current and future of an organisation depends on the quality of a leader. To avoid any leadership gap and ensure the continuous performance of the company, it is essential to develop a leader's pipeline. An improper succession planning can result in deficiency in internal control, material weakness, misstatement of financial reporting.

  Regarding succession planning for directors and senior leaders, 45 percent of companies have designed succession plans for both groups. Nineteen percent of companies have developed succession plans either for directors or senior leaders, whereas 22 percent of companies still have not mentioned succession planning. On disclosure on succession planning, 17 percent of companies have shown evidence about a detailed framework on succession planning.

  Succession planning is an innovative initiative that will enhance good governance and help in the long-term sustainability of the business. Indian companies should learn about better practices on succession planning,

- **Director Remuneration** –Director Remuneration should be based on the efficiency of the business and their contribution. There should not be any agency conflict arising for the remuneration structure of the BoD.

Related to the remuneration of executive directors and its alignment with performance, 62 percent of the Indian companies pay their executive directors variable pay through which combines incentives. In 34 percent of companies' three-year growth in aggregate pay, is neither higher than growth in profits nor growth in revenues. For stock option schemes, 86 percent of companies have issued stock options at market price. Further, 9 percent of companies have given a discount on stock options to employees.

Fair, transparent and effective remuneration policy should be designed for the top management of Indian companies.

- **Filing of Corporate Reports and Transparency** –Quality of company fillings and their timely availability are among the most critical factors of good governance. Technically, the company's filings are the only media of information transfer to its stakeholder, including the minority shareholders. SEBI (LODR) has also directed company's to develop an extensive related party transaction policy since it represents a severe risk of conflict of interest.

For related party transactions, all the companies have an RPT policy, but 81 percent of companies have a comprehensive RPT policy that defines the ordinary course of business, the materiality of transactions, and 19 percent of companies do not have a complete RPT policy. The availability of detailed minutes or transcripts of the previous AGMs, 53 percent company's meetings is available online. However, 43 percent of companies have made reasonable disclosure through minutes of the meetings, and four percent have not

disclosed anything. Almost all the companies meet international standards concerning the disclosure of voting details and invalid votes. For information on the company website,41 percent of companies have accessible, accurate, and comprehensive information. Regarding the investor relations team and contact detail, 46 percent of the companies have disclosed the name and contact details on their website. The majority of the companies, 87 percent, has disclosed information regarding senior executives and revealed information regarding their roles. The experience of board members and senior executives have been disclosed by 43 percent of companies. All companies have revealed details about independent directors in the annual report.

The quality and the quantum of information available in the company's fillings directly determine the level of awareness of the stakeholders. Timely information delivery is also a crucial factor of Corporate Governance. Indian companies are making good disclosure, but they should further improve in the filing of corporate reports.

- **Conflict Resolution and Agency Relationship** – Conflict between top management and other levels of organisation impacts long-term and short-term business performance. In India, there have been various instances where conflict of interest has arisen on different aspects of business like the Tata-Mistry case, the conflict between Ambani brothers, N.R.Narayana *Murthy*and Infosys differences on corporate governance.

For policies and procedures to facilitate disclosures of conflicts of interest by stakeholders, almost all companies disclose about it. However, only 33 percent of companies cover all stakeholders, including suppliers and vendors. This implies that though the majority of the companies are complying with the law, there is great scope for improvement since only 1/3rd of the companies cover all their stakeholders. Out of NIFTY 100 Companies that had undertaken M&A, restructuring, or slump sales, the majority of the Companies (27 percent) had disclosed ample details, including fairness opinion.

There is a lot of scope for improvement on conflict resolution in Indian businesses. A framework and proper implementation of policy on full disclosure and conflict resolution are important for the business. Indian companies should implement good governance practices as it will solve agency problems, and big scams like Satyam Scam, ICICI bank scam will be avoided.

- **Employee welfare and Stakeholder Management –** Suppliers and employees are among the most critical stakeholders for any business concern. Good relations and reputation with suppliers ensure an ongoing and hassle-free business, while on the other hand, good employer-employee relations and practices ensure that the employee will focus on company growth and operate effectively and efficiently. The company's dedication to excellent ethical procedures and anti-corruption and anti-bribery policies has a direct impact on supplier and employee wellbeing.

The majority of the Indian companies are closer to international standards of corporate governance and provided information on the health, safety, and welfare of employees along with detailed policies. However, 27 percent of companies did not have such policies and only disclosed information on the welfare of employees. The majority of the companies have displayed their policies regarding both supplier and contractor selection. The majority of the companies have made their ethics policy available on their website for an ethical code of conduct. However, only 38 percent of companies have mentioned anti-corruption and bribery measures.

Therefore, good governance practices require that the company disclose its policies and mechanism to publicly speak about employees' welfare. Supplier selection and management procedures must also be transparent with adequate policies in place. This will bring long-term sustainability to organisations.

- **Corporate Social Responsibility** –Corporate social responsibility score is measured by social performance score. CSR activities are now mandatory for companies to undertake, but it also provides multiple benefits in terms of serving back the society, improving brand image and goodwill, fulfilling UN SDG framework, making the society and country grow, and overall leading to sustainability.

