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CORPORATE GOVERNANCE THE WEAPON TOWARDS CORPORATE REFORMS: AN INSIGHT INTO THE INDIAN CORPORATE SECTOR

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Abstract

The global financial crises of the corporate world in the past days have witnessed a serious failure in the governance of the entire corporate system. India also not left out of the scenario to be a victim of the heinous work done by some reputed persons to remember a day as a black day in our business calendar. Of late gone are those days, now it is the time to march towards a good governance and better accountability, transparency in the system to be a global player in the future days in the arena of corporate world. Although it is the task of the regulator, but the individual also be alert to be a part of the reform to provide a corruption free environment to the stakeholders of the society and also to clear a path for our future generation to live proudly.

Keywords: Corporate Governance, Financial Crisis, Accountability

I. INTRODUCTION

The enactment of a new legislation arises when there is a demand from the society appears. It never matters whether it is late or early or it has applied somewhere else, it matters that whether we are in capable of to adopt such new system or not. Similarly in the year 1998 our country initially has taken a step towards corporate governance to provide a better ecosystem to the stakeholders as well as to compete with the global standard. Definitely a new legislation is having some pros and cons; similarly our regulators also faced several problems at the time of enactment and also failed in some part of the corporate culture. But the effort never dies;

consecutively in the year *1999, 2003, 2009* the regulator along with the recommendations of the various committees drafted a fully-fledged corporate governance guideline for the corporate. Today whatever we are experiencing is the outcome of these day and night works of the regulators and also the committees. The Sarbanes-Oxley act 2002 enacted in US for the protection of the shareholders and the general public from accounting errors and fraudulent practices in the enterprises creates awareness among the neighboring countries to follow the practice to ensure their investors form the corporate frauds.

Present days corporate are comparatively stable in the matter of transparency and accountability. Now we are having a stable govt., well regulated central bank and highly organized capital market regulator. Of late the governance came into our corporate culture in late but it came in the perfect time when our country needs. Presently the well performance of the financial system and the high performed stock market is the output of the implementation of corporate governance in the country. Although we have not in the list of developed country, but we are placing our positions in several untouched areas which we have even not dreamt in the past 60 years. The credit should go to the large corporate as well as the regulators who are consistently gave their effort to provide a better governance to the society and also to be a leader in the global market. Now the country is going towards to set the target to be a 3 trillion economy among major the global players. The corporate are the major stakeholders in the GDP of the country who are to be more cautious to maintain their credibility in the international standard.

A glimpse towards the corporate governance scenario in India:

The journey of corporate governance in the Indian scenario is a remarkable one for the society, which has get the momentum after several brain storming exercise made by the elite persons from its inception. The recommendations of the committees are now the backbone of the governance system in the Indian corporate. Several recommendations and suggestions make the system strong in brick by brick. Present system can challenge any situation pertaining to transparency and accountability. The un tired effort by the regulators are the best way for the future corporate to follow on. The below mentioned are the footprints of the corporate governance system in India which the present day stakeholders are witnessing and taking the benefit out of it. These are enumerated are as below:

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The history of corporate governance scenario in India

- **CII (1998) –** Good corporate governance should be focused towards the maximization of long term shareholders value.
- **Kumar Mangalam Birla Committee (1999) -** Strong corporate governance is an important instrument that protects investors and ensures high quality accounting practices.
- **N. R. Narayana Murthy Committee (2003) –** Corporate governance is the acceptance by the management of the inalienable rights of shareholders which ensures ethical business conduct.
- **Dr. J.J.Irani Committee (2005) –**The Company should focus on formulation of various committees for the better governance.
- **ICSI –**Corporate governance is the application of best management practices, compliances of law and discharge of social responsibility.

The above mentioned are the journey of corporate governance from its inception. Although its takes some much time to get a full shaped legal framework, but in the mean time it should also be rectified by taking into account the corporate environment and also the events which are happening in the globe. That will not only protect the company form the downfall in the public image, but also protect the large no of stakeholders who are associated with them. The present market scenario represents a stable corporate performance with respect to governance and accountability. Every company should be concentrated on their ethical practices by using the strong weapons of various legal provisions. The march towards transparent India will be fruitful if the recommendation of the various committees will be adhered strictly. To become a front line player in the international scenario each and every corporate should be more cautious to provide an ethical and healthy environment to the shareholders. The regulators should also to be strict enough towards the companies.

