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# CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF INDIAN FIRMS

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## Abstract

This paper investigated the relationship between corporate governance and performance of listed Indian manufacturing firms between the periods of 2005 to 2012. Many Indian companies have improved their internal governance structures after implementation of Clause 49.The influence of board size, board composition, duality in terms of board leadership and promoter's holding are examined in current Indian scenario judged in relation to two sets of financial performance .The survey of literature is used as qualitative measure for examining the relation of sampled variables and ordinary least square (OLS) method is used as quantitative tool for examining the relationship. This study hypotheses negative relation of board size and CEO status with financial performance and positive relation of corporate performance with board independency and insiders (promoters) holding. The findings suggest that profit margin is the only financial performance measure which is significantly related with internal governance structures.

**Key words:** Corporate Governance, Board Size, CEO Status, Firm Performance, India

## Introduction

After Satyam scam lot has been said and done in India related to board mechanisms. After clause 49 implementation it was mandatory to comply with its recommendations. Thrust was given on composition of boards and making stronger internal governance structure of at least listed companies. The clause 49 listing agreement of independent director for listed companies was deferred for nine months till 31 December, 2005. Finally it was implemented from January 1, 2006. In response, many companies have done shuffling at their board level. The question arises whether these changes pertaining to internal governance structures are related to firm performance measures.

In Indian context, the term corporate governance is defined more in terms of agency problem. Managers and researchers see a corporate governance problem as a conflict between management and shareholders. The limited data available so far has confirmed that among corporate only those companies who are going global follow strict international accounting standards and policies; most others would not even consider it necessary to do so since they

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do business within domestic boundaries. The Indian Companies Act 1956 abolished the managing agency model and gave time till 1970 for the companies to do that. Hence, the Indian business families moved towards a new model called 'business house model' through which the families were able to retain the control with minority stakes. After the abolition of managing agency system, promotion, finance and administration of other companies would be taken care of by the 'agents' in return for a small share of ownership and or agency fees. In Asian countries viz. Korea, Japan, India, and South-East Asia significant number of businesses are owned and managed by business families. However, these families acquire control through the use of stock pyramids and cross investments allowing them to retain control of the business enterprises without having a controlling stake. This creates a divergence between voting (or control) rights and cash flow rights. Presently, Indian business system is moving towards the Anglo-American model of corporate governance. The Anglo-American model gives importance to the shareholders over other stakeholders. Here, the usefulness of this model to current Indian system can always be questioned.

The objective of this study is to examine the relationship of corporate governance based on performance of Indian listed companies between 2006 and 2012. Section 2 of the current study presents the literature review; section 3 presents the data and methodology. Section 4 offers results and analysis and section 5 deals with conclusions.

## Literature Review

Jensen and Meckling (1976) have given the concept of agency relation between management and shareholders. The theory suggests that managers of a company manage the company on behalf of the shareholders and that way managers are agents of shareholders. They suggested that the corporate governance issue is that the managers must utilize the financial resources of shareholders judicially. Board structures and functioning are in continuous limelight in media scrutiny and legal monitoring. According to Monks and Minow (1995) found that better board supervision can enhance the quality of decision making of managers at firm level. Shleifer and Vishny (1997) published their path-breaking survey of literature on corporate governance. They propounded that effective corporate governance reduces the control right of shareholders and creditor on managers. Kathuria and Dash (1999) examined the association between board size and financial performance in India using data on 504 firms from 18 industries. The results pointed out that the performance improves if the board size increases, but the contribution of an additional board member decreases as the size of the corporation increases. Dhawan (2006), who used a primary study to identify the role of the board of directors in the corporate governance practices of the large listed firms of India. They found that the size of the board increases with the turnover but only up to a certain level, beyond which the increasing turnover does not have any influence. The author found that effective integration of the skills and knowledge base of the board is more important than the size.

