

Impact of Corporate Governance on Financial Performance of Indian Listed Companies on NSE

Monika Bhuv¹, Dr. Nailesh Limbasiya²

¹School of Management, R.K. University, Rajkot, India

²Assistant Professor, School of Management, RK University, Rajkot, India.

ABSTRACT

The main objective of this study was to investigate the effect of Corporate Governance on Financial Performance of Indian listed companies at National Stock Exchange of India Ltd. (NSE). Specifically, this study examined broad size, firm size, chairman, promoter's holding all how the affect the financial performance of listed companies at NSE. Firm performance was measured using return on assets (ROA), return on equity (ROE), debt-equity ratio and current ratio. This study adopted descriptive research design. The study population of all the companies is including nifty-50 accepted financial sector's companies as October 2017. Secondary data were collected using documentary information from company annual reports for the period 2016–2017. Both descriptive and inferential statistics were used. Data were analyzed using an ANOVA, independent sample t-test and correlation all calculated on SPSS. The study found that strong relationship between the corporate governance practices under study and firm's financial performance. There was not much positive statistically significant between promoter's holding and ROA and also ROE. There was positive relationship between firm size and chairman of the firm. Similarly, all ratios are affect the assets and board of directors, FII, public, shareholders also.

Keywords: corporate governance practices, debt-equity ratio and current ratio, FII, financial ratios-return on assets, promoter's shareholding in promoter

Corresponding Author

E-mail: bhuvamonika1996@gmail.com

INTRODUCTION

NIFTY 50

The NIFTY 50 is the leader list on the National Stock Exchange of India Ltd. (NSE). The Index tracks the conduct of an arrangement of blue chip organizations, the biggest and most fluid Indian securities. It incorporates 50 of the around 1600 organizations recorded on the NSE, catches roughly 65% of its buoy balanced market capitalization and is a genuine impression of the Indian securities exchange. The NIFTY 50 covers significant areas of the Indian economy and offers venture supervisors presentation to the Indian market in one productive portfolio. The Index has been exchanging since April 1996 and is appropriate for

benchmarking, file subsidizes and record based subordinates. The NIFTY 50 is possessed and overseen by India Index Services and Products Ltd. (IISL). IISL is India's initially particular organization concentrated on a record as a center item. Recorded 41 organizations as in addendums.

Topic

In mid-17 century, the idea of corporate administration does not exist. This is on the grounds that back then, possession was partitioned into modest number of individuals who likewise take an interest in the operations of the association. So, they can without much of a stretch control and protect their advantage.

The idea of corporate administration was first featured in scholastics by Richard Eells in 1960 in his paper “the structure and working of corporate arrangement” where he uncovers how organization cost impact the company's budgetary assets and by what means would this be able to be limited. Extensively, CG is a connection between the organization's board, administration, investors and different partners. Talking all the more particularly and limit its idea, a definition given by Shleifer and Vishny, corporate administration manages the routes in which providers of fund to companies guarantee themselves of getting an arrival on their venture. From the above definition, the prime goal of CG is to ensure the enthusiasm of investors and partners of the organization.

In the created markets, the idea of corporate administration is demonstrated by the investigations led by the controllers against which they have detailed that affected the significance of corporate administration. There are many purposes behind such an unstable enthusiasm for this subject, however the principle reason is corporate outrage. Such hazardous intrigue has brought about elevated enthusiasm for the issue among analysts and strategy creators because of a progression of sudden corporate disappointments that has reignited and expanded concerns with respect to the adequacy of board oversight [1].

Numerous experimental investigations have been led which demonstrates the presence of a connection between corporate administration and company's budgetary execution. Looking at creating and created advertise, the meaning of corporate administration is diverse for various nations. Essentially the impact of corporate administration on association's money related execution likewise fluctuates from nations to nations. Be that

as it may, corporate administration is more critical for developing markets and less created advertise as in created nations; CG is being taken after entirely. Numerous observational examinations have been led to research a connection between corporate administration and an association's budgetary execution on the planet. Nonetheless, comparable investigations with regards to India are exceptionally uncommon. It showed that corporate administration can be measured through these components: board's size, age, and result. What is more, a company's budgetary execution is measured by the arrival on resource, known as the ROA proportion, net benefit, debt-equity ratio and profit for equity (ROE) for measuring the execution of the organizations.

Corporate administration is the structure of firm which is utilized by many organizations in created nations. The structure executes the part to oversee or to control their required business exercises. The leading group of executive or leaders of the office are capable to use the corporate administration instrument in their business. Hence, as a reality keeping in mind the end goal to maintain investor's rights, access to the official necessities solid corporate administration encourages a far-reaching group to one's own firms' objectives. Along these lines, previously going to set out upon the business techniques utilized as a part of our nation and to examine the diverse systems utilized for gainful business.

CORPORATE GOVERNANCE IN INDIA

Meaning of corporate administration: The Securities and Exchange Board of India Committee on Corporate Governance characterize corporate administration as the “acknowledgment by administration of the basic privileges of investors as the genuine proprietors of the enterprise and of their own part as trustees for the

investors. It is about sense of duty regarding values, about moral business direct and about making a qualification between individual and corporate finances in the administration of an organization.”

Financial Performance

The execution of the firm can be measured by its monetary outcomes, i.e., by its size of income Riskiness and productivity are two central .0 points which mutually decide the estimation of the worry. Monetary choices which increment dangers will diminish the estimation of the firm and then again, budgetary choices which increment the productivity will build estimation of the firm. Hazard and benefit are two basic elements of a business concern. There has been an extensive level-headed discussion about a definitive target of firm execution, regardless of whether it is benefit amplification or riches expansion. It is watched that while thinking about the firm execution, the benefit and riches expansion are connected and are affected by each other [2].

