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Impact of Corporate Governance on Corporate Financial Performance

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ABSTRACT:

Corporate governance is the new elevated-word in corporate world these days. It is observed as a moral duty. It involves endorsing the acquiescence of law in letter and spirit and representing decent conduct. The bond between corporate governance and financial performance has wedged wide consideration of researchers in the last period. Several researches have been conducted in past to study this linkage, but there has been absence of convincing indication. The results got from current researches have been assorted. In this paper, we attempt to examine the influence of corporate governance on corporate financial concert in an Indian framework, using a sample of 15 Banks listed on Nifty 50 Index. Various tests like –correlation, regression, t-test and F-test, annova have been achieved using secondary data over a period of five years from FY 2013-14 to FY 2017-18 to study this association.We find that governance scores have positive and substantial impact on corporate financial performance. But like any other research, the existing study is also subject to convincedrestrictions, which should be deliberated while using the consequences of this study and the forthcoming researchers should effort to daze these limitations.

KEYWORDS: Corporate Financial Performance, Corporate Governance, Business Ethics, Compliance Stakeholder Commitment.

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INTRODUCTION:

Corporate Governance in modest words means the scope to which companies are path in an exposed and authentic manner. The Cadbury Committee of U.K. in 2002 demarcated corporate governance as – the organization by which companies are focused and precise. The spirit of the business world lies in encouraging transparency and responsibility and in rewarding the fair prospects of all the stakeholders. Corporate governance is one such instrument to accomplish this goal and to precaution the interests of many stakeholder groups. It includesencouraging the obedience of law in letter and essence, and representativeprincipledcomportment. The context of corporate governance[2]inspiresknowledgeable use of possessionsand alsoneedsresponsibility for the stewardship of those possessions. The three key elements of corporate governance are - Board of Directors, Shareholders, and Management.

The part of corporate governance has attaineddelicatedevotion in the last period because of severaldistinguished corporate disgraces and downfalls. It is repeatedly said that corporate governance and value construction go indicator in hand. Unless a corporation squeezes and establishesmoral conduct, it will not be intelligent to succeed. Several researches have been showed to examine the relationship among corporate governance and financial performance, but the consequences have been assorted and indecisive.

OBJECTIVES OF THE STUDY:

The primary objective of this study is to evaluate the corporate governance practices in the banking sector of India. More specifically, the objectives of the study are:

1. To understand and evaluate the concept of corporate governance in the banking sector in India.
2. To analyse the acceptance and implementation of good corporate governance practices among the public sector banks and private sector banks in India.
3. To study the impact of corporate governance practices on stakeholders and employees satisfaction.

COMPONENTS OF CORPORATE GOVERNANCE:

3.1. ***Board Size:***The size of board is thought to have a substantial influence on firm's accomplishment; which is frequentlypragmatic to be positive.

3.2. ***Independence of Board from Management:***It is broadly believed that independent directors play a substantial role in monitoring and counselling the company's management. They are required to protection overall organizational and stakeholdersawareness.

3.3. Separation of CEO and Chairman: Conflict of interest, attentiveness of power and abridged board individuality are usually detected when the roles of CEO and Chairman of the board are exercised by the same individual.

3.4. Financial Expertise of Directors:Directors should be economically literate, so that they can better recognize the insinuations of decisions taken by management and thus, lead to better & operative controlling.

3.5. Number of Board Meetings**:** Board members should meet enough times. Very few assemblies show lack of interest on the part of Board, while too recurrent meetings indicate some worry in the organization.

3.6. Role of External Auditors:The peripheral auditor should be competent and independent enough to detect and report manipulations and frauds in corporate reports. Synchronized provision of both audit and non-audit services by outside auditors affects efficiency of audit. Amount of audit fees is also appropriate.

3.7. Committees of the Board**:** Board committees add to efficiency of board by working out better control over management decisions. These include –

3.7.1. Audit committee: High-profile corporate tricks have heightened the requirement for an effective audit committee. Regular meetings and individuality of audit committee can ensure integrity of corporate reports.

3.7.2. Remuneration committee: A board remuneration committee assistances in determining the suitable amount of remuneration for the top level executives like CEO.

3.7.3. Nomination committee: The nomination committee appraises the knowledge, skills, and expertise desirable to become a director and recognizes the suitable candidates.

LITERATURE REVIEW:

A good number of theoretic and observed researches on corporate governance disclosure have been assumed throughout the sphere due to the continuing importance on this.

Review of the standing literature used for this study is briefed as under. A inclusive study by Chakrabarti, Megginson, and Yadav[3] has sketched the expansion of the Indian corporate governance system and observed how this system has both maintained and detained back India's ascent to the top ranks of the world's economies. The authors of the study have initiate that while on paper, the background of the country's permitted system affords some of the best investor fortification in the world; execution is a major problem in view of the slow effective of the over-burdened judges and the widespread prevalence of fraud.