Ghosh (2006) empirically studied the relationship between financial performance and board parameters of Indian non-financial firms. The data used were that of 127 listed manufacturing firms for the financial year 2003. The findings indicated that, after controlling for various firm-specific factors, larger boards tend to have a negative influence on firm performance, judged in terms of either accounting or market-based measures of performance. The analysis also suggests that compensation of the Chief Executive Officer (CEO) has a significant effect on the firm performance. Prasanna (2006) empirically established this professional belief in board independence. The factor analysis suggests that the independent directors bring brand credibility and better governance, contribute to effective board functioning, and lead the governance committees effectively.

Mayur and Saravanan (2006) studied the relationship between three board parameters and performance of banks in Indian. The results of the study indicated that bank value is not affected by the board size. Clause 49 along with other recommendations has emphasized the role of independent directors over executive directors for better governance structure. So board composition is a natural variable of interest in relation to firm's performance. A study conducted by Kumar and Singh (2012) on 157 non financial Indian companies for the year 2008 studied efficacy of outside directors on corporate boards. This study revealed that while the proportion of grey directors on board has a marginally deteriorated effect on firm's value, proportion of independent directors had an insignificant positive effect. Jackling and Johl (2009) supported aspects of agency theory in case of Indian companies. Their study found that a greater proportion of outside directors on boards were associated with improved firm performance. Similarly this study confronted the view of separating leadership roles. So the idea of powerful CEOs (duality role, CEO being the promoter, and CEO being the only board manager) having a detrimental effect on performance was not supported in the study.

Many studies have explored the relationship between insider ownership and performance. These studies are often categorized into two where, one assumes a positive relationship and the other assume negative relationship between insider ownership and firm performance. Phani et al. (2005) in Indian context have explored the difference in insiders control and cash flow rights and their effect on the performance of the individual firm. The study indicated that the effect of insider ownership on performance of the firm is industry specific. Chan and Li (2008) have studied independence of audit committee and firm value for Fortune 200 companies.

They found that presence of expert independent directors on board and in the audit committee enhances firm value if top executives of other publicly traded firms are defined as expert independent directors.

Al-Matari et.al.(2012) have done a study on Saudi companies listed in the Saudi Stock Exchange (TADWAL) in 2010 examining the relationship between the internal corporate governance mechanism related to the board of directors, the audit committee characteristics and the performance of the Saudi companies. The audit committee size is found to have a significant relationship with firm performance whereas Audit committee independence and audit committee meeting were found to be insignificantly related to firm performance measure. Bhasin (2012) conducted a study performing a content analysis on top 500 listed companies analyzing the information content of these reports conforming to clause 49 requirement of SEBI. The study found increasing trend in compliance of clause 49 in various listed companies that were included the study. They also observed a tendency to stick to "minimum" standards with respect to AC composition.

## Data and Methodology

The data set consists of detailed governance related and financial information and indicators about the most actively traded and listed non government companies on the Bombay Stock Exchange of India (BSE) during 2005-2012. The complete data of 97 manufacturing companies were selected for the purpose of conducting the analysis. The 97 companies cover a broad spectrum of sectors or industries totaling 18, which are: Finance, Oil & Gas, Information Technology, Metal, Metal Products & Mining, Capital Goods, FMCG, Transport Equipments, Power, Housing Related, Healthcare, Telecom, Diversified, Chemical & Petrochemical, Miscellaneous, Media & Publishing, Transport Services, Tourism and Agriculture. The study completely depends upon the industry classification criteria of Bombay Stock Exchange for the purpose. Banking and finance sector and government companies are completely excluded for the purpose of analysis because these firms have different type of structure and governance (Faccio and Lasfer, 2000). The sector wise break up of data is given in table 1.

**Table 1: Sector wise break up Sample of Firms**

| S.No. | Sectors | % |
|---|---|---|
| 1 | Banking &Finance* | 22.14 |
| 2 | Oil & Gas | 15.26 |
| 3 | Information Technology | 11.71 |
| 4 | Metal, Metal Products & Mining | 9.58 |
| 5 | Capital Goods | 8.83 |
| 6 | FMCG | 6.36 |
| 7 | Transport Equipments | 5.49 |
| 8 | Power | 5.13 |
| 9 | Housing Related | 4.03 |
| 10 | Healthcare | 3.78 |
| 11 | Telecom | 3.34 |
| 12 | Diversified | 2.13 |
| 13 | Chemical & Petrochemical | 0.55 |
| 14 | Miscellaneous | 0.43 |
| 15 | Media & Publishing | 0.36 |
| 16 | Transport Services | 0.31 |
| 17 | Tourism | 0.29 |
| 18 | Agriculture | 0.27 |

