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IMPACT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE: EMPIRICAL EVIDENCE FROM INDIA

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ABSTRACT

The study of corporate governance is gaining momentum as corporate governance compliance has been made mandatory. Even though made mandatory, the number of corporate governance issues are on the rise. The high profile scandals in Enron, World Com and also the Satyam scandal, Tata Mistry issues in India have also stimulated policy makers, investors, academicians and other stakeholders. Innumerable studies have investigated the relationship between corporate governance factors and performance (Black 2006; Chhaochharia and Grinstein, 2007; Bennett and Robson, 2004), Spanos (2005) argues that corporate governance has significant implications for the growth prospects of an economy. In spite of the numerous studies, the results rather remain inconclusive. The variables considered in the model are measures of firm performance like Return On Equity (ROE) and Price to Book ratio (PB ratio) and corporate governance characteristics which include board composition, board size and CEO duality. The model used for analysis also included certain firm specific variables. These firm specific variables are financial leverage, asset turnover and growth in sales. To investigate the impact of corporate governance structure on firm performance, the study used a panel data OLS regression model for a sample of 30 firms quoted in the Bombay Stock Exchange. The results of the panel data analysis show that the CG factor, namely CEO duality and board size has a significant negative impact on firm performance whereas board composition revealed no significant impact on firm performance. It reveals that there is a need to undertake the monitoring process to lead to superior firm performance and indicates the need for firms to separate the post of CEO and Chair in order to ensure optimal performance. The results also suggest the leverage and asset turnover to have a significant positive impact on firm performance. The results may not be conclusive, as the inclusion of other corporate governance and performance variables would also be considered. Moreover, the corporate governance impacts on firm performance may vary from one industry to another which is another area that can be examined.

KEYWORDS*: Corporate Governance, Board Size, Board Composition, CEO Duality, Financial Performance*

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