Results of the study reveal that companies within the 50–75-years age group contribute more towards CSR activities than other age groups. PSUs have better social performance scores as compared to private sector companies.

MNCs have better CSR scores as compared to nationally-located status. Promoter-owned companies contribute more in social performance. Industrial-sector-wise classification shows that CSR scores are highest for the materials, industrials, and consumer staples sectors. As per the relationship of corporate governance practices with social performance scores, companies with fair corporate governance practices and good corporate governance practices have better social performance than other groups. The social performance score of companies impacts the stakeholder-related factor. Social performance impacts Beta, Return on equity, Return on sales ratio, Dividend yield ratio, and CSR spend ratio.

Indian companies should contribute to society and adopt CSR practices in letter and spirit as it will help in the long-term sustainability of business, help solve societal problems. It will help India achieve its Sustainable Development Goals.

### 7.2.2 For Investors

Investors are important stakeholders of a company. Corporate governance practices followed by companies directly impact them. The study presents the following suggestions to investors.

- **Analysing Important Financial Ratios** –Investors are interested in identifying companies that can provide them with investment growth. The study has analysed various financial ratios that can reflect the financial performance along with inputs from good governance practices.

Good corporate governance of companies impacts market capitalisation and few other important variables like industry sector, ownership, Enterprise value, Price to earnings ratio, CSR spend, Tobin's Q, Beta and Total debt ratio, and Return on equity. Long term impact of corporate governance is visible on Earnings before Interest and Tax (EBIT), Dividend yield of the company, Earning per share, and closing price.

These ratios have emerged as important ratios that can help investors make investment decisions based on good governance practices that companies follow.

• **Role of Demographic factors** – Investors are keen to understand the demographic differences in companies that can impact financial performance and where differences exist in terms of corporate governance practices.

The results show that corporate governance score is impacted by the MNC vs. nationally-located status of companies. Age significantly matters concerning disclosure and transparency scores where it was found that young companies have better disclosures and for the responsibilities of the board old companies have performed better which was from the age category of 50-75 years the disclosure and transparency scores also differ between the private sector companies and PSU. Industrial sector-wise classification has indicated that companies that belong to utility, consumer staples, financials, and IT sector significantly differ for the board's disclosure and transparency scores and responsibilities. The companies which belong to promoter-owned and

institutional-owned categories have significantly different disclosures and transparency scores and responsibilities of the board. NIFTY 100 sample companies follow leadership (4 percent), good (42 percent), fair (47 percent), and basic (7 percent) corporate governance practices. Based on its relationship with demographic characteristics-wise differences, it has been found that the ownership status of companies has a significant impact on corporate governance practices. Overall it can be concluded from the above analysis that MNC vs nationally-located status, industry sector-wise differences, ownership characteristics do affect the corporate governance practices of Indian companies. Thus, the company's ownership structure, private sector or PSU and MNC status of companies can be important factors to observe before investing in any company.

- **Good Governance Characteristics – S**hareholders and investors in the stock market should study the following aspects. while evaluating companies that follow good governance practices

Governance characteristics like board independence, gender diversity, board meetings, CEO duality, and the number of members in the audit committee are critical variables that influence the firm performance measured by the Return on assets of companies. These corporate governance characteristics have an impact on improving the financial performance of companies along with social performance.

When investors decide about investing in good governance characteristics, they should look at independent directors, women directors, CRO duality, members of the audit committee to assess the governance level of the company. These variables significantly impact the financial performance of the company.

- **Star Performers of Corporate Governance –** The study reveals the following best-performing companies in corporate governance. Out of private sector companies and PSUs, Cipla Ltd. has the highest corporate governance score, Infosys Ltd. got second rank, Kotak Mahindra Bank Ltd., which are private sector companies. The highest score of PSUs is of Oil and Natural Gas Corporation Ltd. has scored the highest, followed by SAIL Ltd., GAIL India Ltd., Oil India Ltd. Thus, we can conclude that private sector companies have better CG scores as compared to PSUs.

- **Portfolio Diversification-** Investors should always keep their investment portfolio diversified, which help them manage systematic risk. The study concludes that industrial sector-wise classification of companies shows the difference in corporate governance practices, governance characteristics, and financial performance. This proves that investors will use sector-wise classification as a criterion for portfolio diversification that can help them cover risk and earn abnormal returns from the market.

- **Fundamental Analysis –** Fundamental analysis is an important technique to decide about long-term investment. The fundamental analysis includes analysing the annual report for financial ratios and reading the business

responsibility report and corporate governance report. Since, the results prove that corporate governance impacts company financial performance, the analysis of these reports will also give an idea of companies' sustainability.

- **Knowing about Shareholders' Rights** –As investors and shareholders, knowing your rights and privileges is necessary. Corporate governance provides a framework for protecting the rights of shareholders. Companies disclose investors'- grievance resolution, investor contact details, voting rights, minority interests, and dividend payouts on their websites. Companies are also facilitating shareholder participation and providing proxy and e-voting facility, without fail. Effective risk management framework, transparent disclosures of the shareholding pattern and transparent dividend policy are essential of corporate disclosures.

