

**“An Assessment and Effectiveness of Corporate Governance and Corporate Social Responsibility in Selective Indian Companies”**

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**Introduction:**

Corporate Governance may be defined as a set of systems, processes and principles which ensure that a company is governed in the best interest of all stakeholders. It is the system by which companies are directed and controlled. It is about promoting corporate fairness, transparency and accountability. In other words, 'good corporate governance' is simply 'good business'. It ensures adequate disclosures and effective decision making to achieve corporate objectives; Transparency in business transactions; Statutory and legal compliances; Protection of shareholder interests; Commitment to values and ethical conduct of business.

It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company. Ethical dilemmas arise from conflicting interests of the parties involved. In this regard, managers make decisions based on a set of principles influenced by the values, context and culture of the organization. Ethical leadership is good for business as the organization is seen to conduct its business in line with the expectations of all stakeholders.

The aim of "Good Corporate Governance" is to ensure commitment of the board in managing the company in a transparent manner for maximizing long-term value of the company for its shareholders and all other partners. It integrates all the participants involved in a process, which is economic, and at the same time social.

The fundamental objective of corporate governance is to enhance shareholders' value and protect the interests of other stakeholders by improving the corporate performance and accountability. Hence it harmonizes the need for a company to strike a balance at all times between the need to enhance shareholders' wealth whilst not in any way being detrimental to the interests of the other stakeholders in the company. Further, its objective is to generate an environment of trust and confidence amongst those having competing and conflicting interests.

### **Literature Review:**

**Aggarwal Priyanka (2013) “Impact of Corporate Governance on Corporate Financial Performance”** this paper examined the impact of Corporate Governance on the corporate financial performance in Indian context using a sample of 20 companies listed on S&P CNX Nifty 50 Index. Various tests like – regression, correlation, t-test and F-test have been performed using secondary data for a period for FY 2010-11 & FY 2011-12. The results have shown that corporate governance and corporate financial performance are correlated and governance rating of company has significant positive impact on its financial performance. The conclusions drawn from the study was that companies should understand that improving governance and sustainability performance is as important as improving the financial performance.

**Chugh Lal C., Meador Joseph W., Kumar Ashwini Shanth “Corporate Governance and Firm Performance: Evidence from India”** this paper investigated the relationship between the financial performance and some characteristics of corporate governance like board size, board autonomy and CEO duality were selected in view of board structure and financial performance for Indian firms. This study concluded that a governance structure incorporating larger board size

creates better opportunities and more resources thus enhancing financial performance. An excessively autonomous board (high proportion of independent directors) lowers performance.

**Palanisamy Saravanan (2012) “Corporate Governance and Company Performance- A Study with reference to Manufacturing Firms in India”** this paper examined the impact of Corporate Governance on firms value with the help of multiple regression in selective manufacturing firms in India for a period of 2001-2010 with a sample of 1732 companies out of 6000 listed companies of BSE covering the major finance sector and it was found that the firm value is significantly affected by the Corporate governance practices.

**Objectives:**

1. To assess the Corporate Governance rank of selective companies in finance sector.
2. To assess the Corporate Governance impact on the performance of companies with internal and external financial parameters.
3. To examine the effect of Corporate Governance on internal and external financial parameters.

**Hypothesis:**

H<sub>0</sub>- There is no significant impact of CG scores on internal factors.

H<sub>1</sub>- There is significant impact of CG scores on internal factors.

H<sub>2</sub>- There is no significant impact of CG scores on external factors.

H<sub>3</sub>- There is significant impact of CG scores on external factors.

**Research Methodology:****Period of the study:**

The study is for selected financial years ending on 31<sup>st</sup> March of 2009 to 2014.

**Scope of the study:**

The study is empirical in nature and confined to the financial variables namely CG scores, Return on Equity (ROE), Return on Capital (ROC), Return on Assets (ROA), Book Value per Share (BVS), Market Capitalisation, Market Value per Share (MVS), Trading Volume and Index Performance (CNX FINANCE NIFTY).

**Nature of the variables:**

**Independent variables:** CG Scores.

**Dependent variable:** Return on Equity (ROE), Return on Capital (ROC), Return on Assets (ROA), Book Value per Share (BVS), Market Capitalisation, Market Value per Share (MVS), Trading Volume and Index Performance.