Kind of investigation, the proportion of one firm is contrasted and the normal proportions of industry – of which a firm is a part. This sort of examination is known as Industry Analysis. It is all around acknowledged reality that every industry has its interesting qualities, which will have effect on the money related and working connections of the firm. In any case, by and large, it is hard to get the genuine proportions of the business due to different reasons.

Understanding budgetary articulations is vital to crucial stock investigation and general speculations inquire about. Money related proclamations give a record of an organization's past execution, a photo of its current monetary quality and a look into the future capability of a firm.

RESEARCH METHODOLOGY

Objectives

- To analyze the effect of corporate governance on financial performance on listed companies on NSE.
- To learn the effect of promoters holding on ROA and ROE [3].

Significance of the Study

The consequences of the examination will be useful in upgrading the cognizance of money related authorities concerning the criticalness of corporate organization keeping the piece of Developed economies. The examination contributes in the present written work for the scrutinizes and investigators. The examination has been made broad by uniting various piece of business both from developing and nondeveloping countries. The examination will enable the future re-searchers and academicians to recognize openings which have never been secured by the past investigate.

Research Design

This examination received an unmistakable research outline. As indicated by [4], clear research is a procedure of gathering information keeping in mind the end goal to test speculations or to answer questions concerning the momentum status of the subjects in the investigation. An unmistakable report clarifies the idea of connections. The decision of the unmistakable investigation configuration depends on the way that the exploration is occupied with the connection amongst CG and money related execution [5].

To accomplish the destinations of this examination, the connection, Independent sample t-test and ANOVAs, correlation look into configuration is utilized to research the critical connections and causal impact of board estimate, firm size, comes about, Broad of chiefs and promoter's

holding as autonomous factors with return on assets, net benefit and profit for value utilized as the reliant variable. Additionally, a similar approach is utilized in finding the causal impact relationship of board administration score with those recorded organizations in NSE money related execution.

Data Collection

Information is utilizing optional information. Information was gathered from Audited Financial Statements and yearly report of those recorded organizations on National stock Exchange organizations, the period was chosen for this examination was 1 years affected from 2016 to -2017. The Study assigned the fundamental divisions like, pharmaceuticals; IT, Automobile, Consumer Goods, Construction, and Energy, Service, Cement, media and entertainment, metals, and telecoms

purposes behind choosing this extent are the accessibility of time [6].

Sample Design

- Sample measure: 41 Companies recorded on National Stock trade. These are altogether organizations choose in file took after by nifty 50 on NSE. The entire information was chosen to conduct investigation and diverse kind of structure and administration.
- Sources of information: The information utilized for this examination is optional information and this information was sourced from the yearly reports, AGM reports and corporate administration reports of the recorded organizations in nifty 50 on National Stock Exchange and money control site moreover.

Correlation

		ID	Chair	Size	%FII	PAT	PBDITA	Assets	MCAP	ROA (%)	ROE (%)	D/E	CU ratio
ID	Pearson correlation	1											
Chair	Pearson correlation	.295	1										
Size	Pearson correlation	.426**	.162	1									
%FII	Pearson correlation	-.136	-.256	-.034	1								
PAT	Pearson correlation	.055	.329*	.125	-.125	1							
PBDITA	Pearson correlation	-.104	.219	.028	.007	.712**	1						
Assets	Pearson correlation	.015	.304	.207	-.207	.652**	.632**	1					
MCAP	Pearson correlation	.160	.182	.223	-.051	.769**	.555**	.612**	1				
ROA (%)	Pearson correlation	.003	.119	-.012	-.061	.312*	.109	-.274	.197	1			
ROE (%)	Pearson correlation	-.090	.185	-.036	-.070	.321*	.113	-.217	.200	.954**	1		
D/E	Pearson correlation	-.374*	.075	-.082	-.031	-.060	.117	.352*	-.096	-.414**	-.319*	1	
CU ratio	Pearson correlation	.257	.184	-.051	.219	.295	.213	-.280	.273	.467**	.340*	-.484**	1
**Correlation is significant at the 0.01 level (2-tailed).													
*Correlation is significant at the 0.05 level (2-tailed).													

Interpretation

In conclusion, if the correlation itself is .712**. This indicates a strong (positive) linear relationship between PBDITA and PAT. More precisely, since this is a 2-tailed test, the p-value consists of a 0% chance that the sample correlation is larger than .71 and another

0% chance that it's smaller than -.71. If person correlation itself is .426**. This indicates a strong linear relation between size (BOD) and ID. If person correlation itself is .484**. This indicates a strong linear relation between Current Ratio and D/E ratio [7].

ANOVA						
		Sum of squares	Df	Mean square	F	Sig.
ROA (%)	Between groups	914.639	2	457.320	2.750	.077
	Within groups	6318.490	38	166.276		
	Total	7233.129	40			
ROE (%)	Between groups	2062.771	2	1031.385	2.909	.067
	Within groups	13473.460	38	354.565		
	Total	15536.231	40			

Interpretation

Looking at the Sig. column in above table, we can see that P values are greater than 0.05. However, as we can say that ROA statistical significant level of 0.077 it is greater than 0.05. It means statistical significant difference between Promoters'

holding and ROA. ROE statistical significant level 0.067 it is greater than 0.05 so we can say statistical significant difference between Promoters' holding and ROE. So, we conclude that promoters are positive effect of ROA and also effect in ROE.

