Indian Journal of Economics and Business
Vol. 20 No. 2 (July-December, 2021)

http://www.ashwinanokha.com/IJEB.php

Implications of Corporate governance on Financial Performance of Selected Companies in Bangalore city

Malini.M.V
Research scholar, Ph. D (PT),commerce, Bharathidasan University, Thiruchirapalli, Tamil Nadu

Dr .P. Kavitha
Ph.D Research Guide, Associate professor, Department of commerce, Cauvery college for women (Affiliated to Bharathidasan University) Tiruchirapalli, Tamilnadu

Revised: 05th June 2021
Accepted: 29th August 2021
Published: 30th December 2021

Abstract: The relationship between Corporate governance and financial performance has now a days grab much attention by the researchers. Number of researcher had been conducted but there has been some lack of conclusive evidence. The purpose of the study is to examine empirically the impact of good corporate governance on financial performance. From the study it has found that corporate governance on financial performance of an Indian companies has been taken for the research. We measure the performance based on accounting data, using Return on Assets and Return on equity. Five years financial data for the period of 2017-18 to 2020-21 and a sample of nine Banks has been taken for the study. Dependent and non dependent variable was used in this research. From the study it has been found that audit committee and board of directors have significant and negative effects on firm financial performance.

Key words: corporate governance, financial performance, dependent and independent variables, Bangalore city.

Introduction:

One of the most important factors that have a most vital impact on financial performance of organisation is Corporate Governance. In spite of the fact that the perception for the most part manages the non financial aspects of the organisations, though the firm's financial aspects are indirectly and directly affected (Subhashini & Gopinath,2020). Corporate governance means it relates to laws, regulations, codes and practices that tell you how a company is administrated. It tells about the rights and responsibilities of all active agent within the organisation. The corporate governance is concerned about various objectives and stakeholders for which the organisation is established (Gopinath, 2019b). The powerful and good governance practice of the corporate is to aid the country with growing economically. Good corporate governance depends on separate differences in the job between directors and managers. Board are often delegates some of their duties to board committees (Gopinath & Chitra, 2020a).Good corporate governance ensures that an organisation board of directors should meet on a regular basis and should keep the control over the business and they should know their responsibilities. The management at higher level are responsible for the functioning of the company. These members who have a high level of management are called directors. These directors as a group are called as a board of directors (Gopinath & Chitra, 2020b). The global sign of privatization, deregulation, acquisition, pension fund reforms and the development of private reserve funds are the reasons why the corporate governance has become so visible today. Investors from developed nation are requesting that Indian organisations to follow worldwide procedures with an emphasis on corporate governance. It is remarkable when an investor goes glad to pay a best for a well governed company (Barton et al.2006)

Objectives

- To study the influence of board size on financial performance of Companies
- To analyse the relationship between corporate governance variables and company's financial performance.

Methodology

The study was descriptive in nature. It is based on secondary data, collected from various bank website. Purposive sampling technique was adopted to get the data from sample. Five years financial data for the period of 2017-18 to 2020-21 has been used in this research. Dependent variables and non dependent variable has been used to analyse the data. Statistical tools used in this research, Mean, Standard deviation and correlation matrix has been used in this research.

