Chapter I

Introduction

OVERVIEW

Corporate governance is most discussed topic in the present corporate world and its economic systems. Corporate Governance is a dynamic word in India as well as the world over.

Cadbury Committee Report 1992 (Cadbury, 1992:2.5) provided a clear-cut definition of CG i.e. Corporate governance (CG) is such type of system through which the key personnel of corporate can be controlled and directed. It has mentioned such types of systems where the consciousness of different personnel increased within companies. Due to development of socio-economic structure, the body of management, and other ethical parts, the significant of CG is increasing in every business world. However, there is no well-established explanation of corporate governance. From different definitions, the study found that the system of CG should provide some directions and controlling mechanisms through which the business entities have directed and controlled. Its structure focused on the distribution of rights and responsibilities among different participants in the companies, such as; the Board, managers, key personnel and stakeholders, besides, the rules and procedures for making decisions on corporate affairs. The term CG will provide a well balancing system between economic and social goals of an organization. It establishes such framework through which it can efficiently utilise of its resources.

A proper executive of CG practices will ensure a well establish relationship among stakeholders and company and in this way, India will win a healthy economic growth (OECD,2004:24). In this respect, the OECD emphasized a special attention regarding rights, responsibilities, obligations, and provided such principles through which an organization runs smoothly. Therefore, in this way, the confidence level will hike in the mind of investors and they can capture a major portion of the growth of a country.

SEBI provided a guideline for the protection of shareholders' interests, i.e., clause 49 of the listing agreement, which covers the disclosure mechanism of the Board of Directors, the formation of different CG Committees, disclosures, CEO/CFO certification, whistle blower policy etc. (SEBI, 2014:32-36). If each company will follow this, then they can gain a good image from investors. Therefore, it will make our attention that good CG mechanisms will correlate with proper disclosure norms. It is important to establish integrated relationships between the various stakeholders, like managers, Board of Directors, employees, rules providing authorities, different banks & financial institutions, different types of shareholders including minority shareholders and the society as a whole.

Major failures have occurred in India due to lack of proper and consistent application of CG practices. Major expectations from the side of shareholders depend on transparency and disclosure norms of CG. A developing economy like Indian economy needs to support a well-established Corporate Governance, which will make a good and clean socio - cultural corporate environment. In the above-mentioned circumstances, few relevant questions come up:

1. Are the Indian companies abiding the Corporate Governance disclosure norms under clause 49 of the listing agreement?
2. Is there any impact of disclosure variables of Corporate Governance in firms' performance in Indian capital market?

The above questions have selected at the initial stage of the enquiry.

NEED OF THE STUDY

Corporate governance issue is an inheriting problem of most of the Indian companies. Day by day the framework of corporate governance (CG) is changing gradually in India, but the compliance part reflects a low performance. Many companies are being collapsed in India. SEBI has taken several steps to mitigate these collapsed. Still CG is belonging in a primary stage of Indian corporate.

It has been observed that the shareholders are losing their expectations due to lack of proper utilization of funds and time to time services from many Indian companies. To enrich the expectations from the side of investors, it is necessary to provide proper guidelines of investment mechanisms in the light of corporate governance. So a detail study of CG system has been carried out.

STATEMENT OF THE PROBLEM

Due to major corporate frauds, minor investors have faced so many problems in the Indian economy. At present, the corporate cultures have changed in a new phenomenon. Therefore, the complications also occurred in relation to CG issue. However, the companies are not abiding appropriate rules, regulations of CG disclosures. For these reasons, companies are losing their potential investors.

In a practical scenario, it has found that most of the companies are not abiding disclosure norms and they have collected funds without proper way of utilising. Main problem relates to change of key personnel, like, Directors, CEO, CFO, Chairperson, etc. without a proper intimation to the investors, especially minor shareholders. It is also complex process to analyse the annual reports of any company's in an appropriate manner. Many researchers think that this system can change through a good practice of CG mechanisms and it will be easily understandable to every investor.

Thus, in an efficient capital market, the investors can invest in companies with better corporate governance framework through which they can gain a less risky return. Good corporate governance practice enables the Board to allocate resources more efficiently and it also increases the self-confidence of investors and target shareholders will convert in confirm shareholders.