Independent Sample t-Test

- Ownership of the firm and ID between positive effect or not:

		Levene's test for equality of variances		t-Test for equality of means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean difference	Std. error difference	95% Confidence interval of the difference	
									Lower	Upper
ID	Equal variances assumed	4.633	.038	-1.927	39	.061	-1.075	.558	-2.203	.053
	Equal variances not assumed			-2.478	36.906	.018	-1.075	.434	-1.954	-.196
PAT	Equal variances assumed	4.352	.044	-2.174	39	.036	-5330.66	2452.266	-10290.84	-370.48
	Equal variances not assumed			-2.899	38.595	.006	-5330.66	1838.61	-9050.86	-1610.46
Assets	Equal variances assumed	6.866	.012	-1.995	39	.053	-67538.038	33854.97	-136016.18	940.10
	Equal variances not assumed			-3.027	32.111	.005	-67538.038	22314.79	-112985.62	-22090.45

Interpretation

This is a test that determines if the two conditions have about the same or different amounts of variability between Chairman and ID. In the above table ID value in the Sig. column is 0.038. A value

less than .05 means that the variability in your two conditions is not the same. That the scores in one condition vary much more than the scores in your second condition. Put scientifically, it means that the variability in the two conditions is not

significantly different. This SPSS takes this into account by giving you slightly different results in the second row. If the Sig. value in this example was less than .05, we would have read from the second row. There is an estimated change of -

1.075% (SE = 0.43%). However, there is insufficient evidence ($p = 0.038$) to suggest that ownership of the firm and ID in between not positive statistical significant difference and relation is not much strong [8].

- Positive effect of ownership of the firm and firm size.

		Levene's test for equality of variances		t-Test for equality of means						
		F	Sig.	t	Df	Sig. (2-tailed)	Mean difference	Std. error difference	95% Confidence interval of the difference	
									Lower	Upper
Age	Equal variances assumed	2.912	.096	1.117	39	.271	11.583	10.372	-9.395	32.562
	Equal variances not assumed			.969	15.798	.347	11.583	11.950	-13.775	36.941

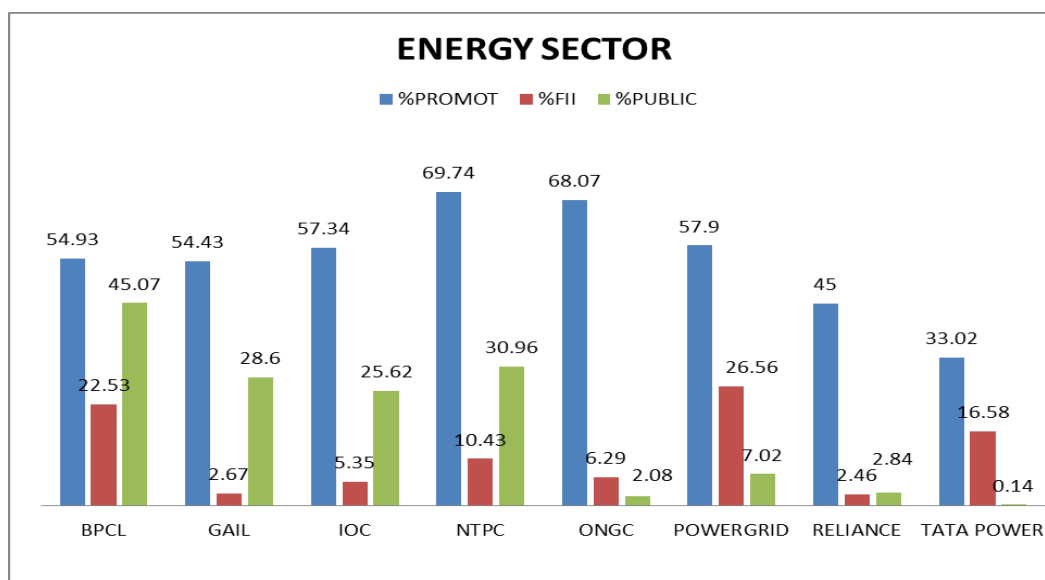
Interpretation

So, we can see the above table if the p-value is 0.271 and, therefore the difference between the two mean statistically significantly different from zero at the 5% level of significance. There is an estimated change of 11.58% (SE = 10.37%). However, there is insufficient evidence ($p = 0.096$) to suggest that ownership of the firm and firm size in between more positive effect.

