



Governance-Led Corporate Performance

Theory and Practice

Apu Manna, Tarak Nath Sahu and Arindam Gupta

**GOVERNANCE-LED CORPORATE
PERFORMANCE**

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GOVERNANCE-LED CORPORATE PERFORMANCE: THEORY AND PRACTICE

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Contents

List of Tables	<i>ix</i>
List of Abbreviations	<i>xi</i>
About the Authors	<i>xiii</i>
Preface	<i>xv</i>
1. Conceptual Approach of Corporate Governance	1
1.1. Introduction	1
1.2. Corporate Governance and Its Various Dimensions	2
1.3. Corporate Governance Mechanisms	3
1.3.1. Ownership Structure	4
1.3.2. Board of Directors	5
1.3.3. CEO Characteristics	6
1.4. Theories of Corporate Governance	6
1.4.1. Agency Theory	6
1.4.2. Stewardship Theory	7
1.4.3. Resource Dependence Theory	8
1.4.4. Stakeholder Theory	9
1.4.5. Signalling Theory	9
1.4.6. Managerial Hegemony Theory	9
1.4.7. Political Theory	10
1.5. Motivation of the Study	10
1.6. Chapter Plan of the Book	11
2. Corporate Governance in India	13
2.1. Introduction	13
2.2. Three Historical Models and their Development Impact in India	14
2.2.1. The Managing Agency Model (1850–1956)	14
2.2.2. The Business House Model (1956–1991)	15
2.2.3. The Anglo-American Model (1992 to Date)	16
2.3. Features of Corporate Governance in India	17

2.4. Corporate Governance Codes in India	18
2.4.1. CII Code on Corporate Governance (1998)	19
2.4.2. Kumar Mangalam Birla Committee on Corporate Governance (1999)	20
2.4.3. Naresh Chandra Committee on Corporate Audit and Governance (2002)	21
2.4.4. Narayana Murthy Committee Report on Corporate Governance (2003)	22
2.4.5. Dr J. J. Irani Committee Report on Company Law (2005)	24
2.5. Corporate Governance and Legislations in India	25
2.5.1. Amendments to the Companies Act 1956	25
2.5.1.1. The Companies (Amendment) Act 2000	25
2.5.1.2. The Companies (Amendment) Act 2001	26
2.5.1.3. The Companies (Amendment) Bill (2003)	26
2.5.1.4. The Companies (Amendment) Bill (2008)	27
2.5.2. The Companies Act 2013	28
2.5.3. SEBI: Regulation of Capital Market	29
2.6. Good Governance Indicators	30
2.7. Summary	32
3. Literature Review	33
3.1. Introduction	33
3.2. An International Approach	34
3.3. A National Approach	48
3.4. Research Gap	51
3.5. Objectives of the Study	52
3.6. Research Hypotheses	53
4. Data and Methodology	55
4.1. Data	55
4.1.1. Data Source	55
4.1.2. Sample Selection Procedure	55
4.1.3. Study Period	56
4.1.4. Selection of Variables	56
4.1.4.1. Dependent Variables	56
4.1.4.1.1. Cash Earnings Per Share	56
4.1.4.1.2. Return on Capital Employed	57
4.1.4.1.3. Tobin's Q	57
4.1.4.1.4. Market Value Added	58
4.1.4.2. Independent Variables	58
4.1.4.2.1. Promoters' Shareholding	58
4.1.4.2.2. Institutional Investors' Shareholding	59
4.1.4.2.3. Board Size	59
4.1.4.2.4. Proportion of Executive Directors	59
4.1.4.2.5. Proportion of Independent Directors in Board	59

4.1.4.2.6. Multiplicity of Directorship	59
4.1.4.2.7. CEO Duality	60
4.1.4.2.8. CEO Tenure	60
4.1.4.3. Control Variables	60
4.1.4.3.1. Executive Remuneration	60
4.1.4.3.2. Size of the Firm	60
4.1.4.3.3. Growth in Profit After Tax	61
4.1.4.3.4. Debt Equity Ratio	61
4.1.4.3.5. Assets Turnover Ratio	61
4.2. Research Methodology	61
4.2.1. Statistical Methods Used	61
4.2.1.1. Descriptive Statistics	62
4.2.1.2. Bi-variate Data Analysis	62
4.2.1.3. Test for Multicollinearity	62
4.2.1.3.1. Detection of Multicollinearity Property	63
4.2.1.4. Test for Heteroskedasticity	63
4.2.1.5. Test for Autocorrelation	63
4.2.1.6. Panel Data Model	64
4.2.1.6.1. Advantages of Panel Data Model	64
4.2.1.6.2. Techniques of Panel Data Model	64
4.2.1.6.3. Constant Coefficient Method or Pooled OLS Method	64
4.2.1.6.4. FEM or Least Square Dummy Variable Regression Model	65
4.2.1.6.5. REM or Error Component Model	65
4.2.2. Scheme of Investigation	67
5. Analysis and Findings	69
5.1. Descriptive Statistics	69
5.2. Analysis of Bi-variate Correlation	71
5.3. Detection of Multicollinearity Property	72
5.4. Detection of Heteroskedasticity	72
5.5. Analysis of Multiple Regressions: Panel Data Model	74
5.6. Key Findings and Its Interpretations	82
5.6.1. Ownership Structure and Corporate Performance	82
5.6.1.1. Promoters Shareholding and Firm Performance	82
5.6.1.2. IINV and Firm Performance	84
5.6.2. BS, Composition and Corporate Performance	84
5.6.2.1. BS and Corporate Performance	84
5.6.2.2. EDs and Firm Performance	85
5.6.2.3. IDs and Firm Performance	85
5.6.2.4. MD and Firm Performance	86
5.6.2.5. CEO Characteristics and Performance	86
5.6.3. Control Variables and Corporate Performance	86