*excluded from the sample

The well-premeditated objectives of the study required a comprehensive disclosure of the shareholding pattern of targeted sample companies. The study used combination of qualitative and quantitative methods to examine the relationship between four corporate governance mechanisms (Board size, Board composition, Chief Executive Status and Insider ownership), and two sets of financial performance measures (Accounting Measures :Profit Margin, ROA, ROE and Market Measures :P/B, P/E and Tobin's Q). The data sources were the Annual Reports of the companies, corporate database (PROWESS) maintained by the Centre for Monitoring the Indian Economy (CMIE), and the reports filed by companies with the BSE as part of the listing requirements. The description of corporate governance measures used in the study is given in table 6.

## Methodology

Recent research and the extant literature in the field consider the use of different econometric approaches as very important for capturing the reverse causality between governance and performance and the potential endogeneity among the mechanisms of governance, as corroborated by all quoted studies. Nevertheless, still in line with the research on the field, the objective of this paper is to answer the research questions proposed through the use of statistics, concretely, through the use of OLS, simple and multiple regressions (cross-sectional analysis).

The use of more a sophisticated methodology, for instance simultaneous equations aim a database with a longer horizon of time for the development of a panel data, for example, in order to be robust and to avoid misspecifications. Since, governance data collected for this study belong to years 2005-2012, the use of more sophisticated methodology is a suggestion for the future studies. The vast majority of syudies in corporate governance are based on use of OLS, simple and multiple regressions and since the current study is a first approximation to the dynamics of the Indian non financial firms' givernance system, the methodology adopted is justified.

## The Model

Based on above hypothesis the regression model can be formulated as follows:

$$\mathbf{Y_{it} = a0 + a1 * X_{1it} + a_2 * X_{2it} + a_3 * X_{3it} + a_4 * X_{4it} + a_5 * X_{5it} + a_6 * X_{6it} + \varepsilon_{it}}$$

Where **Yit** represent the financial performanc of **$i^{th}$ firm** at time t. a is a constant term, $X_{1it}$, $X_{2it}$, $X_{3it}$, $X_{4it}$, $X_{5it}$, and $X_{6it}$, board size, board independence, CEO status, audit committee, promoters' holding and leverage $i_{th}$ firm at time t. $\varepsilon_{it}$ is the unobserved zero mean error term. Definition of these variables is given in table 5.

## Research Objectives and Hypotheses

The main objective of this study is to examine the relationship of corporate governance on performance of Indian firms. The description of corporate governance measures and hypothesis used in the study is given below:

### Board Size

Board size of a firm is considered as an important corporate governance variable. Jensen (1993) in his study found that board size is a value relevant feature for any firm. In another study Steiner (1972) stated that larger the board size longer the time for decision taking and more input time. There is no consensus on optimum size of a board and its relationship with firm performance. However in a study Lipton and Lorsch (1992) suggested that optimum board size be 7-9 directors and market values firms have relatively smaller boards. Vafeas (1999) argued that increase in board size is less effective and helps CEO in gaining control. The cost of having larger board is also high and makes the decision making difficult. However the smaller boards increases the efficiency of firm improving the firm performance. The study measures the size of board in terms of number of directors serving the board and postulates a negative relation between board size and firm performance. We test the following hypothesis:

**H1 : Board size is negatively related to firm performance**

### Board Independence and Firm Performance

The number of independent director in the board is often used as proxy of good governance. John and Senbet (1998) stated that a board is called independent if it has more non executive directors but how it is related with performance of a firm in inconclusive. Fama (1980) argued that more non executive directors in the board act as professional referees and work for value maximization of shareholders. Weisbach (1988) and Cotter et al. (1997) in their respective studies also supported the argument and argued that more outside directors in the board protects the interest of shareholders through effective decision support. Hermalin and Weisbach (1991), Bhagat and Black (2002) in their studies found that there is no significant relationship between number of independent directors and performance of a firm. The study measure the independence of a board as percentage of independent directors in a board and is expected to have a positive relationship with firm performance. The study tests the following hypothesis:

**H2 : Board independence is positively related to firm performance**

### CEO Duality and Firm Performance

The literature argues that the status of CEO has direct impact on governance of firm. Jensen (1993) argued that lack of independent leadership creates a difficulty for boards to respond for any failure. Fama and Jensen (1983) also argued that concentration of decision making makes it difficult for the board in independent decision making and affect the performance of a firm. Berg and Smith (1978) and Brickley et al.(1997) stated that it increases the conflict of interest and the agency cost increases when CEO and the board chair is same person. However in another study Rechner and Dalton (1991) argued that it's good of board chair and the CEO is the same person as it reduces the bureaucracy in decision making. However there is no consensus on the issue. Sanda et al., (2005) found a positive relation between CEO duality and performance of a firm while Daily and Dalton (1992) could found no significant relationship between CEO duality and firm performance. The study used CEO duality as a dummy variable and used 1 when CEO holds both position and 0 otherwise. The study hypothesized a negative relation between CEO duality and firm performance.

**H3 :CEO duality is negatively related to firm performance**

### Audit committee and its characteristics

The literature found that in measuring quality of corporate governance composition of audit committee plays very important role and it is found that audit committee plays an important role in safeguarding the interest of shareholders. The Cadbury Committee mentioned that in order to have quality governance in firms, audit committee should be constituted with minimum three independent members. A fairly constituted audit committee ensures good corporate governance in any firm. However there are very few studies highlighted the role of audit committee in good governance and firm performance. Wild (1994) in his study argued that the market respond positively to firms having fairly constituted audit committee. The study measures the audit committee as total number members in committee and assumes a positive relation between size of audit committee and firm performance. The following hypotheses will be tested:

**H4 : The size of audit committee has a positive relationship with firm performance;**

### Insider Ownership (Promoter's holding) and Firm Performance

The literature states that there is another conflict arises and that between promoter shareholders and non promoter share holders. So proportion holding of promoter in any firm and their ability to control the business directly affect the corporate governance of the firm. Kesner (1987), Oswald and Jahera (1991), Eng and Mak (2003) in their studies argued that there is a positive relation between insiders holding and performance of a firm. The study tests the following hypothesis:

**H5 :Insider ownership ((Promoter's holding) is positively related to firm performance.**

### Leverage and Firm Performance

The agency cost theory is premised on the idea that the interests of the company's managers and its shareholders are not perfectly aligned. In their seminal paper Jensen and Meckling (1976) emphasized the importance of the agency costs of equity in corporate finance arising from the separation of ownership and control of firms whereby managers tend to maximize their own utility rather than the value of the firm. Agency costs can also exist from conflicts between debt and equity investors. These conflicts arise when there is a risk of default. The risk of default may create what Myers (1977) referred to as an "underinvestment" or "debt overhang" problem. In this case, debt will have a negative effect on the value of the firm. Jensen's (1986) stated that the problem is how to motivate managers to disgorge the cash rather than investing it below the cost of capital or wasting it on organizational inefficiencies." In other words complete contracts cannot be written. Thus a higher level of leverage may be used as a disciplinary device to reduce managerial cash flow waste through the threat of liquidation (Grossman and Hart, 1982) or through pressure to generate cash flows to service debt (Jensen, 1986). In these situations, debt will have a positive effect on the value of the firm. The study hypothesized a positive relationship between leverage and performance of firm.

**H6: The study assuemed a positive relationship between leverage and firm performance**

## Result and Analysis

The mean, standard deviation, skewness and kurtosis are displayed in Table 2. The result suggest that the average proportion of independent board members is 53%, average size of audit committee is 4 and average the number of directors in a board is 11. Average promoters holding is 50.41%, average profit margin is 11%, average ROA 16.75%, average ROE is 21.41%, average value of Tobin's Q is 4.52, average P/E is 22 and that of P/B is approx. 5.26, for the sampled firms. Average debt equity ratio is 0.89. The distributions of these variables are skewed. The coefficient of skewness for ownership structure is positive, implying that the distribution includes a long right tail. To get a symmetric distribution, the raw data are converted to log values using the logistic transformation.