OBJECTIVES OF THE STUDY:

1. To investigate whether the firms under the study are adhering to the set of rules under clause 49 of listing agreement of SEBI Guidelines including disclosure norms.
2. To measure the firms' performance in Indian capital markets.
3. To examine the impact of corporate governance on firms' performance in Indian capital markets.

HYPOTHESES

The following hypotheses have been framed based on the survey of available literature:

H_{01}: The firms are not abiding the relevant rules of clause 49 of listing agreement of the study period.

H_{02}: Financial variables are not measuring the performance of the firms.

H_{03}: The firm performance does not depend on the corporate governance rules and regulations.

SCOPE & LIMITATIONS

This study covers the basic ideas of corporate governance, its scope, norms followed by different Indian companies. At present, this study is very much helpful in the hands of every Indian company because the Government has very much emphasized on the interest of major as well as minor shareholders. The study covers the responsibility for different key personnel, like, the Directors of a company regarding the sets of rules, regulations, also accountable and responsible for their duties to protect the shareholders' interest in such a manner through which the company can get a long-term firm value. The study period covers from 2002-2003 to 2013-2014. There are many limitations involved in this study, namely, time constraints restrict the scope of the research work, expensive process and concern person and higher officials may not release all data of CG due to the internal code of companies.

METHODOLOGY AND DATA

Research Methodology and Data for the study are as follows:

TYPE OF RESEARCH

Type of the current research is an empirical research, because here, the study observed the corporate governance disclosures of all the selected CG variables from published annual reports of the companies. The study also quantified firm performance variables. After that the study analyzed the data on the basis of suitable statistical models, namely, Pearson correlation and multiple regressions and represented empirical results and findings regarding the relationship between CG and firm performance in India [Malik M. O., (2007:95); Rashid, (2008:7-8); Johl, (2009:492); Oluwatoyin, (2009:225); Chaghadari, (2011: 486)].

DATA TYPE AND DATA COLLECTION TECHNIQUE

The data onto the current study about corporate governance and the value of a firm consists of external and internal corporate governance variables. The external corporate governance mechanisms that are used for the study are the indices, different judicial and regulatory authority like SEBI, MCA while the internal corporate governance mechanisms are the roles of majority shareholders, CEO/CFO remuneration, Board size, Board committees etc. and these data will be collected from published annual reports of companies during 2002-03 to 2013-14, Prowess database of Centre for Monitoring Indian Economy (CMIE), and capital line corporate database. Firm performance data will be collected from the websites of the selected companies, BSE, Money Control, Money Rediff, annual reports of different companies, the databases of capital line, and Prowess database of Centre for Monitoring Indian Economy (CMIE). All firm performance data are nominated in terms of Indian Rupees.

SAMPLING DESIGN

The panel data set covers a twelve year period from 2002-2003 to 2013-2014, with a sample of 20 companies from large-cap, i.e. BSE Sensex companies, 20 companies from mid-cap and 20 companies from small-cap on the basis of the largest market capitalized value of Rs. 1000 crore as on 31.03.2014 from BSE listed companies. [Emre Ergin (2012: 64); Luo Lei (2006: 51)].

DESCRIPTION OF VARIABLES

On the basis of reviews of earlier research works following variables are identified with this study:

A. Corporate Governance Variables:

Table 1.I: CG Variables

SL.NO.	CG VARIABLES	% OUT OF TOTAL SCORE
1.	Board of Directors Disclosure (BD)	19.18%(14/73)
2.	Corporate Governance Committee Disclosure (CGCD)	35.62%(26/73)
3.	Disclosure and Transparency (DTT)	27.40%(20/73)
4.	General Disclosure (GD)	17.80%(13/73)
Total		100.00%(73/73)

The Sum total of different CG sub variables divided into four main CG variables [Joshi, (2010: 196); Manawaduge, (2012:99,104)].

B. Firm performance variables:

Table1. II: Firm Performance Variables:

SL.NO.	FIRM PERFORMANCE VARIABLES	FORMULA
1.	Market capitalization(M_CAP)	Number of outstanding shares x Share price per share (Share price means adjusted closing equity share price at the end of financial year).
2.	Market Price per Equity Share (MP)	Adjusted closing market price of common stock at the end of each financial year of a company.
3.	Price to Book Value Ratio (PB):	Price to Book Value = Market Price of Common Stock / Book Value per Share.