Review of Literature

Naseem M.A et al (2020) the study focused on to understand the effect of a chief executive officers individual and authoritative attributes on firm performance with regards to a developing nation and to investigate whether capital structure intercedes the connecting between CEO qualities and firm performance. Mhaela et al (2019), the study focused on CEO duality, on firm profitability utilizing as measures of profitability, Return on Assets and Return on Equity. In this paper the author collect an information from a sample of organisation from Central an European nation for a ten year time frame from 2004 to 2013 (Gopinath, 2019b). From the study it was found that CEO duality hinders the data transfer among management and administration and produces conflict of interests and management advantage consequently reducing profitability. Priyanka Aggarwal (2013), the purpose of the study is t examine the impact of corporate governance on financial performance and to study the various components of corporate governance. From the study it was found that governance rating have positive and significant impact on corporate finance performance. Muhammad Ali (2016), the study is to compare the impact of corporate governance on firm's financial performance between USA and Pakistan. For this study a sample of 100 listed companies. From the study it was found that variables like board ownership, board education and experience, effectiveness and CEO Duality has positive relationship with the firm's performance and there is no relationship between independent director with firm's performance. Hamas Askar Islami, Iwan Setiawan& M Umar Mai (2020), the purpose of the study is find the effect of corporate governance on financial performance of Islamic banking in Indonesia. From the study it was found that for control the financial performance the bank management should improve good corporate governance, increase the financial performance. Erasmus Yaw Afriyie, Germain Kofi Acka Aidoo & Richard Selase Agboga (2021), analyse the corporate governance and its impact on the financial performance of commercial banks in Ghana. For this study income ratio, bank size, net interest margin board composition, bank age board size as independent variables. From the study it was found that bank should develop efficient loan recovery strategies to improve their asset quality. Martin Kyere and Marcel Ausloos (2020), the study is about the impact of good corporate governance on financial performance of United Kingdom non financial listed firms. From the study it was found that if the companies have good corporate governance (Gopinath et al., 2021a). From the study it was found that CEO demonstrated have no influence on ROA and Tobin/s.Olayiwola, Khafilat Temitope (2018) and Gopinath et al. (2021b), the study is to analyse the relationship between corporate governance and financial performance of firms and to find the impact of board composition on financial performance of listed firms in Nigeria. From the study it was found that smaller board size will increase the firm performance and the board should consist of more non executive directors and the audit committee also should be reviewed from time to time.

Hypothesis:

Ho: There is no significant relationship between board size and return on assets

Ho: There is no significant relationship between audit committee and return on assets.

Findings:

Table 1. Descriptive statistics of the variables

Variables	Mean	Standard Deviation	Maximum	Minimum	Median
Board Size	9.56	3.56202	14	4.8	8.8
Audit Committee	4	0.63246	4.6	3	4.2
Nomination and Remuneration committee	3.96	0.81731	5.2	3	3.8
ROA	15.966	22.6146	54.272	-3.184	7.418
ROE	-5.3032	33.8843	23.22	-57.088	9.212
Total Debt/Equity	0.5284	0.75279	1.824	0	0.384

Table 1 observed that Board Size mean was 9.56, Media 8.8 and their standard deviation was 3.56202. Average value for the Audit committee was 4, Median was 4.2 and the standard deviation was 0.63246. Mean value for Nomination and Remuneration Committee was 3.96, Median was 3.8 and the standard deviation was 0.81731. Mean value for Average Return on Asset was about 15.966, Median was 7.418 and their standard deviation was 22.6146. Mean, Median and standard deviation value for Return on Equity was -5.3032, 9.212 and 57.088. Mean and standard deviation for Total Debt/Equity was 0.5284, 0.384 and 0.75379.

Table 2 Correlation

Variable	ROA	ROE	Total Debt/Equity
Board Size	-0.7516	0.71544	0.137768999
Audit Committee	-0.9186	0.56658	0.625492898

From the above table 2 it is inferred that there is a negative correlation between the board size and return on assets. There is a positive correlation between board size and return on equity. There is a negative correlation between audit committee and return on assets and a positive correlation between audit committee and return on equity. There is a positive correlation between board size and total Debt/Equity and between Audit committee and Total Debt/equity. The value for Board size and ROA is -0.7516, the value for Board size and ROE is 0.71544, for Board size and Total Debt/Equity is 0.1377 and the value between Audit committee and ROA is -0.9186, Audit committee and Roe is 0.56658, Total Debt/Equity is 0.6254.

Suggestions:

The findings of the study reveal that implications of corporate governance on financial performance has both positive and negative impacts on firm performance. Therefore it can be suggested that the board of directors should focus on implementing vital operations of the firms and advice the firms to have more independent directors (Gopinath 2020a;2020b). It improves the performance of the company when there are relevant committees to look after the respective tasks and activities of the company. This can enable the firms to focus on segregation of tasks for efficient operations (Gopinath, 2019a).

Conclusion:

The purpose of this research is to investigate the effect of corporate governance on the financial performance of limited companies (Gopinath, 2020c). The dependent variables are Return on Assets, Return on Equity and the explanatory variable is board size, audit committee and Nomination and remuneration committee. The findings reveals that the size of the board of directors had a considerably favourable impact on the financial performance of limited companies as evaluated both by return on assets and return on equity, Return on assets have a negative impact on board size and return on equity had an positive impact. This study is limited to a small sample and there are limitations of data accuracy found in secondary source of information as there are no reliable tests for secondary data collection.