The majority of the companies (75 percent) have disclosed information regarding the risk management framework that outlines the mitigations measures. Ninety-four percent of the companies have met the global standards and disclosed information regarding the shareholding of the board members and key managerial persons. As far as the disclosure of information regarding dividend policy is concerned, 43 percent of companies have shown their approved dividend policy and payout ratio on their website.

The good governance practices and norms framed for Indian companies promote a safe environment for the shareholders to have a long-term association with companies.

## 7.3   Conclusion and Scope for Future Research

The present study on corporate governance aimed to understand companies' practices and norms about India's corporate governance framework. The study also analyses the relationship of corporate governance with the financial performance and social performance of companies. The results reveal that corporate governance is practiced by all the sample NIFTY 100 Indexed companies is fairly good. But there is a difference in following these practices in letter and spirit. Indian companies are found to be following practices governance norms that are not up to global standards. The reason may be that companies do not realize the benefits good governance practices will offer in terms of improving the financial performance and will make organisations sustainable in the long run. The study found that corporate governance significantly impacts the financial performance of companies. The long-term performance of a company is also considerably affected by corporate governance practices followed by the company.

There is much scope for future research on a similar subject as this subject evolving every day. A similar study can be carried out by taking from data from all listed companies, including mid-cap companies, small-cap companies, and MSMEs. There can be a comparative study on corporate governance practices of Indian and international companies across the world. The topic can be further researched by analyzing the impact of corporate governance on the long-term performance of companies with cross-sectional data.

Good governance is not only crucial for corporations, but also for the society and the nation as whole. There's a growing recognition that there is a close relationship among CG, FP, and social responsibility and optimum use of national resources.

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# Annexures

## Annexure-I List of NIFTY 100 Companies

| Number | Name of Firms |
|---|---|
| 1 | ABB India Ltd. |
| 2 | ACC Ltd. |
| 3 | Adani Ports and Special Economic Zone Ltd. |
| 4 | Aditya Birla Capital Ltd. |
| 5 | Ambuja Cements Ltd. |
| 6 | Ashok Leyland Ltd. |
| 7 | Asian Paints Ltd. |
| 8 | Aurobindo Pharma Ltd. |
| 9 | Avenue Supermarts Ltd. |
| 10 | Axis Bank Ltd. |
| 11 | Bajaj Auto Ltd. |
| 12 | Bajaj Finance Ltd. |
| 13 | Bajaj Finserv Ltd. |
| 14 | Bandhan Bank Ltd. |
| 15 | Bank of Baroda |

| 16 | Bharat Electronics Ltd. |
|---|---|
| 17 | Bharat Heavy Electricals Ltd. |
| 18 | Bharat Petroleum Corporation Ltd. |
| 19 | Bharti Airtel Ltd. |
| 20 | Bharti Infratel Ltd. |
| 21 | Biocon Ltd. |
| 22 | Bosch Ltd. |
| 23 | Britannia Industries Ltd. |
| 24 | Cadila Healthcare Ltd. |
| 25 | Cipla Ltd. |
| 26 | Coal India Ltd. |
| 27 | Colgate Palmolive (India) Ltd. |
| 28 | Container Corporation of India Ltd. |
| 29 | Dabur India Ltd. |
| 30 | DLF Ltd. |
| 31 | Dr. Reddy's Laboratories Ltd. |
| 32 | Eicher Motors Ltd. |
| 33 | GAIL (India) Ltd. |

| 34 | General Insurance Corporation of India |
|----|----------------------------------------|
| 35 | Godrej Consumer Products Ltd. |
| 36 | Grasim Industries Ltd. |
| 37 | Havells India Ltd. |
| 38 | HCL Technologies Ltd. |
| 39 | HDFC Bank Ltd. |
| 40 | HDFC Standard Life Insurance Company Ltd. |
| 41 | Hero MotoCorp Ltd. |
| 42 | Hindalco Industries Ltd. |
| 43 | Hindustan Petroleum Corporation Ltd. |
| 44 | Hindustan Unilever Ltd. |
| 45 | Hindustan Zinc Ltd. |
| 46 | Housing Development Finance Corporation Ltd. |
| 47 | I T C Ltd. |
| 48 | ICICI Bank Ltd. |
| 49 | ICICI Lombard General Insurance Company Ltd. |
| 50 | ICICI Prudential Life Insurance Company Ltd. |
| 51 | Indiabulls Housing Finance Ltd. |

| 52 | Indian Oil Corporation Ltd. |
|----|------|
| 53 | IndusInd Bank Ltd. |
| 54 | Infosys Ltd. |
| 55 | InterGlobe Aviation Ltd. |
| 56 | JSW Steel Ltd. |
| 57 | Kotak Mahindra Bank Ltd. |
| 58 | L&T Finance Holdings Ltd. |
| 59 | Larsen & Toubro Ltd. |
| 60 | LIC Housing Finance Ltd. |
| 61 | Lupin Ltd. |
| 62 | Mahindra & Mahindra Ltd. |
| 63 | Marico |
| 64 | Maruti Suzuki India Ltd. |
| 65 | Motherson Sumi Systems Ltd. |
| 66 | MRF Ltd. |
| 67 | NHPC Ltd. |
| 68 | NMDC Ltd. |
| 69 | NTPC Ltd. |