**Data Sources:**

The data has been collected from secondary sources for analysis. The yearly values of CG scores, Return on Equity (ROE), Return on Capital (ROC), Return on Assets (ROA), Book Value per Share (BVS), Market Capitalisation, and Market Value per Share (MVS), Trading Volume and Index Performance are collected from [www.nseindia.com](http://www.nseindia.com) and Bloomberg LP database and the average values of all variables are calculated for a period of six financial years.

**Sample Design:**

- The sample size of the study includes 15 companies in finance sector index on NSE .The companies selected for the study are top companies in their respective sector on the basis of market capitalisation and which are listed on National Stock Exchange of **CNX Finance Sector Index**.

**Table no. 1- List of Companies in CNX FINANCE SECTOR INDEX**

AXIS BANK LTD.	LIC HOUSING FINANCE LTD.
BAJAJ FINSERV LTD.	MAHINDRA& MAHINDRA FINANCIAL SERVICES LTD.
HDFC BANK LTD.	POWER FINANCE CORPORATION LTD.
HOUSING DEVELOPMENT FINANCE CORPORATION LTD.	PUNJAB NATIONAL BANK
ICICI BANK LTD.	RELIANCE CAPITAL LTD.
IDFC LTD.	RURAL ELECTRIFICATION CORPORATION LTD.
KOTAK MAHINDRA BANK LTD.	SRIRAM TRANSPORT FINANCE COMPANY LTD.
	STATE BANK OF INDIA

*Source: NSE, CNX FINANCE SECTOR INDEX.*

**Tools for analysis:**

The study includes the impact of Corporate Governance scores on financial variables by applying Ranking Scores, Descriptive Statistics, Correlation matrix and Ordinary Least Square (OLS) Regression analysis using Excel & Gretl.

## Results and Interpretation:

**Table No. 2- Ranks for each variable**

COMPANY NAME	CG SCORE RANK	ROE RANK	ROC RANK	ROA RANK	BVS RANK	MARKT CAP RANK	MPS RANK	TRADING VOLUME RANK
Axis Bank Ltd.	8	8	4	12	12	5	9	7
Bajaj Finserv Ltd.	9	3	1	9	4	14	5	15
HDFC Bank Ltd.	7	10	2	11	11	2	7	8
Housing Development Finance Corporation Ltd.	13	6	11	6	6	4	4	5
ICICI Bank Ltd.	2	14	9	13	2	3	1	2
IDFC Ltd.	1	13	13	5	14	10	15	1
Kotak Mahindra Bank Ltd.	10	11	6	7	7	6	6	11
LIC Housing Finance Ltd.	11	4	15	10	13	13	13	4
Mahindra & Mahindra Financial Services Ltd.	3	5	8	1	15	15	14	14
Power Finance Corporation Ltd.	4	7	12	4	9	8	11	9
Punjab National Bank	14	9	3	14	1	7	2	12
Reliance Capital Ltd.	4	15	14	8	3	12	8	3
Rural Electrification Corporation Ltd.	6	1	10	3	10	9	10	10
Shriram Transport Finance Co. Ltd.	11	2	7	2	5	11	3	13
State Bank of India	15	12	5	15	8	1	12	6

**\*Note: Index performance has been not included for the ranking purpose as all companies**

**are from the same CNX FINANCE SECTOR INDEX and the value is constant.**

From the above table no. 2 we can conclude saying that the ranking for each company based on each variable is different depending upon the different variables. CG score rank, IDFC Ltd. has ranked 1 and State Bank of India has scored rank 15 out of the total sample of 15 companies indicating that IDFC has a good CG score over all other companies in the sample. Though IDFC has a good CG score all other variables like ROE, ROC, ROA, BVS, Market capitalisation, MPS has a very low rank except a high rank for the trading volume of the company. So also State Bank of India in spite of getting a low CG scores rank its Market capitalisation has got the highest ranking.

**Table no. 3 – Descriptive Statistics**

<b>Variable</b>	<b>Mean</b>	<b>Median</b>	<b>Std. Dev.</b>	<b>C.V.</b>
CG_SCORE	45.0198	47.3214	7.02844	0.156119
ROE	17.8558	18.9831	4.64432	0.260101
ROC	5.07427	4.17024	3.01895	0.594952
ROA	2.21322	2.12064	0.883157	0.399038
BVS	237.689	152.485	198.944	0.836992
MRKT_CAP	454548.	247755.	442456.	0.973398
MPS	424.643	457.275	262.909	0.619130
TRADING_VOLUME	2.26772e+006	2.03984e+006	1.92905e+006	0.850655
INDEX_PERFORMANCE	4131.04	4131.04	0.000000	0.000000

The above table no. 3 indicates that the mean value of CG score (45.0198) having a standard deviation (7.02844) and the C.V (0.15). The Standard deviation and C.V of Index performance is 0% as the values are constant for each company as they belong to the same index i.e. CNX FINANCE SECTOR INDEX.