**Rable 2: Descriptive Statistics**

| | Minimum | Maximum | Mean | Std. Deviation | Skewness | Kurtosis |
|---|---|---|---|---|---|---|
| BSIZE | 3 | 22.00 | 10.87 | 3.49 | 0.55 | 0.58 |
| BINDEP | 0.25 | 0.83 | 0.53 | 0.12 | 0.01 | -0.56 |
| CEO | 0 | 1.00 | 0.37 | 0.49 | 0.53 | -1.76 |
| AUDIT COMMITTEE | 2 | 18.00 | 3.86 | 1.88 | 5.48 | 39.11 |
| PH | 0 | 93.56 | 50.41 | 18.64 | -0.06 | 0.29 |
| D/E | 0 | 7.64 | 0.89 | 1.14 | 3.03 | 13.89 |
| Tobin's Q | 0.78 | 81.48 | 4.52 | 9.35 | 6.94 | 54.91 |
| PM | -0.05 | 33.01 | 0.15 | 3.55 | 9.26 | 85.82 |
| ROE | -16.42 | 155.55 | 21.41 | 21.53 | 3.19 | 17.37 |
| ROA | -7.29 | 152.94 | 16.75 | 20.25 | 4.08 | 24.23 |
| P/E | 0 | 258.57 | 22 | 350.08 | -8.99 | 82.87 |
| P/B | 0.85 | 40.00 | 5.26 | 6.12 | 3.93 | 18.17 |

Table 3 displays a correlation matrix of all the variables used in this study. A careful examination of the correlation matrix indicates that the correlation of corporate governance measures and most of the performance measures of selected Indian firms are not correlated at 10% level of significance. The only performance variable, which is significantly related with corporate governance measure, is profit margin, which is significantly related with board size. This finding clearly establishes that only profit margin can be used for analyzing the relationship of financial performance and corporate governance. The direction of relationship of profit margin is negative with board composition and board size and is positive with CEO status and promoter's holding (insider holding).

## Table 3: Correlation Analysis

| | BSIZE | BINDEP | CEO | Audit Comm. | PH | Tobin's Q | PM | ROA | ROCE | P/E | P/B |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BSIZE | 1 | | | | | | | | | | |
| BINDEP | -0.27* | 1 | | | | | | | | | |
| CEO | 0.12 | -0.36* | 1 | | | | | | | | |
| Audit Comm. Members | 0.25* | -0.04 | 0.11 | 1 | | | | | | | |
| PH | 0.19* | -0.15 | -0.16 | 0.21* | 1 | | | | | | |
| Tobin's Q | 0.15 | -0.09 | 0.13 | 0.22* | 0.24* | 1 | | | | | |
| PM | -0.15 | -0.17 | -0.02 | 0.02 | 0.21* | -0.02 | 1 | | | | |
| RONW | -0.11 | 0.04 | -0.05 | 0.00 | 0.00 | 0.36* | -0.08 | 1 | | | |
| ROCE | -0.12 | 0.03 | -0.04 | 0.02 | 0.04 | 0.42* | -0.06 | 0.96* | 1 | | |
| P/E | -0.06 | 0.05 | 0.06 | -0.01 | -0.11 | 0.04 | 0.04 | 0.10 | 0.09 | 1 | |
| P/B | -0.14 | 0.05 | -0.05 | 0.04 | 0.07 | 0.47* | -0.04 | 0.86* | 0.90* | 0.05 | 1 |
| D/E | -0.02 | 0.07 | 0.00 | -0.10 | -0.10 | -0.22 | -0.08 | -0.29 | -0.38* | -0.21* | -0.26* |