| 70 | Oil & Natural Gas Corporation Ltd. |
|----|-----|
| 71 | Oil India Ltd. |
| 72 | Oracle Financial Services Software Ltd. |
| 73 | Petronet LNG Ltd. |
| 74 | Pidilite Industries Ltd. |
| 75 | Piramal Enterprises Ltd. |
| 76 | Power Grid Corporation of India Ltd. |
| 77 | Procter & Gamble Hygiene & Health Care Ltd. |
| 78 | Reliance Industries Ltd. |
| 79 | SBI Life Insurance Company Ltd. |
| 80 | Shree Cement Ltd. |
| 81 | Shriram Transport Finance Co. Ltd. |
| 82 | Siemens Ltd. |
| 83 | State Bank of India |
| 84 | Steel Authority of India Ltd. |
| 85 | Sun Pharmaceutical Industries Ltd. |
| 86 | Sun TV Network Ltd. |
| 87 | Tata Consultancy Services Ltd. |

| | |
|---|---|
| 89 | Tata Motors Ltd. |
| 90 | Tata Steel Ltd |
| 91 | Tech Mahindra Ltd. |
| 92 | The New India Assurance Company Ltd. |
| 93 | Titan Company Ltd. |
| 94 | UltraTech Cement Ltd. |
| 95 | United Spirits Ltd. |
| 96 | UPL Ltd. |
| 97 | Vedanta Ltd. |
| 98 | Vodafone Idea Ltd. |
| 99 | Wipro Ltd. |
| 100 | Yes Bank Ltd. |
| 101 | Zee Entertainment Enterprises Ltd. |

# Annexure-II  CG Scorecard Questionnaire  by BSE, IFC and IiAS

| S.No | Parameters | Governance practice needs improvement Score: 0 | Governance practice is reasonable Score: 1 | Governance practice is closer to global standards Score: 2 |
|---|---|---|---|---|
| **Category I: Rights and equitable treatment of shareholders [Questions: 19; Weightage: 30%]** | | | | |
| 1. | Has the company taken steps to ensure that the basic rights of shareholders are clear and unequivocal? | There is evidence of violation of existing law | No specific steps taken by the company beyond compliance with the law | Company has taken steps to educate shareholders on their basic rights or has implemented measures to facilitate the exercise of shareholder rights |
| 2. | Did the previous AGM allow sufficient time for shareholder engagement? | There is no evidence of time provided | There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast | There was evidence of time being allocated for shareholder engagement in the minutes or the AGM webcast and the details of shareholder engagement/queries were provided |
| 3. | Can a minority shareholder, with less than 10% stake, propose an agenda item in a shareholder meeting? | No, shareholders, in aggregate, need to hold at least 10% stake to propose agenda items | | Yes, the company has taken steps to ensure that even shareholders who hold less than 10% stake (in aggregate) can propose any agenda item |
| 4. | Was there any evidence of combining multiple matters or issues in a single resolution? | Yes, there is evidence of multiple resolutions being clubbed together | Yes, only one resolution was clubbed | No, all matters were presented to shareholders through separate resolutions |

| 5. | Was shareholder participation facilitated for all shareholders at the previous AGM in the past one year? | No evidence of facilities/opportunities being provided | Yes, shareholders could submit questions in writing before the meeting | Yes, there is evidence of facilities being provided for shareholder participation through video-conferencing or tele-conferencing |
|---|---|---|---|---|
| 6. | Did the company provide proxy and e-voting facility for all shareholder meetings in the past one year? | Such facilities were not provided for all AGMs, EGMs and Postal Ballots | Such facilities were provided for all AGMs, EGMs and Postal Ballots, but not provided for Court Convened Meetings | Such facilities were provided for all shareholder meetings |
| 7. | Did all board members attend the previous AGM? | Either the Chairperson of the board, or the CEO, or the Chairperson of Audit Committee did not attend the meeting | The Chairperson of the board, the CEO and the Chairperson of the Audit Committee attended, but not all board members | The entire board attended |
| 8. | Did the external auditors attend and participate in the previous AGM? | There is no evidence of auditor attendance at the AGM | Yes, the auditors attended the AGM | The auditors attended and provided their views on the financials and the accounting practices adopted by the company |
| 9. | Within how many months of the fiscal year end was the last AGM held? | More than six months after the fiscal year end | Within four-six months of the fiscal year end | Within four months of the fiscal year end |
| 10. | Were any preferential warrants issued to the controlling shareholders in the past one year? | Yes, preferential warrants were issued | Yes, but preferential warrants were issued pursuant to a debt restructuring scheme | No preferential warrants were issued |