II. LITERATURE REVIEW

In the context of the corporate governance in the corporate sector, many of them are strictly following the governance codes, but some of them are not following that much seriously may be due to less regulatory supervision or weak board of directors compliance. Some of the studies are witnessed are as follows:

- Jensen and Mackling (1976) investigate the theoretical relationship between the corporate governance and firm performance first time. They developed the theory of ownership structure of the firm by bringing together elements from three main theories: the theory of agency, theory of property, cost and theory of finance.

- Eldenburgetal (2004) hypothesized that board' objectives and governance will differ across ownership types. They test the effect of the board's decision to replace the CEO and the extent to which this decision differs across different ownership types.

- Staikourasetal(2007)reportedthatthereisastatisticallysignificantandnegativerelationshipb etweenreturn on assets(ROA) and return on equity(ROE) and the board size.

- Alonso and Gonzalez (2006) document positive relation between the proportions of non-executive directors and performance. They also found that when directors have a significant financial interest in the bank, board of directors would have a more positive effect on community bank performance.

- Zulkafli and Samad (2007) analyzed the corporate governance of listed banking firms in nine Asian emerging markets. They suggested that there are differences in the monitoring mechanisms of banking firms and non-bank.

- Stuart L. Gillan (2005) found out firms are more highly influenced by the regulatory framework mainly large size firms because they have to follow stringent rules. And also, the firms are altering the governance mechanism structure very slowly with response to the economic factors.

- Palanisamy Saravanan (2012) found that there is a strong association of relationship or correlation between the size of the board and the value of the firm.

- Agrawal et al. (1996) pointed about the investor's belief about the company's corporate governance and the investment decision. In a good corporate governance system investors are feeling they having less risky and safer for further future investment.

- Palanisamy Saravanan (2009) corporate governance practices are likely to have a larger effect on the firm value in those economies that are in the transition stage. There will be wider variations in corporate governance practices in those countries with a groggy legal environment.

- Levine, Ross (2004) it is important to strengthen the ability and incentives of private investors to exert governance over banks rather than to rely excessively on government regulators.

- Han Yu, Abraham Y. Nahm, Zengji Song. (2017) suggest that no single corporate governance mechanism is fit for all economic environments and time frames. To strengthen investors' confidence, companies should enhance the efficiency and adaptability of their governance mechanisms in turbulent times.

III. OBJECTIVE OF THE STUDY

This research paper is trying to establish a relationship between the various parameters of corporate governance and their applicability in the top corporate of India. The paper is basically focusing on the following aspects:

- To analyze the strict compliance of several legal aspects made by law.
- To establish a relation between CG and the corporate functioning.
- To study the impact of various recommendations made by regulators on the CG.

IV. HYPOTHESIS OF THE STUDY

- **H0:** It is hypothesized that there is no significance difference between CG and the various indicators.
- **H1:** It is hypothesized that there is a significance difference between CG and the indicators exists.

V. RESEARCH DATA AND SOURCES

The data has been collected exclusively from **BLOOMBERG** from **2010 to 2016** by taking into account 25 several important parameters thoroughly. Out of them major 4 variables are taken into account for the analysis.For this analysis the **BSE 30** companies are taken from the database as it is the best proxy of the present market performance of the economy. In this paper, balanced panel data are being used for better comparison among the various parameters which constitutes good governance in the system.

VI. METHODOLOGY

The research has been carried out by taking variables from 2010-2016 continuous panel data of BSE 30 companies. This is the balanced panel data has been extracted from the database to analyze the impact of various indicators and the on CG. In addition to this the researchers are also used the correlation analysis to find out the association among the variables. This analysis is done through the method of ordinary least square method by using the balanced data least square method. 168 observations are taken thoroughly by using 24 cross sections into account. This analysis has been carried out to get a output that whether the taken independent variables are any impact on the dependent variables of this study.

For the analysis researcher have used the ordinary least square method (OLS) by using the balanced panel data method. The equation is designed are as follows:

$$Y= \alpha + \beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon$$

$Y =$ Return on common equity (***ROCE***)

$X_1 =$ Percentage of independent directors in audit committee (***PIDAC***)

$X_2 =$ Number of independent directors (***NID***)

$X_3 =$ Size of audit committee (***SAUD***)

$X_4 =$ Board meeting attended in percentage (***BMATEND***)

In the above equation the *ROCE* is taken as a proxy of the company financial profitability of *BSE 30*.It is one of the most important financial ratios and profitability matrices. It is otherwise called the “mother of all ratios”, which basically denotes how much profit a company earned for the owner of the investment and how profitably a company employees it equity. In addition to this 4 independent variables are taken which is the best measurement of the corporate governance of the company. The indicators are taken from the recommendation of various reports and various regulations of SEBI and MCA. Out of 25 indicators researcher have taken best 4 variables which represents the CG exclusively.