Shareholding of All Sectors

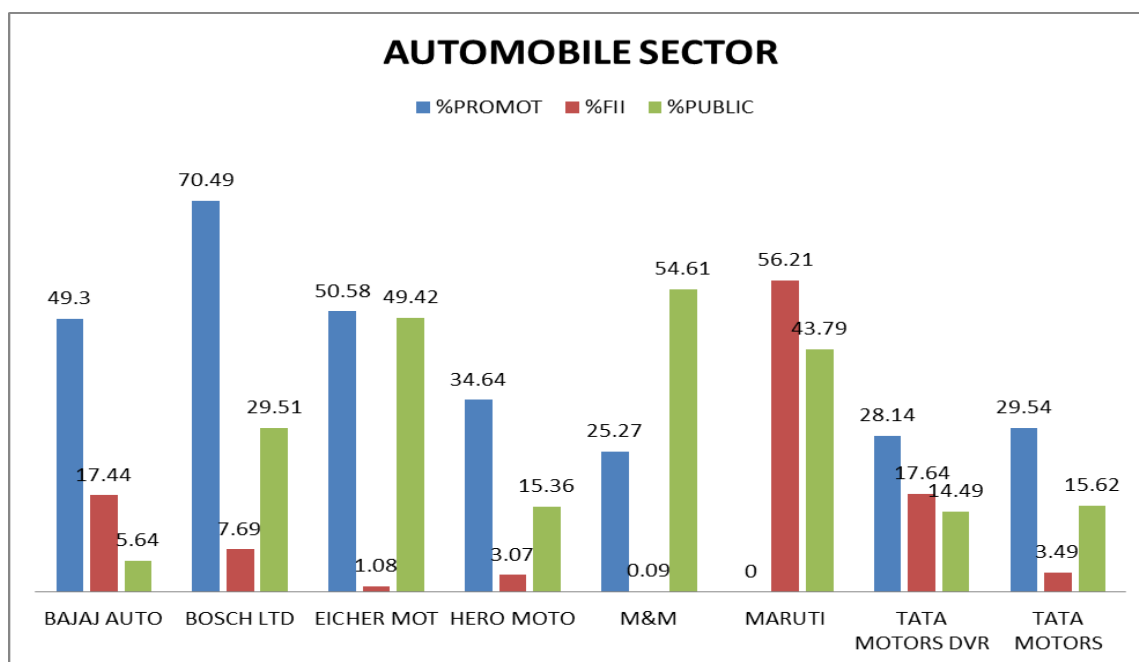
Energy Sector

In energy sector companies (given below). NTPC is the highest investor in promoting companies and their group among the shareholders. All companies are investing in most of the promoters in energy sector.



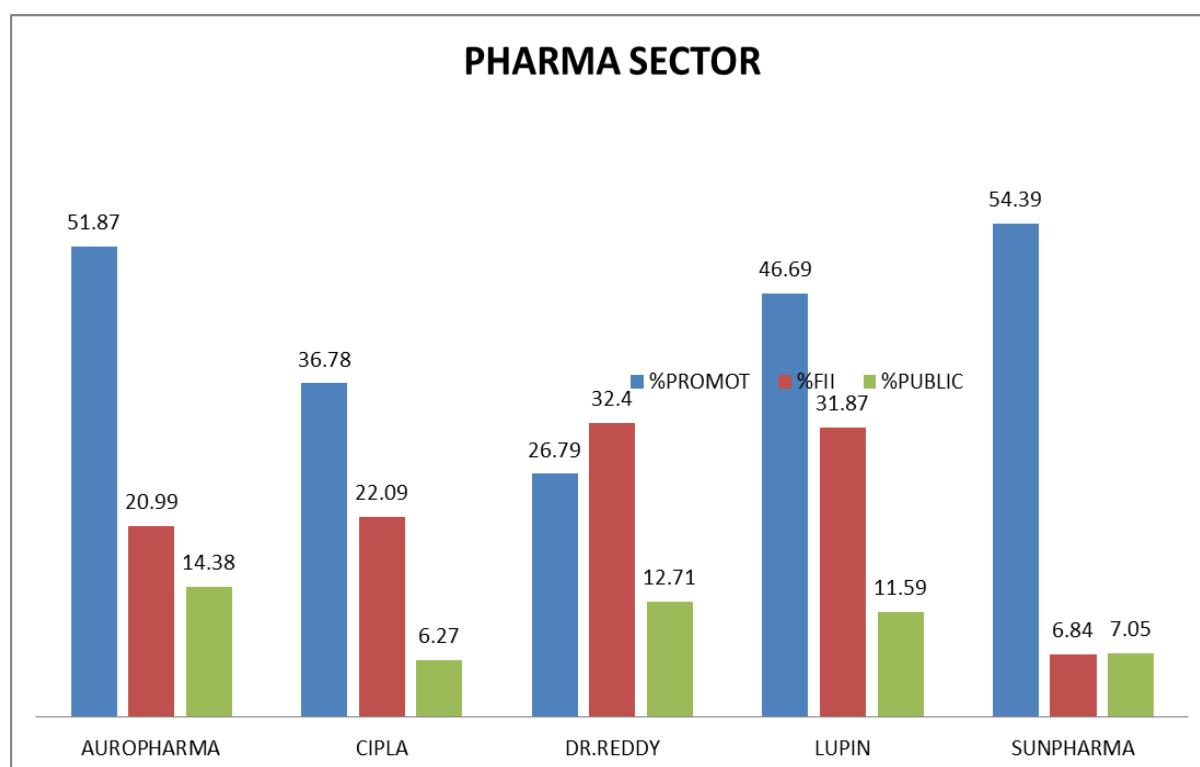
Automobile Sector

In automobile companies, Bosch Ltd. is investing highest (70.49%) in promoters and their group.