Additionally, ownership of enterprises remains strenuous in a few hands, and domesticbusiness groups continue to be the main business model. However, Chakrabarti, et al have also found that corporate governance in India does not associateunfavourably with that in any of the other major developing economies of the world, viz.China, Brazil and Russia.

Gupta and Parua[4] attempted to find out the degree of amenability of the Corporate Governance (CG) codes by private sector Indian companies listed in the Bombay Stock Exchange (BSE). Data regarding 1245 companies for the year 2004-2005 was taken for the study from the CG reports (which are contained within in the Annual Reports) of these companies and 21 codes (of which 19 are compulsory and 2 not-compulsory) were selected for study.

HYPOTHESIS:

Based on theoretic opinions and review of literature, the following hypothesis has been formulated: **(Null Hypothesis) Ho:** Governance rating of Bank has no effect on its financial performance. **(Alternate Hypothesis) H1:** Governance rating of Bankhas an effect on its financial performance.

RESEARCH METHODOLOGY:

Various tests like –t-test and F-test, skewness, Kurtosis, U Mann Whitney have been performed using IBM-SPSS Statistics software to investigate the impact of corporate governance on financial performance using secondary data. The average of data over a period of Five years from FY2013-14 to FY 2017-18 has been used for analysis.

SAMPLE SELECTION:

For the purpose of this research, researcher has selected the banks, which are considered for subtracting the Bombay Stock Exchange Banking Index, known as the Bankex, as on 1stJanuary, 2018. There were total 158 banks listed on this day. The list of all selected banks for research are given below in Table 1

Table1: Selected Banks for the Research

Sr. No.	BSE Scrip Code	Banks	PSB/ PVT*
1	500112	State Bank of India	PSB
2	532134	Bank of Baroda	PSB
3	532149	Bank of India	PSB
4	532483	Canara Bank	PSB
5	532461	Punjab National Bank	PSB
6	532477	Union Bank of India	PSB
7	500116	IDBI Bank	PSB
8	532480	Allahabad Bank	PSB
9	532276	Syndicate Bank	PSB
10	532179	Corporation Bank	PSB
11	500180	HDFC Bank	PVT
12	532174	ICICI Bank	PVT
13	532215	Axis Bank	PVT
14	532648	Yes Bank	PVT
15	500247	Kotak Mahindra Bank	PVT

*PSB-Public Sector Bank
PVT-Private Sector Bank

1. DATA ANALYSIS & INTERPRETATION:

Table-2 Financial &Non-Financial Index[5]

Sr.No.	Banks	**Financial**	**Non Financial**	**Total**
1	Bank of India	70	195	265
2	Punjab National Bank	70	194	264
3	IDBI Bank	70	194	264
4	State Bank of India	69	192	261
5	Union Bank of India	70	189	259
6	Bank of Baroda	70	185	255
7	Corporation Bank	65	173	238
8	Syndicate Bank	65	172	237
9	Allahabad Bank	60	168	228
10	Canara Bank	62	165	227
11	Axis Bank	70	195	265
12	Kotak Bank	70	190	260
13	ICICI Bank	70	185	255
14	Yes Bank	65	186	251
15	HDFC Bank	70	180	250

Table-3 Ranking of Banks for Corporate Governance Disclosure Index

Sr.No.	Banks	Total Score (Out of 275)	Ranking
1	Bank of India	265	14
2	Punjab National Bank	264	12
3	IDBI Bank	264	12
4	State Bank of India	261	11
5	Union Bank of India	259	9
6	Bank of Baroda	255	7
7	Corporation Bank	238	4
8	Syndicate Bank	237	3
9	Allahabad Bank	228	2
10	Canara Bank	227	1
11	Axis Bank	265	14
12	Kotak Bank	260	10
13	ICICI Bank	255	7
14	Yes Bank	251	6
15	HDFC Bank	250	5

TABLE – 4: Descriptive Statistics

N	15	15	15	15
Minimum	227.00	82.55	227.00	250.00
Maximum	265.00	96.36	265.00	265.00
Range	38.00	13.82	38.00	15.00
Mean	251.93	91.61	67.73	184.20
Median	255.00	-	70.00	186.00
Mode	-	-	70.00	-
StdDev	13.27	4.89	3.41	10.25
Skewness	(0.90)	(0.89)	(1.26)	(0.72)
Kurtosis	(0.52)	(0.56)	0.34	(0.84)

Significant at 5% level of Significance

The U-value is 23. The critical value of U at $p < .05$ is 8. Therefore, the result is not significant at $p < .05$.

Result 2 - Z-ratio

The Z-Score is -0.67361. The p-value is .50286. The result is not significant at $p < .05$.

U< critical value, therefore, we reject the null hypothesis and conclude that the there's no significant difference in Banks in average financial &non financial disclosure index.

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