| 11. | Do the charter documents of the company give additional rights to certain shareholders? | The latest charter documents are not available or they give control related rights to certain non-controlling shareholders or give disproportionate voting power (in any form) to the controlling shareholders | The latest charter documents are available and certain non-controlling shareholders only get board-nomination rights or transaction related rights | The latest charter documents do not have any clauses which give additional rights (in any form) to any non controlling shareholder or give disproportionate voting power (in any form) to the controlling shareholders |
|-----|-----|-----|-----|-----|
| 12. | Does the company have a policy requiring all related party transactions (RPTs) to be dealt only by independent non conflicted board members? | No, or the policy is not disclosed | Yes, but the decision on whether the director must abstain is left to the discretion of the Chairperson or the board | Yes, there is a policy for abstention from the decision- making process (including discussions) |
| 13. | Does the company have in place a system, including policies and procedures, to facilitate disclosures of conflicts of interest by stakeholders? | No, or the policies are not disclosed | Yes, the policies clearly list out the process for stakeholders to disclose their conflicts of interest but does not cover suppliers and vendors | Yes, the policy clearly lists out the process for all stakeholders to disclose their conflicts of interest |

| 14. | Did the company undertake any related party transaction in the past three years, which may have been prejudicial to the interests of minority shareholders? | Yes, the company had related party transactions which could be prejudicial to the interests of minority shareholders | | No, the company did not have any related party transactions which could be prejudicial to the interests of minority shareholders |
|---|---|---|---|---|
| 15. | Does the company pay out disproportionately high royalty to its group entities? | Yes, the royalty payout is high compared to net profits and growth in profitability | Yes, the royalty payout is either high compared to net profits or growth in profitability | No, the royalty payouts were not disproportionate |
| 16. | In the past, has the company (or its subsidiaries) provided financial assistance to promoter entities which had to be written off or unlikely to be recovered? | Yes, some loans/investments have been written off or classified as doubtful | | No loans/investments have been written off or classified as doubtful |
| 17. | Has the company been transparent while undertaking any M&A, restructuring, or slump sale? | No, there have been instances where the fairness opinion was not disclosed for a transaction | Yes, but only to a limited extent - it has always disclosed the fairness opinion, but has not disclosed the independent valuation report for some transactions | Yes, the company has always conducted and publicly disclosed the fairness opinion and the independent valuation report |

| 18. | Does the company have a policy to publicly disclose the reasons for pledging of shares by the controlling shareholders? | No, the reasons for pledging are not disclosed publicly | | Yes, the company has provided reasons for pledging of shares by the controlling shareholders |
|---|---|---|---|---|
| 19. | Is there evidence of structures or mechanisms that have the potential to violate minority shareholder rights? | Yes, there is evidence of a structure/mechanism that could violate minority shareholders' rights | | No, there is no evidence of any structure/mechanism that could violate minority shareholders' rights |
| **Category II: Role of stakeholders [Questions: 9; Weightage: 10%]** | | | | |
| 20. | Is the company committed towards developing stakeholder relationships? | There is no Stakeholders' Relationship Committee, or it meets less than 4 times a year | The committee meets at least 4 times a year, but has less than 2/3 independent directors | The committee meets at least 4 times a year, has at least 2/3 independent directors, and there is mention of importance of stakeholders in company documents |
| 21. | Does the company have publicly disclosed policies and/or mechanisms to address the health, safety, and welfare of employees? | The policies are not publicly disclosed and the company has not provided information on the number of employee accidents and sexual harassment incidents | The policies are publicly disclosed or the company has provided information on the number of employee accidents and sexual harassment incidents | The company has provided information on the number of employee accidents and sexual harassment incidents and has publicly disclosed its health, safety and sexual harassment policies |

| | | | | |
|---|---|---|---|---|
| 22. | Does the company have in place policies and practices which explain its supplier/contractor selection and management processes? | Policies are not publicly available | Policies are publicly available either for supplier/contract or management or selection | Policies are publicly available for supplier/contractor management and selection |
| 23. | Has the company demonstrated commitment to protect the rights of its lenders, creditors, and suppliers? | The company has made delayed repayments to lenders | The company has made timely repayments to lenders, but has made delayed repayments to suppliers or to other creditors | Payments are made on time and there is no evidence of late payments to lenders, suppliers or to other creditors |
| 24. | Does the company demonstrate a commitment to strong ethical practices and is clearly anti-corruption and anti-bribery? | No ethics policy evident or publicly available | Ethics policy is publicly available but it does not mention anti-corruption or anti-bribery measures | Ethics policy is publicly available on website and the policy mentions the company is against any form of corruption or bribery |
| 25. | Does the company demonstrate its commitment to being a good corporate citizen? | The company has not spent any amount on CSR in the past one year | The company has spent on CSR, but the CSR spend is less than 2% of average profits for the last three years | The company's CSR spend is at least 2% of average profits for the last three years |
| 26. | Does the company have processes in place to implement and measure the efficacy of its CSR programs? | The company does not have a CSR committee or the areas of CSR spending have not been disclosed | The company has a CSR committee and the areas of CSR spending have been disclosed, but the company has not disclosed details on CSR impact assessment | The company has a CSR committee, the areas of CSR spending have been disclosed, and the company has disclosed details on CSR impact assessment |

| 27. | Does the company have policies and processes in place to handle investor grievances? | The company does not have a policy or the policy is not disclosed publicly | There is a policy for handling investor grievances, but it does not provide any grievance escalation mechanism | There is a policy for handling investor grievances, which provides details on the grievance escalation mechanism |
|---|---|---|---|---|
| 28. | Does the company have an effective whistle-blower mechanism for stakeholders to report complaints and suspected or illegal activities? | There is no disclosed mechanism or policy | There is an effective whistle-blower policy for employees, but it does not cover external stakeholders | There is an effective whistle-blower policy which covers all stakeholders, including employees, customers, vendors and suppliers |