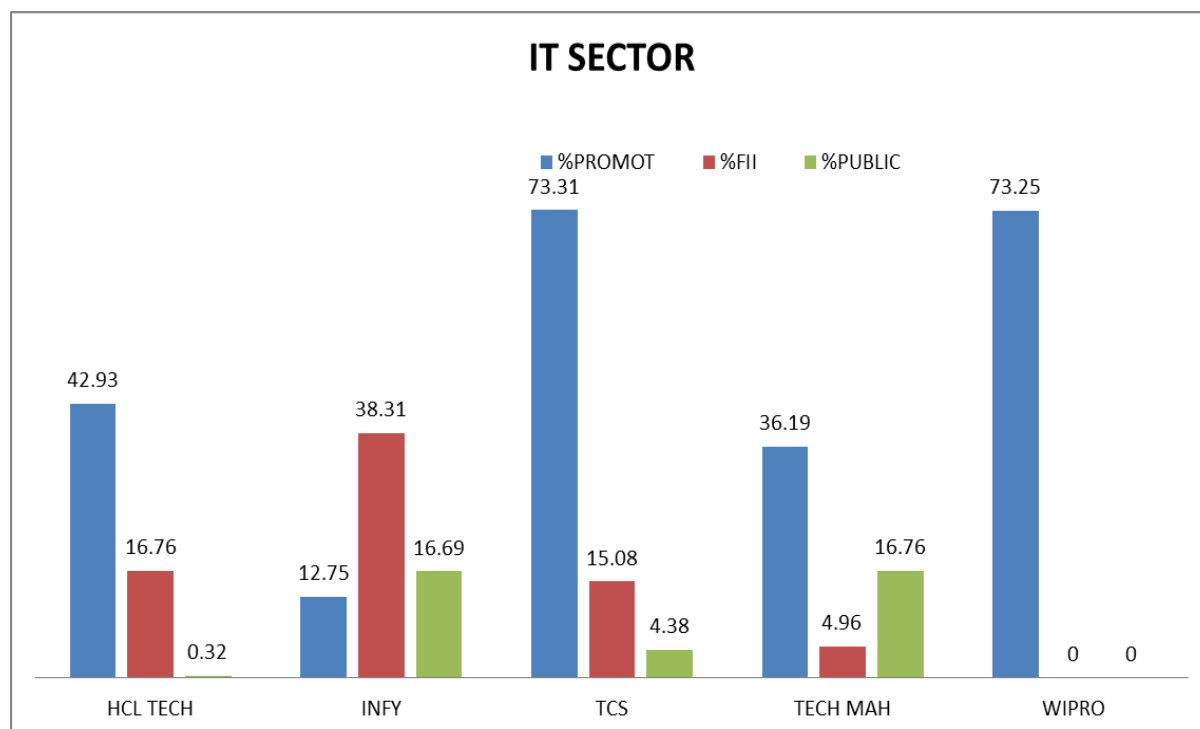
Pharma Sector

All pharma sector companies, investor and promoter groups are very high, and Sunpharma is investing in public, and FII is almost same. Dr. Reddy is investing in FII 32.4%.



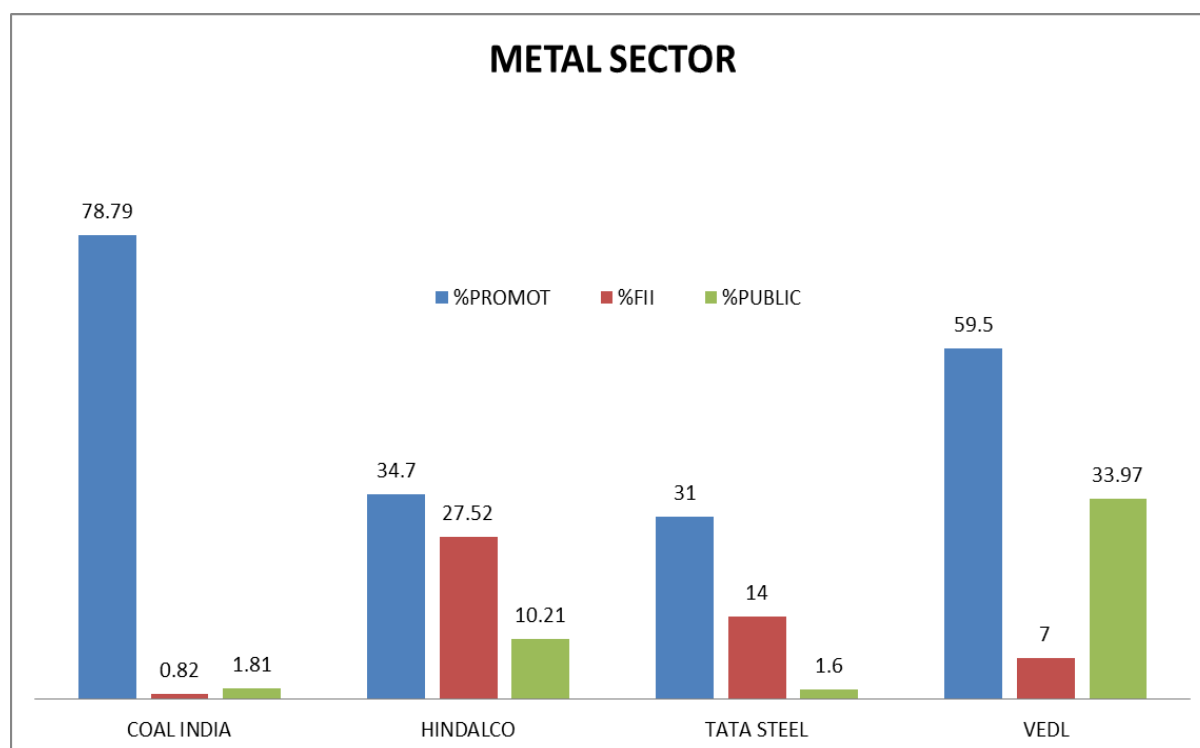
IT Sector

In IT sector companies, TCS is investing 73.31% and Wipro is investing 73.25% in promoters. It is very highest proportion.