**Table no. 4 - Correlation Matrix**

	CG SCORE	ROE	ROC	ROA	BVS	MRKT CAP	MPS	TRADING VOLUME
CG SCORE	1							
ROE	-0.07	1						
ROC	-0.19	0.31	1					
ROA	0.51	0.38	-0.31	1				
BVS	-0.39	-0.25	0.22	-0.43	1			
MRKT CAP	-0.30	-0.26	0.09	-0.56	0.00	1		
MPS	-0.18	-0.14	0.26	-0.31	0.79	0.27	1	
TRADING VOLUME	0.38	-0.61	-0.47	-0.14	-0.09	0.20	-0.13	1

**\*Note: Correlation matrix excludes Index Performance since the values are constant.**

The above table no. 4 depicts the correlation matrix among the selected variables. There is negative correlation between the CG score and ROE, ROC, BVS, Market Capitalisation and MPS. On the other hand, CG score has a positive correlation with ROA and Trading volume. There exist a high degree of positive correlation between BVS and MPS (0.79). There is (0.00) correlation between BVS and Market Capitalisation.

**Table no. 5- Regression Analysis**

Model 1: OLS, using observations 1-15

Dependent variable: ROE

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	19.9986	8.32243	2.4030	0.03191	**
CG_SCORE	-0.0475964	0.182794	-0.2604	0.79865	
R-squared	0.005188				

Model 2: OLS, using observations 1-15

Dependent variable: ROC

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	8.70609	5.3274	1.6342	0.12619	
CG_SCORE	-0.0806715	0.117011	-0.6894	0.50267	
R-squared	0.035273				



Model 3: OLS, using observations 1-15  
Dependent variable: ROA

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-0.662781	1.36634	-0.4851	0.63569	
CG_SCORE	0.0638829	0.0300104	2.1287	0.05298	*
R-squared	0.258471				

Model 4: OLS, using observations 1-15  
Dependent variable: BVS

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	733.84	329.224	2.2290	0.04408	**
CG_SCORE	-11.0207	7.23107	-1.5241	0.15144	
R-squared	0.151592				

Model 5: OLS, using observations 1-15  
Dependent variable: MRKT\_CAP

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	1.30754e+06	758068	1.7248	0.10824	
CG_SCORE	-18947	16650.2	-1.1379	0.27568	
R-squared	0.090586				

Model 9: OLS, using observations 1-15  
Dependent variable: MPS

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	725.22	464.765	1.5604	0.14267	
CG_SCORE	-6.67654	10.2081	-0.6540	0.52449	
R-squared	0.031857				

Model 7: OLS, using observations 1-15  
Dependent variable: TRADING\_VOLUME

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	-2.4179e+06	3.20693e+06	-0.7540	0.46431	
CG_SCORE	104079	70437	1.4776	0.16332	
R-squared	0.143800				

Model 8: OLS, using observations 1-15  
 Dependent variable: INDEX\_PERFORMAN

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
const	4131.04	8.5777e-012	48160256019 9512.7500	<0.00001	***
CG_SCORE	6.73323e-013	1.88401e-013	3.5739	0.00340	***

Among all the selected internal factors like ROE, ROC, ROA and BVS CG score has a significant impact on ROA (p-value 0.05298) so also the R-squared (0.258471) indicating that the CG scores explain 25% of ROA.

From the external factors selected like Market Capitalisation, Market Price per Share, Trading Volume and Index performance the CG score has a high significant impact on the Index performance (p- value 0.00340).

**Conclusions:**

This study which is carried out to test whether there exist a significant relation between the CG scores and the internal and external variables of the companies selected from the CNX FINANCE Sector Index on NSE or not, shown that among all the variable selected index performance had no standard deviation. As per the rankings given to all companies for each variables CG Score rank for IDFC was high but on the other hand its performance as per the internal and external variables ranked low, this states that even after getting higher CG score the company is not performing well. According to the correlation matrix there exist a high degree of positive correlation between CG scores and ROA. Finally the regression analysis indicated that there is a significant relation between CG score and ROA and also with Index performance. Thus it is concluded saying that there is an impact of CG Scores on the financial performance of the company in terms of book value and also market value.

**References:**

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