**Category III: Role of stakeholders [Questions: 23; Weightage: 30%]**

| 29. | Does the company have a policy for determining and disclosing material information? | There is no policy or the policy is not publicly disclosed | There is a policy for determining and disclosing material information, but there have been cases in the past three years where the disclosures have not been timely | There is a policy for determining and disclosing material information and the company has made timely disclosures in the past three years |
|---|---|---|---|---|
| 30. | Have there been any concerns on the financial statements in the past three years? | Auditor has issued a qualified opinion or the financial statements have been restated or the auditor has resigned due to differences in accounting opinion | Auditor has raised an emphasis of matter | Auditor has issued an unqualified opinion without any matter of emphasis |

| 31. | Is the company transparent in disclosing financial performance on a quarterly basis in the past one year? | The company has not disclosed financial performance for all the past four quarters | The company has not disclosed either standalone or consolidated financial performance in any one of the past four quarters | The company has disclosed both standalone and consolidated quarterly financial performance for each of the past four quarters |
|---|---|---|---|---|
| 32. | Is the company transparent in disclosing segmental information? | The company has not disclosed financial information on some business segments | The company has disclosed financial information on all business segments, but other segment related information is not comprehensive | The company has disclosed comprehensive information on all business segments |
| 33. | Is the company transparent in disclosing non-financial information? | The company has not disclosed meaningful information on nonfinancial parameters | The company has provided information on some non-financial parameters, however all have not been disclosed | The company has disclosed meaningful information on all nonfinancial parameters |
| 34. | Does the company provide comprehensive disclosures on its foreseeable risks? | The company does not have a risk management framework or it is not disclosed | There is a disclosed risk management framework which outlines the risks but no mitigation measures are provided or they are generic | Both risks and mitigation measures have been clearly outlined |
| 35. | Has the company developed and disclosed a comprehensive related party transaction (RPT) policy? | The company does not have an RPT policy or has not disclosed it | The company has an RPT policy as required under regulations but it is not comprehensive | The company has a comprehensive RPT policy |

| 36. | Did the company provide timely, accessible and comprehensive information for all shareholder meetings in the past one year? | Information was neither timely nor accessible for some meetings | Information was timely and accessible for all meetings but not sufficiently comprehensive | Information was timely, comprehensive and accessible for all meetings |
|---|---|---|---|---|
| 37. | Are the detailed minutes or transcripts of the previous AGM publicly available? | The company has not disclosed meeting minutes within 7 days of the meeting or they are not detailed | The company has disclosed the meeting minutes and they are reasonably detailed | The entire transcript or webcast of the meeting is publicly available |
| 38. | Did the company disclose voting results for each shareholder category for all resolutions proposed in the past one year? | Voting details of each shareholder category were not disclosed (within 48 hours) for some or all resolutions | Voting details of each shareholder category were disclosed for all resolutions, but the reasons for rejection of invalid votes were not disclosed | Voting details of each shareholder category were disclosed, along with the reasons for rejection of invalid votes |
| 39. | Is the company transparent in disclosing its shareholding pattern? | The shareholding pattern is not disclosed on a quarterly basis or the latest annual report does not list out the top 10 shareholders | Either the quarterly shareholding pattern filings have not been made or the latest annual report does not list out the top 10 shareholders | The quarterly shareholding pattern filings have been made and the latest annual report lists out the top 10 shareholders |
| 40. | Is the shareholding of individual board members and key managerial personnel (KMP) disclosed in the latest annual report? | The shareholding has not been disclosed for the board members, nor for KMPs | Shareholding for either board members or KMPs has been disclosed | Shareholding for board members as well as KMPs has been disclosed |

| 41. | Has the company articulated a dividend policy for its shareholders? | Dividend policy is not publicly available or does not specify a target payout ratio | The policy is publicly available and specifies a target payout ratio, but the policy is not approved by shareholder | The policy is publicly available, specifies a target payout ratio and is approved by shareholders |
|---|---|---|---|---|
| 42. | Is the information on the company website comprehensive and accessible? | The information is not accessible or is inaccurate | Information is accessible and accurate, but is not comprehensive | Information is accessible, accurate, and comprehensive |
| 43 | Does the company have a dedicated investor relations team/person whose contact details are publicly available? | No details provided on any nominated team/person | The names of the individuals are disclosed, but no contact details are available | The names of the individuals are disclosed and their contact details available on the website |
| 44. | Does the company provide any information about the independence, competence and experience of the external auditor? | The company has not disclosed any details on the auditors and such information is not publicly available | The company has not disclosed any details on the auditors, but such details are publicly available on the auditors' website | The company has disclosed the details on the competence and experience of the auditor and has also provided an evaluation criteria for determining auditor independence |
| 45. | Has the company periodically rotated its auditors (firm and partner)? | Audit firm tenure > 10 years | Audit firm tenure < 10 years but audit partner > 5 years | Audit firm tenure < 10 years and audit partner < 5 years |