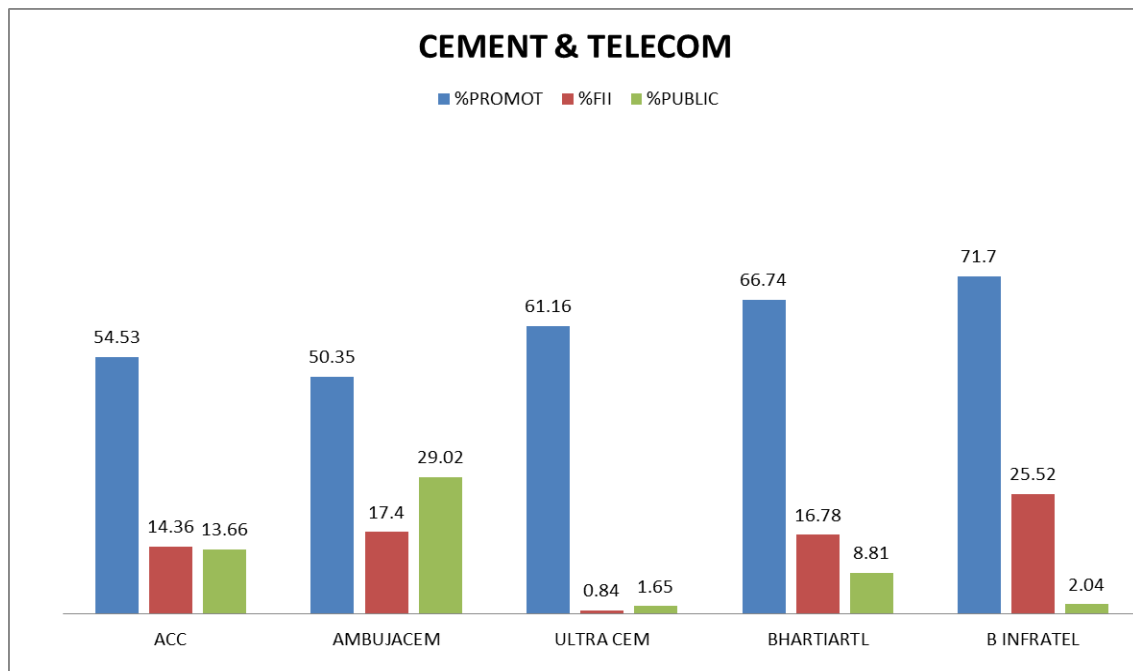
Metal Sector

In all metal sectors, companies including Coal India is investing the highest proportion in promoters, and then VEDL is investing highly.



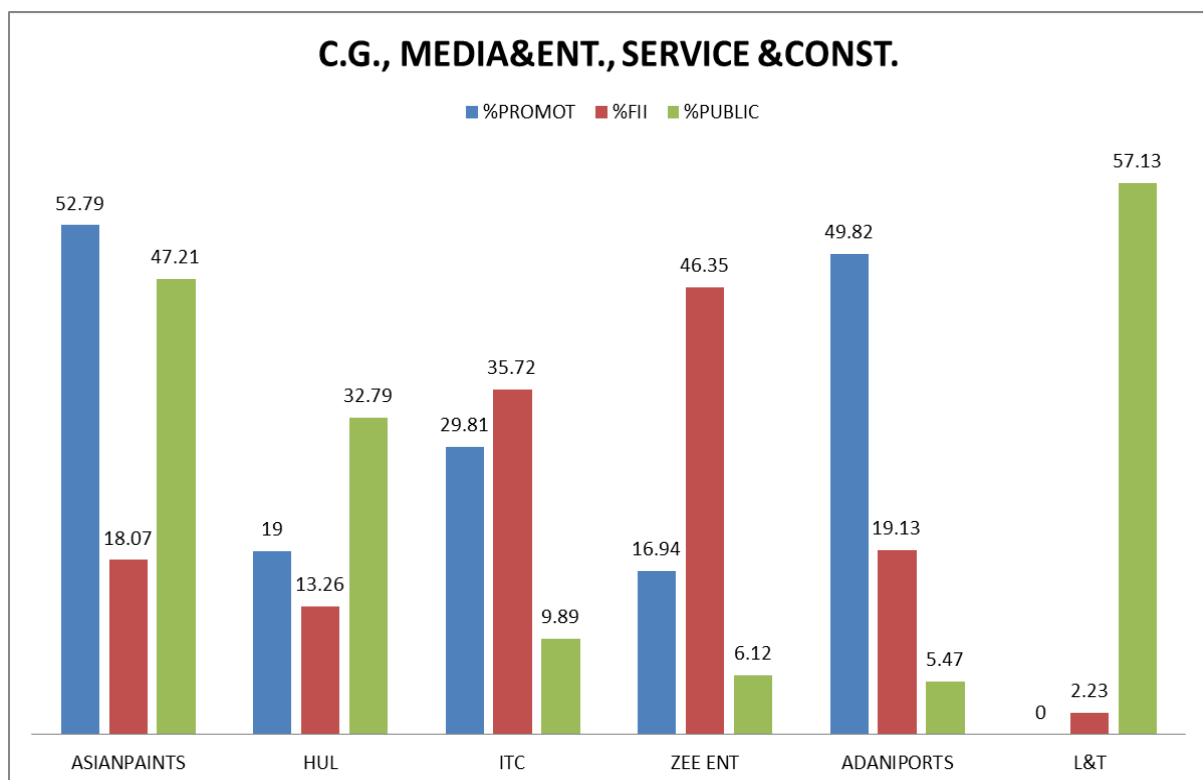
Cement and Telecom

In cement and telecom sectors, all companies are investing in promoters and their group.