6. Summary and Conclusion	<i>89</i>
6.1. Summary	<i>89</i>
6.2. Conclusion	<i>90</i>
6.3. Contribution of the Study	<i>91</i>
6.4. Policy Recommendation	<i>92</i>
6.5. Limitations and Scope for Further Research	<i>92</i>
 Bibliography	 <i>95</i>
 Index	 <i>103</i>

List of Tables

Table 1.	Descriptive Statistics of Dependent, Independent and Control Variables	70
Table 2.	Bi-variate Analysis: Correlation Analysis	72
Table 3.	Correlation Matrix and VIF Values of Independent and Control Variables	73
Table 4.	Tests of Heteroskedasticity	74
Table 5.	Regression Results: Dependent Variable – ROCE	75
Table 6.	Selection of an Appropriate Model of Regression Analysis	76
Table 7.	Regression Results: Dependent Variable – CEPS	77
Table 8.	Selection of an Appropriate Model of Regression Analysis	78
Table 9.	Regression Results: Dependent Variable – TQ	79
Table 10.	Selection of an Appropriate Model of Regression Analysis	80
Table 11.	Regression Results: Dependent Variable – MVA	81
Table 12.	Selection of an Appropriate Model of Regression Analysis	82
Table 13.	Summarized Regression Results	83

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List of Abbreviations

ATR	Assets Turnover Ratio
BSE	Bombay Stock Exchange
BS	Board Size
BSC	Balanced Scorecard
CEO	Chief Executive Officer
CEO_DUA	CEO Duality
CEO_TEN	CEO Tenure
CEPS	Cash Earnings Per Share
CG	Corporate Governance
CVA	Cash Value Added
D/E	Debt and Equity Ratio
DPS	Dividend Per Share
DP	Dividend Payout
EPS	Earnings Per Share
ED	Executive Director
ER	Executives' Remuneration
EVA	Economic Value Added
FEM	Fixed Effect Model
ID	Independent Director
IINV	Institutional Investors' Shareholding
M-Cap	Market Capitalisation
MD	Multiplicity of Directorship
MVA	Market Value Added
PAT	Profit After Tax
<i>P/E</i> Ratio	Price Earnings Ratio
PS	Promoters' Shareholding
REM	Random Effect Model
RI	Residual Income
ROA	Return on Assets
ROCE	Return on Capital Employed
ROI	Return on Investment
SIZE	Size of the Firm
SEBI	Security Exchange Board of India
SR	Shareholder Return
SROI	Social Return on Investment
SVA	Shareholder Value Added

xii *List of Abbreviations*

TBR	Total Business Return
TSR	Total Shareholder Return
TQ	Tobin's Q
VIF	Variance Inflation Factor
WAI	Wealth Added Index

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Preface

The economic growth of any nation largely depends on the vitality of its industry and capital market at large. The responsibility of maintaining the health of the industry as well as capital market mostly depends on the efficiency and effectiveness of the controlling agencies of government and their implemented policies, practices, rules, regulations, etc. A major part in the subject of corporate governance deals with these issues and ensures their apt implementation in the business corporations. The industrial growth in India along with the development of corporate culture started after independence in 1947 but the expression 'corporate governance' remained in vogue until 1990. The concept of corporate governance and its problems are as old as the concept of a business corporation and especially the joint stock companies. It started gaining importance after experiencing a number of corporate scandals come out mainly after economic liberalisation. In India, the crucial need for corporate governance was first realised with the occurrence of Harshad Mehta's scam that was exposed in April 1992. During the last two decades along with many developed and developing economies, India also witnessed a number of serious cases of corporate misgovernance in a handful of joint stock companies. It was clearly indicating the nature and extent of corporate misgovernance that exists in those Indian companies.

In this context, the impact of corporate governance on corporate performance is gradually becoming a key area in research. Although a number of notable studies have been conducted to establish the relationship most of them typically focussed on developed economies and the effect of these corporate governance issues on the firm performance in emerging economies like India has got little attention. The results of earlier studies also provide contradictory findings. By considering the stewardship theory, some studies have suggested that larger board size is better for the firm, whereas by considering the agency theory some studies support small boards and less outsiders. Believing the resources dependency theory some studies have stated that large numbers of outsiders in the board help the organisation to get key resources for the organisation conveniently.

These contradictory findings of the earlier studies became the principal drive behind conducting this research work. This extensive research regarding the effect of corporate governance variables on firm performance in India addresses basic questions for specific areas viz., corporate board, ownership structure and chief executive officer characteristics. Findings of this study provide a comprehensive understanding of the dynamic relationship between corporate governance variables and corporate performance in Indian companies. It discusses the theoretical

hypotheses of this relationship and compares with empirical evidence as available from earlier research works. The present study is expected to add several primary contributions to the extant literature. Besides investors, findings of the study help an organisation to determine their policies regarding ownership structure and board composition. Again this study may also provide support to the corporate governance policy-making agencies of the country to provide recommendations regarding board size, independence of the board, multiplicity of directorship, etc.

Thus, such a study is worth undertaking in emerging economies like India, in view of the fact that the study contributes to managerial science by providing scientific elements through identification and validation of the effects of corporate governance variables on corporate performance.