References

1. Naseema M.A, J., R.U., (20,000), "Does capital structure mediate the link between CEO characteristeristics .Does capital structure mediate the link between CEO characteristics q and firm performance"? Management Decision , Vol. 58 no1, pp 164-181.
2. Mihaela, Bogdan-Narcis and P Paula-Andreea (2019) CEO Duality and Firm, Profits ability Evidance from Emerging Europe, Romanian Statistical Review nr. 2/2019.
3. Barton.D& Wong S.C.Y (2006), Improving board performance in emerging markets, McKinsey Quarterly, 1(1), 74-83.
4. Priyanka Aggarwal (2013), Impact of Corporate Governance on Corporate Financial Performance, IOSR Journal of Business and Management, Volume 13, Issue 3, PP 01-05.
5. Muhammad Ali (2016), Impact of Corporate Governance on Firm's Financial Performance (A Comparative Study of Developed and Non Developed Markets), Arabian Journal of Business and Management Review, Volume 6, Issue 6,pp-1-6
6. Hamas Askar Islami, Iwan Setiawan & M Umar Mai (2020), The effect of Corporate Governance on Financial Performance: Evidence from Islamic Banks in Indonesia, Advance in Engineering Research, Volume 198, pp 605-612.
7. Erasmus Yaw Afriyie, Germain Kofi Acka Aidoo & Richard Selase Agboga (2021), Corporate Governance and its impact on Financial Performance of Commercial Banks in Ghana, Journal of Southwest Jiaotong University, Vol 56, No 4, pp 58-69.
8. Martin Kyere and Marcel Ausloos (2020), Corporate governance and firms financial performance in the united kingdom, International journal of Finance and Economics, Volume 26, Issue 2, pp 1871-1885.
9. Olayiwola, Khafilat Temitope (2018). The effect of corporate governance on financial performance of listed companies in Nigeria. European journal of accounting, auditing and financial research. Vol 6,No9, pp 85-98.
10. Gopinath, R., Chitra, A., & Kalpana, R. (2021a). A Study on Occupational Stress among Nurses in Erode District, Tamil Nadu, Asian Journal of Managerial Science, 10(1), 1-6.
11. Gopinath, R., Chitra, A., & Kalpana, R. (2021b). A Study on Relationship between Knowledge Management and Occupational Stress, Journal of Contemporary Issues in Business and Government, 27(3), 1391-1397.
12. Gopinath, R. (2019a). A study on Awareness of Consumers Protection Initiatives of State Government, IMPACT: International Journal of Research in Humanities, Arts and Literature, 7(5), 60-66.
13. Gopinath, R. (2020a). Self- Actualization and Job Involvement of Academic Leaders in Tamil Nadu Universities: A Relationship Study. NOVYI MIR Research Journal, 5(7), 58-69.
14. Gopinath, R. (2020b). Influence of Job Satisfaction and Job Involvement of Academicians with special reference to Tamil Nadu Universities. International Journal of Psychosocial Rehabilitation, 24(3), 4296-4306.
15. Gopinath, R. (2019b). Organisational Commitment and Job Satisfaction Relationship–A Study in private Cement Factories. Suraj Punj Journal for Multidisciplinary Research, 9(5), 444-447.
16. Gopinath, R. (2020c). Investigation of Relationship between Self-Actualization and Job Satisfaction among Academic Leaders in Tamil Nadu Universities. International Journal of Advanced Science and Technology, 29(7), 4780-4789.
17. Gopinath, R., & Chitra, A. (2020a). Business-Family Interface and the Capacity of Managing Challenges Faced by the Women Entrepreneurs of Informal Sector - A Relationship Study, TEST Engineering and Management, (83), 24905– 24911.
18. Gopinath, R., & Chitra, A. (2020b). Dynamics of family structure on Emotional Intelligence of Secondary School Children, NOVYI MIR Research Journal, 5(5), 105-115.
19. Subhashini, M., & Gopinath, R. (2020). Map reduce Methodology for Elliptical Curve Discrete Logarithmic Problems – Securing Telecom Networks, International Journal of Electrical Engineering and Technology, 11(9), 261-273.