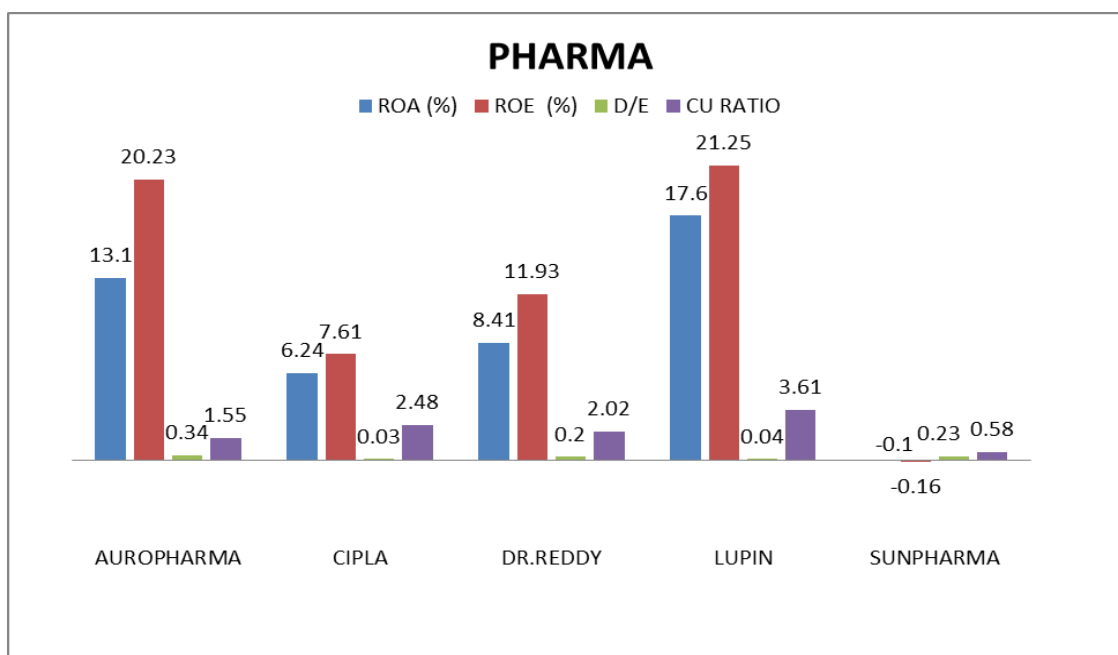
C.G., Media and ENT, Service and Construction

In 6 sectors, the contribution of L&T in public sector and Media & ENT is the highest investor in FII. In service sector, highest investors are in promoters and their group. In Consumer Good sectors, all three companies are investing differently.



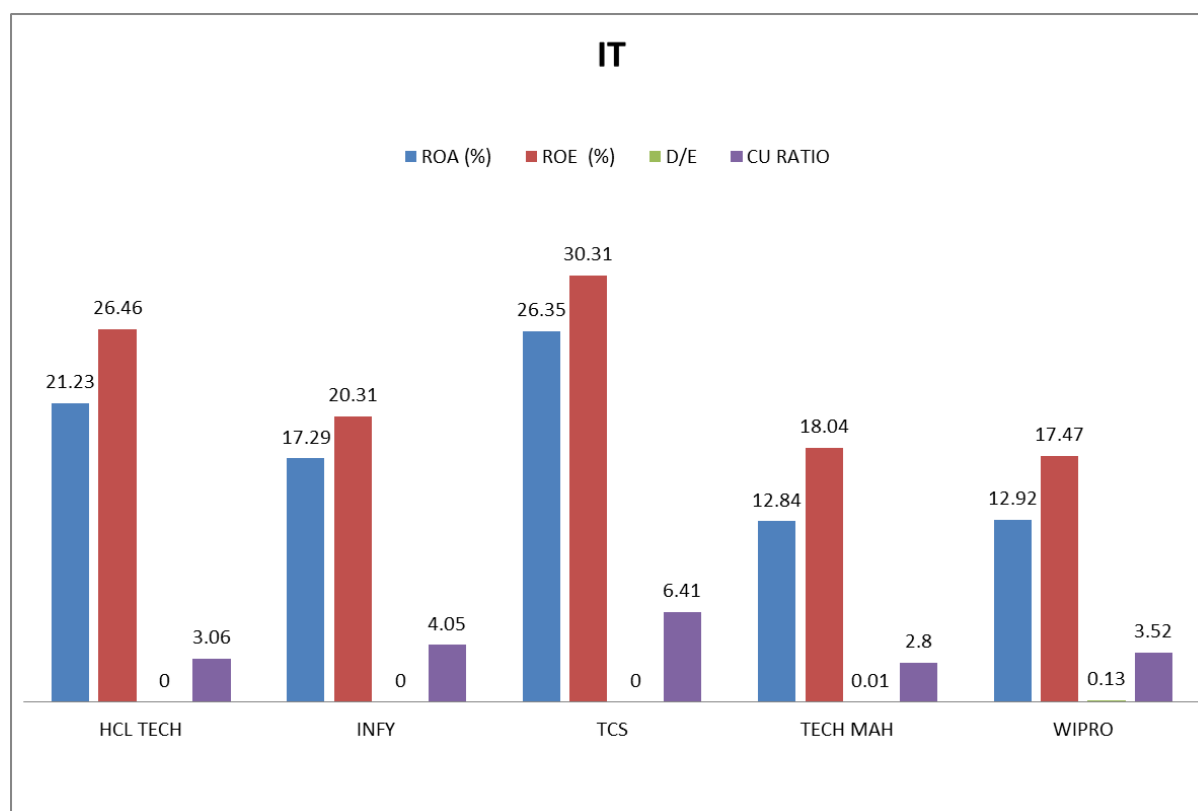
Pharma

In pharma sector companies, we show the Sunpharmaceutical Company, all ratios are lowest. It shows that the company is now a day's declining stage. And also, Aurobindo Pharma and Lupin are growing company.



