Chapter-2

Review of Literature

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 **t**he 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.