**significant at 5% level *significant at 10% level

Table 4 and 5 gives the output of regression analysis ($R^2$, F-value, Collinearity Statistics, and beta values). Accounting measures of financial (performance profit margin, ROA and ROE) are taken as dependent variable in table 4 (and marketing measures of financial performance (Tobin's Q, P/E and P/B) are taken as dependent variable in table 5. The study also examined the variance inflation factor and condition index statistics and this demonstrated that multicollinearity is not an issue with this data as all the values are within the tolerable limits set out by Hair, Anderson, Tatham and Black (1998). The variation inflation factor value fell in the range of 1.024 to 1.346 (less than 10; Hair, Anderson, Tatham and Black;1998). The value of $R^2$ and F suggest that profit margin and ROA are the only variables, which are statistically significant and explain the relationship between financial performance and corporate governance. The value of $R^2$ suggests that corporate governance explains around 23% variance of profit margin and 17.7% variance of ROA, which is very significant.

Hypothesis 1, of the study, which assumed a negative relationship between board size and firm performance is supported only for profit margin with Beta value -0.25. For all other performance variables, this hypothesis is rejected. Other performance variables showed no statistical relationship with corporate governance measures. Hypothes is 2, which assumed a positive relationship between board independence is rejected as beta value is negative (–.157) but not statistically significant. The hypothesis is also rejected for all the variables. None of the performance measures is found to be statistically significantly related with board independency. Hypotheses 3, which assumed a negative relationship between CEO duality and firm performance is rejected for all the variables. None of the performance measures is found to be statistically significantly related with CEO duality. Hypothesis 4, which assumed a positive relationship between audit committee size and firm performance is rejected for all the variables. None of the performance measures is found to be statistically significantly related with size of audit committee. Hypothesis 5 which assumed a negative relationship between insider ownership (promoter is holding) and firm performance is rejected for all the variables except profit margin. Profit margin is positively (0.292) related with corporate governance and it is also statistically significant. Hypothesis 6 assumed a positive relationship between leverage and firm performance found is rejected for all the variables. The study found a negative and statically significant relation of leverage with all measures of performance. The details are given in table 4 and 5.

**Table 4: Regression Analysis**
**(Accounting Measures of Performance as Dependent Variables)**

| | | | | | | | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| Model | Dependent Variable | Independent Variable | Beta | Sig. | R Square | F-value (p-value) | Tolerance | VIF |
| 1 | Profit Margin | BSIZE | -0.25 | 0.022 | 0.23 | 5.049 (.000) | 0.859 | 1.164 |
| | | BIND | -0.157 | 0.174 | | | 0.744 | 1.344 |
| | | CEO | -0.006 | 0.956 | | | 0.743 | 1.346 |
| | | AUDITC | -0.039 | 0.71 | | | 0.878 | 1.139 |
| | | PH | 0.292 | 0.009 | | | 0.827 | 1.209 |
| | | D/E | -0.369 | 0 | | | 0.976 | 1.024 |
| 2 | ROA | BSIZE | -0.13 | 0.26 | 0.177 | 2.662 (.023) | 0.858 | 1.166 |
| | | BIND | 0.028 | 0.817 | | | 0.773 | 1.294 |
| | | CEO | -0.009 | 0.939 | | | 0.795 | 1.257 |
| | | AUDITC | -0.015 | 0.898 | | | 0.883 | 1.132 |
| | | PH | 0.069 | 0.546 | | | 0.874 | 1.144 |
| | | D/E | -0.394 | 0 | | | 0.977 | 1.024 |
| 3 | ROE | BSIZE | -0.112 | 0.349 | 0.112 | 1.534 (.179) | 0.858 | 1.166 |
| | | BIND | 0.028 | 0.821 | | | 0.773 | 1.294 |
| | | CEO | -0.024 | 0.844 | | | 0.795 | 1.257 |
| | | AUDITC | -0.024 | 0.836 | | | 0.883 | 1.132 |
| | | PH | 0.038 | 0.747 | | | 0.874 | 1.144 |
| | | D/E | -0.31 | 0.007 | | | 0.977 | 1.024 |