| 46. | Does the latest annual report contain a statement confirming the company's compliance with the regulatory requirements on corporate governance? | There is no statement regarding compliance with regulatory requirements on corporate governance | There is a statement, but no reasons (or generic reasons) have been provided for noncompliance (if any), neither have the steps taken for compliance in the future been outlined | There is a statement and the detailed reasons have been provided for non-compliance (if any), along with the steps taken for compliance in future periods |
|---|---|---|---|---|
| 47. | Has the company identified its senior executives and their responsibilities? | The senior executives have not been identified | The senior executives have been identified, but their roles have not been clearly stated | The senior executives have been identified and their roles have been clearly stated |
| 48. | Has the company disclosed the experience of each board member and senior executives? | Neither for board members, nor for senior executives | Only for board members, but not for senior executives | For both board members and senior executives |
| 49. | Has the company clearly identified its independent directors in the annual report and on its website? | No, the company has not made any distinction of independent directors in the annual report | | Yes, independent directors are clearly identified and disclosed in the annual report |
| 50. | Does the company fully disclose the process and criteria used for appointing new directors? | Neither the process nor the criteria are disclosed | Either the process or criteria are disclosed | Both the process and criteria are disclosed |

| 51. | Does the company disclose details on its training, development and orientation programs for directors? | No, there is no disclosure in the public domain | A detailed framework is not disclosed or there is no information on the training programs conducted in the previous year | A detailed framework is disclosed, along with details on the training programs for the year |
|---|---|---|---|---|
| **Category IV: Responsibilities of the board [Questions: 19; Weightage: 30%]** | | | | |
| 52. | Are all directors fully engaged in company matters and committed to corporate governance? | There are some directors with less than 75% average attendance in board meetings in the past three years | All directors have at least 75% average attendance in board meetings in the past three years | All directors have 100% attendance in board meetings in the past three years and there is evidence of commitment to corporate governance in company documents and director statements |
| 53. | Does the board meet sufficiently to exercise due diligence? | The board met less than four times in the past year | The board met four times in the past year | The board met more than four times in the past year |
| 54. | Is there separation of roles between the Chairperson and the CEO? | The roles are not separated or the Chairperson is an executive director | The roles are separated, but the Chairperson is a non-executive no independent director | The roles are separated and the Chairperson is independent |
| 55. | Does the board have sufficient skills, competence and expertise? | There is a director with less than 10 years of aggregate working experience (refer exceptions) or there is no non-executive director with prior working experience in the major industry the company operates | At least one nonexecutive director has prior working experience in the major industry the company operates, but there is insufficient breadth of expertise | At least one nonexecutive director has prior working experience in the major industry the company operates and the board has sufficient breadth of skill |

| 56. | Does the board have gender diversity? | There is no gender diversity | Yes, there is gender diversity, but all women directors are part of the promoter family | Yes, there is gender diversity, and not all women directors are part of the promoter family |
|---|---|---|---|---|
| 57. | Does the company have adequate independent representation on the board? | Independent representation is below regulatory requirements | There is adequate independent representation as per regulatory requirements | There is better-than adequate independent representation and for directors with a tenure of more than 10 years, there is a process to affirm the continuing independence of the directors |
| 58. | Do the board committees have adequate independent representation? | Either size or independence norms for committees required under regulations are not met | Both the size and independence norms for committees required under regulations are met | Both the size and independence norms for all committees required under regulation are met and the audit committee and nomination and remuneration committee only comprise non-conflicted members |
| 59. | Is the audit committee effective in its composition and its meeting frequency? | The audit committee met less than four times in the past year or none of the directors meet eligibility criteria for audit committee members | The audit committee met at least four times in the past year and at least one director has sufficient accounting/ financial expertise but an audit charter is not available | The audit committee has a clear charter that is publicly available, has met more than four times in the past year and all directors have sufficient accounting/ financial expertise |

| 60. | Does the company have a strong and robust internal audit framework? | No disclosures on internal audit framework | No disclosures on internal audit framework but the internal audit function reports to the audit committee | The internal audit function reports to the audit committee directly and there are detailed disclosures on internal audit charter |
|---|---|---|---|---|
| 61. | Were all resolutions proposed by the board to shareholders in the past one year accepted? | Some resolutions were defeated | No resolutions were defeated, but for some resolutions, majority of minority shareholders voted against | All resolutions in the last one year were accepted by majority of minority shareholders |
| 62. | Is there evidence to show that the company, directors or its key managerial personnel (KMP) have violated normally expected ethical/ behavioural norms? | The company / directors / KMP have been penalized by any regulatory authority in the past three years | There have only been some procedural or administrative violations | No, neither the company nor its directors nor its KMPs have been fined or penalized by any regulatory authority in the past three years |
| 63. | Does the remuneration structure for executive directors align pay with performance? | There is no information on variable pay | The executive directors are given variable pay through short term incentives | Variable pay is given through both short term and long term incentives |
| 64. | Has executive director(s) pay been aligned to company performance in the last three years? | Three-year growth in aggregate pay is higher than growth in profits and growth in revenues | Either of the above two conditions are triggered | Three-year growth in aggregate pay is in line/ lower than growth in profits and growth in revenues |

