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.