DATA ANALYSIS

The data analysis for this study is as follows:

1. To fulfill the first objective the study has used sum functions of MS-Excel to find out the total score of CG according to clause 49 of listing agreement of SEBI of all the selected companies from 2002-03 to 2013-14

respectively. Then compare CG score on the basis of above CG variables through the line chart in Excel. For calculating CG score this study formulated different variables with a sum total of sub variables of CG and on the basis of binary system, i.e. 'yes' or 'no' criteria and gave weight accordingly, if 'yes' then '1' otherwise '0'(Ergin, 2012: 64); Sharma & Singh(2009: 94-95); Fan (2013:45-46). In case of CEO duality and auditors certificate the study used a weighted index system (R, 2011: 35-37) according to the importance of those particular variables. In this chapter the study also assigned a rank according to % of compliance with CG disclosure norms. Then an overall % of compliance with CG norms is represented in a single tabular form.

2. The second objective of the study is to measure of firms' performance in Indian capital market. For this purpose the study prepared comparative analysis table of different firm performance variables of individual firm with its average score as well as peer group average. At last it is compared overall industry average and individual industry average.

3. For fulfillment of third objective the study used Karl Pearson correlation and multiple regression models and the study therefore specifies its models:

$$\mathbf{Y_{it} = \beta_0 + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4_{it} + \mu_{it}} \qquad \textbf{... (1)}$$

Where; Y_{it} = M_CAP (Dependent variable) for firm i at time t.

$X1_{it}$ represents BD for firm i at time t

$X2_{it}$ represents CGCD for firm i at time t.

$X3_{it}$ represents DTT for firm i at time t

$X4_{it}$ represents GD for firm i at time t.

$$\mathbf{Y_{it} = \beta_0 + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4_{it} + \mu_{it}} \qquad \textbf{... (2)}$$

Where; Y_{it} = MP i.e. adjusted closing market price of equity shares of the firm at the end of each fiscal period according to company's financial years ending (Dependent variable) for firm i at time t. Others variables Remain same as equation 1.

$$\mathbf{Y_{it} = \beta_0 + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4_{it} + \mu_{it}} \qquad \textbf{... (3)}$$

Where Y_{it} = PB i.e. market price to book value per equity share (dependent variable) for firm i at time t. Others variables Remain same as equation 1; and μ_{it} =Error term, β_0 is the unsystematic predictable constant component or the estimated constant i= 1 to 56 firms; t- 2003 to 2014. Beta coefficients will be tested at 5%/, 1% level of significance [Jackling & Johl (2009: 499-501); Gill, Biger, Mand & Shah (2012: 88-89); Moeinaddin & Karimianrad (2012:491,494-497); Coşkun, Sayilir (2012: 61); Chaghadari (2011: 486); Malik M. O., (2007:100-104);]

ORGANIZATION OF THE STUDY

To achieve the objectives of the research, the study has organized six chapters coupled with select Bibliography and Appendix. A brief outline of the organization of the study presented below:

Chapter I : This chapter is entitled "**Introduction" –** Here, the study will present the basic tenets of entire study encompassing introduction, objectives, hypotheses, scope, limitations, research methodology, and chapter schedule of the study.

Chapter II : It is entitled as **"Conceptual Framework of The Enquiry" –** This chapter comprises of corporate governance issues in Indian and global context. It also focuses on the overall understanding of the conceptual structure, framework and a wide range of literature review about corporate governance in India. The concept of corporate governance has undergone periodic changes due to change in corporate sector's structure.

Chapter III : This chapter looks at the **"Evaluation of Listing Agreement under Clause 49 of SEBI Guidelines".** In this chapter, the study explores CG Score of different selected companies.

Chapter IV : The name of this chapter is **"Measuring the Firms' Performance in Indian Capital Market."** The chapter emphasises firm performance of sample companies with the help of financial variables.

Chapter V : This chapter looks at the **"Impact of Corporate Governance on Firms' Performance in Indian Capital Market- Analysis and Results."** In this chapter, the study undertakes the analysis and find out the results.

Chapter VI : This chapter is entitled to "**Findings and Conclusion."** At last, the study will complete with the conclusion, major findings and suggestions reflecting on the entire research study, highlighting the opportunities that still exist for future research works and development in this particular area of knowledge.