| | | | | |
|---|---|---|---|---|
| 65. | If the company has a stock option scheme, is the exercise price of the stock options fixed at a discount to market price? | Only options granted to board members were discounted | Discount given on stock options to all employees | The stock options were issued at market price |
| 66. | Is the CEO compensation commensurate with the company's size and performance? | Variable pay is less than 50% of overall pay or overall pay of the CEO is more than 5% of net profits | None of the two above conditions are triggered | Variable pay is more than 67% of overall pay and overall pay is less than 5% of net profits |
| 67. | Does the company have a succession plan for its directors and senior leadership? | There is no mention of succession planning in company documents | There is a succession plan either for directors or senior leadership | There is a succession plan for both directors and senior leadership |
| 68. | Are the disclosures on succession planning detailed? | There is no policy, or the policy is not publicly disclosed | Only a broad framework for succession planning is disclosed | A detailed framework for succession planning is disclosed |
| 69. | Is the board evaluation policy and process in place and effective? | No evaluation system in place or inadequate disclosures about board evaluation | There is a board evaluation system in place but no impact assessment is provided | A robust system for evaluation is publicly disclosed and there is an impact assessment which leads to a board improvement plan |
| 70. | Are board committees evaluated separately? | There is no separate evaluation of board committees | There is evidence of a review but the criteria for evaluation of committees is not disclosed | There is evidence of a review and the criteria for evaluation of committees is disclosed |

## Annexure-III Business Responsibility Report

| Princi ple | Corporate Social Reporting Index (as per Business Responsibility Reporting) | Criteria for Measurement |
|---|---|---|
| P1 | **Does Company publish Business Responsibility or Sustainability Report** | Yes=1/No=0 |
| P2 | **Business should conduct and govern themselves with Ethics, Transparency and Accountability(3 marks)** | |
| I | Does the company have policy relating to ethics, bribery and corruption? | Yes=1/No=0 |
| II | Has company received any stakeholder complaints in the past financial year ? | Yes=0/No=1 |
| III | Does company have pending stakeholders complaint? | Yes=0/No=1 |
| P3 | **Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle(2 marks)** | |
| I | Has company listed up to 3 products or services whose design has incorporated social or environmental concerns, risks and/or opportunities. | Yes=1/No=0 |
| II | Does the Company have a mechanism to recycle products and waste? | Yes=1/No=0 |
| P4 | **Businesses should promote the well-being of all employees(5 marks)** | |
| I | Does company make disclosure regarding women employees? | Yes=1/No=0 |
| II | Does company make disclosure regarding disabled employees | Yes=1/No=0 |
| III | Has company received any complaint pertaining to Child labor, forced labour, involuntary labour, sexual harassment, Discriminatory employment | Yes=0/No=1 |
| IV | Does company have an employee association that is recognized by management? | Yes=1/No=0 |
| V | Has company given safety and skill up-gradation training in the last year ? | Yes=1/No=0 |
| P5 | **Businesses should respect the interests of and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized(3 marks)** | |
| I | Has company mapped their internal and external shareholders? | Yes=1/No=0 |
| II | Has company disclosed if it has identified any disadvantaged, vulnerable and marginalized stakeholders? | Yes=1/No=0 |
| III | Are there any special initiatives taken by the Company to engage with the disadvantaged, vulnerable and marginalized stakeholders | Yes=1/No=0 |

| P6 | Businesses should respect and promote human rights(2 marks) | |
|---|---|---|
| I | Does the policy of the Company on human rights extend to the Group/Joint Ventures/ Suppliers/ Contractors/NGOs/Others? | Yes=1/No=0 |
| II | Has company received any complain pertaining to human rights violation during the past financial year. | Yes=0/No=1 |
| P7 | Business should respect, protect and make efforts to restore the environment(5marks) | |
| I | Does the Company have strategies/initiatives to address global environmental issues such as climate change, global warming, etc.? | Yes=1/No=0 |
| II | Does the Company identify and assess potential environmental risks? | Yes=1/No=0 |
| III | Does the Company have any project related to Clean Development Mechanism? | Yes=1/No=0 |
| IV | Are the emissions/waste generated by the Company within the permissible limits given by CPCB/SPCB for the financial year being reported? | Yes=1/No=0 |
| V | Has company received show cause/legal notices from CPCB/SPCB which are pending (i.e. not resolved to satisfaction) as on end of financial year? | Yes=0/No=1 |
| P8 | Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner (1mark) | |
| I | Has company disclosed if it is a member of any trade and chamber or association? | Yes=1/No=0 |
| P9 | Businesses should support inclusive growth and equitable development (3 marks) | |
| I | Does the Company have specified programs / initiatives / projects in pursuit of the policy related to Principle ? | Yes=1/No=0 |
| II | Have you done any impact assessment of your initiative? | Yes=1/No=0 |
| III | Does the company make atleast 2% expenditure of the net average profit of last 3 financial year on CSR initiative? | Yes=1/No=0 |
| P10 | Businesses should engage with and provide value to their customers and consumers in a responsible manner(2 marks) | |
| I | Does company have pending consumer cases as on the end of financial year? (specify % also) | Yes=0/No=1 |
| II | Did your Company carry out any consumer survey / measure consumer satisfaction trends? | Yes=1/No=0 |