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VII. ANALYSIS AND INTERPRETATION

The companies which are taken in the study are best companies of Indian market as it constitutes the high volatile stocks of other indices in the stock market. The study reveals the real impact of several variables on the performance of CG of a company or not. Out of the study it has been found out that **24** companies are reporting perfectly their financial disclosures and **6** companies are even not reporting and rarely reporting to the stakeholders. These are enumerated in the form of table as follows:

TABLE I.

Companies	Disclosure of financial data (2010-16)
Adani Port &SEZ	✓
Airtel	✓
Asian Paints	✓
GAIL	✓
ICICI Bank	✓
Infosys	✓
ITC	✓
L&T	✓
Lupin	✓
Mahindra & Mahindra	✓
Maruti	✓
NTPC	✓
TCS	✓
WIPRO	✓
Bajaj Auto	✓
CIPLA	✓
Coal India	✓

Dr. Reddy	✓
HDFC Bank	✓
HDFC	✓
HUL	✓
Sun pharma	✓
Tata Motor	✓

Source: Bloomberg

Apart from this, several companies are not even disclosing and rarely disclosing their financial indicators to the large community. These are very good companies and the market response are also good, but they are not even disclosing the most important indicators which are required to the market what others are disclosing. These are listed as follows:

TABLE II.

Companies	**Non Disclosure of financial data (2010-16)**
ONGC	✗
SBI	✗
Hero Moto Corp	✗
PGCIL	✗
Tata Steel	✗
Axis Bank	✗

Source: Bloomberg

Apart from the individual company analysis the researcher has taken a step forward to study the impact on various independent variables on the performance of corporate governance. The panel least square method has been used to get an insight to whether any impact of various indicators is exciting or not. Here is the outcome of the analysis depicted as follows.

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Dependent Variable: ROCE
Method: Panel Least Squares
Date: 09/23/16 Time: 14:11
Sample: 2010 2016
Periods included: 7
Cross-sections included: 24
Total panel (balanced) observations: 168

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PIDAC	0.351968	0.105687	3.330303	0.0011
NID	-2.800951	0.870984	-3.215849	0.0016
SAUD	4.663201	1.416951	3.291012	0.0012
BMATEND	0.573803	0.217916	2.633139	0.0093
C	-55.13890	21.09616	-2.613694	0.0098

R-squared	0.147650	Mean dependent var	27.56651
Adjusted R-squared	0.126733	S.D. dependent var	20.19671
S.E. of regression	18.87357	Akaike info criterion	8.742712
Sum squared resid	58062.50	Schwarz criterion	8.835687
Log likelihood	-729.3878	Hannan-Quinn criter.	8.780446
F-statistic	7.059000	Durbin-Watson stat	0.282175
Prob(F-statistic)	0.000029		

Form the table it clearly demonstrates that the ROCE is closely associated with the major two independent variables such as PIDAC and BMATEND. Both showing the significant impact upon the dependent variable. That means any change in these two is having direct impact on the dependent variable. That indirectly explains that yes CG is having taken into account of these indicators.

PIDAC is a major indicator which is a major indicator where every corporate are concerned about. It makes the board stronger and transparent to achieve the target. The study also reveals that this is having an impact on the dependent variable i.e. ROCE. Theory explains that at least 2/3 of the audit committee should be independent director. In this research exactly 80%

companies are following the rules, rest 20% are somehow violating the rules. That denotes though they are well reputed companies but not taking any steps towards CG.

BMATEND is another parameter that decides the attendance of directors in the board meeting. It may looks value less but is having a major impact on the good governance of the company. Some major decisions are being taken in the meeting that directly impact upon the profitability of the concerned company. The study also tells that it is having a significant impact on the profitability of the company. It is a major indicator taken from the recommendations of various committee reports. (*Bhopal gas tragedy 7thjune 2010 leads imprisonment to the director and guilty for non-attending the board meeting*)

VIII. CONCLUSION

The study shows the corporate governance of a company is basically rely upon the disclosure of several important indicators which makes the company more transparent and creates faith among the investors for further investment. This study observes that the PIDAC & BMATEND is having a major impact on the performance of a company. This research can also been made more interesting if all the 30 companies would have taken extensively and all would have disclosed their important indicators, so that may leads to a different dimension towards corporate governance. In this study the researcher have taken ROCE as a proxy to have an analysis to the CG. Further study can be made if some other dependent variable can be taken to show the impact of CG by the independent variables. This study finally establishes a relation among the independent variables which are taken here is definitely having a significant impact on the profitability i.e.CG in this study.

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