**significant at 5% level     *significant at 10% level

## TABLE 5: Regression Analysis
## (Marketing Measures of Performance as Dependent Variables)

| Model | Dependent Variable | Independent Variable | Beta | Sig. | R Square | F-value (p-value) | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Tolerance | VIF |
| 4 | P/E | BSIZE | -0.025 | 0.836 | 0.074 | 0.977(.447) | 0.858 | 1.166 |
| | | BIND | 0.081 | 0.53 | | | 0.773 | 1.294 |
| | | CEO | 0.082 | 0.516 | | | 0.795 | 1.257 |
| | | AUDITC | -0.007 | 0.954 | | | 0.883 | 1.132 |
| | | PH | -0.123 | 0.311 | | | 0.874 | 1.144 |
| | | D/E | -0.228 | 0.049 | | | 0.977 | 1.024 |
| 5 | P/B | BSIZE | -0.131 | 0.275 | 0.11 | 1.502 (.190) | 0.858 | 1.166 |
| | | BIND | 0.097 | 0.443 | | | 0.773 | 1.294 |
| | | CEO | 0.048 | 0.698 | | | 0.795 | 1.257 |
| | | AUDITC | 0.051 | 0.667 | | | 0.883 | 1.132 |
| | | PH | 0.083 | 0.484 | | | 0.874 | 1.144 |
| | | D/E | -0.277 | 0.015 | | | 0.977 | 1.024 |
| 6 | Tobin's Q | BSIZE | 0.06 | 0.604 | 0.164 | 2.832 (.037) | 0.858 | 1.166 |
| | | BIND | 0.025 | 0.835 | | | 0.773 | 1.294 |
| | | CEO | 0.151 | 0.212 | | | 0.795 | 1.257 |
| | | AUDITC | 0.116 | 0.311 | | | 0.883 | 1.132 |
| | | PH | 0.249 | 0.033 | | | 0.874 | 1.144 |
| | | D/E | -0.19 | 0.084 | | | 0.977 | 1.024 |

**significant at 5% level *significant at 10% level

### Table 5: Definition of Variables

| Variable | Definition |
|---|---|
| **Profit margin** | Net Profit margin of the firm (Profit After Tax/Net Sales) |
| **Return on Asset (ROA)** | Earnings Before Interest & Tax/Total Assets of the Firm |
| **Return on Equity (ROE)** | Profit After Tax/Net Worth of the Firm |
| **Tobin's Q** | Total Market value of firm/Total Asset value of the firm |
| **Board Size** | Total number of directors in the board |
| **Board Composition** | Percentage of independent directors in the board |
| **CEO Status** | Dummy variable 0 if CEO and Chairman is same otherwise 1 |
| **Audit Committee** | Total Number of members is audit committee |
| **Promoter's Holding** | Percentage of promoter's holding in total share capital |
| **Leverage** | Debt equity ration of the firm |

## Conclusion

This study hypotheses negative relation of board size and CEO status with financial performance and positive relation of corporate performance with board independency and insiders (promoters) holding. The findings suggest that profit margin is significantly related with board size, promoters holding and capital structure of the firm. The study found that board size of a firm has emerged as an important determinants of firm's performance but the interesting part is that it is negatively related with firm performance. The literature says that firm performance is adversely affected by large size of board leading to delays in decision making and not arriving on any consensus. The proportion of promoters holding is another important determinant of performance for Indian firms and very interestingly it is positively related with accounting measures and negatively related with marketing measures of performance. In the firms having more promoters control; the profit margin, return on assets and return on equity are better than the firms with lesser promoters control. The relationship between corporate governance with other measures of performance is not statistically significant. The use of ROA and ROE as proxies for financial performance has its own limitations. The results suggest that the marketing-based measures of financial performance (Tobin' Q, P/E and P/B) were not able to establish any relationship with corporate governance. It shows that the stock market performance of a firm is not related with it corporate governance measures and indicators.

There are certain limitations of this study because it focuses on internal governance mechanisms, ignoring external factors which can have a more significant impact on corporate financial performance. This study could be extended to include analysis on other corporate governance issues as board compensation, company's complexity. The research could also be amplified by including qualitative aspects of the board that contribute to firm performance such as board decision making, number board meetings and role of audit committee. For getting the data on corporate governance practices, we consulted annual reports of companies; the information declared by the companies was however, not tested for their accuracy.

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