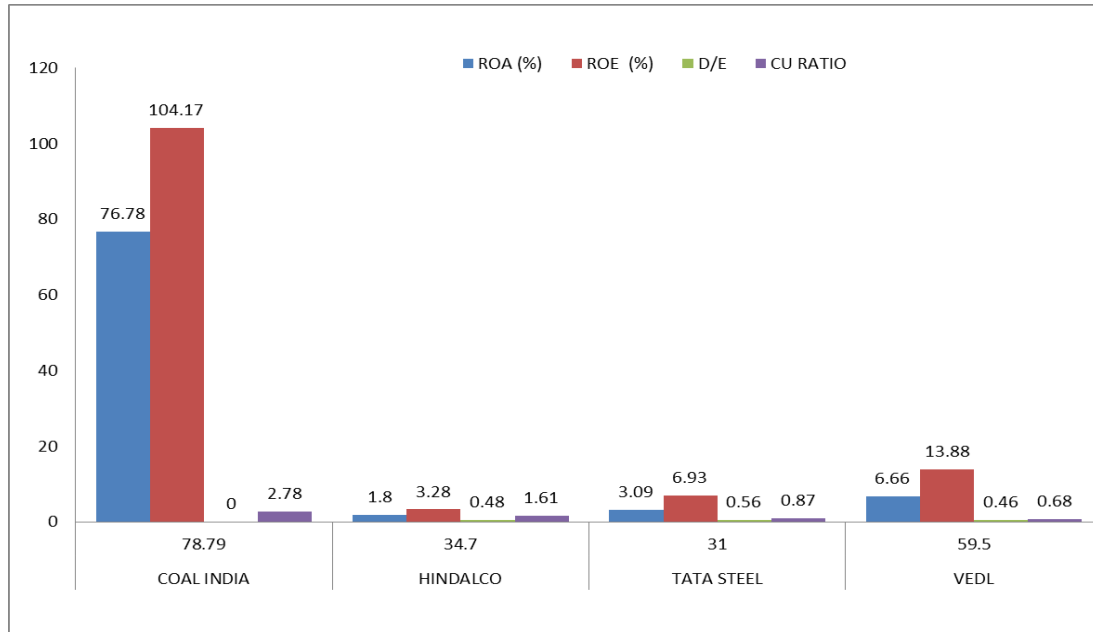
IT

In IT sector, TCS company is in very well growing stage, because ROA, ROE, and current ratio are higher than all companies.



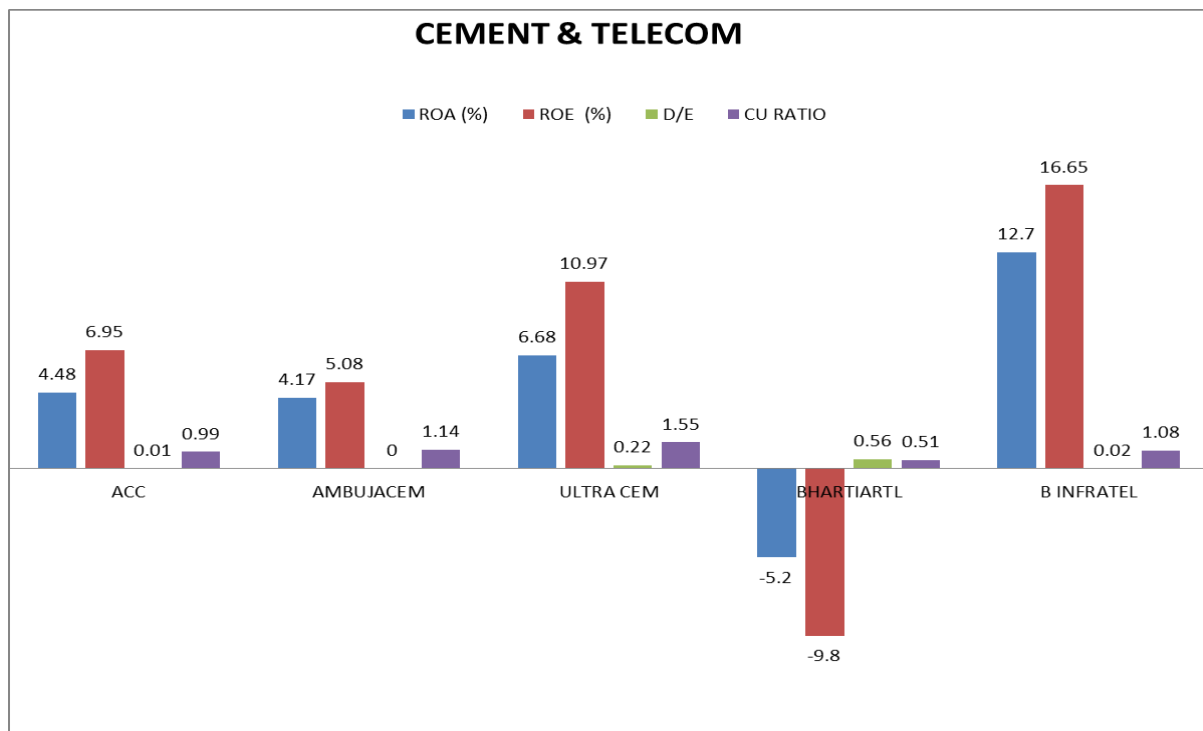
Metal

Coal India Company is indicated all high ratios, it defines that the company is in growing stage, and also it is investing their money many more times.



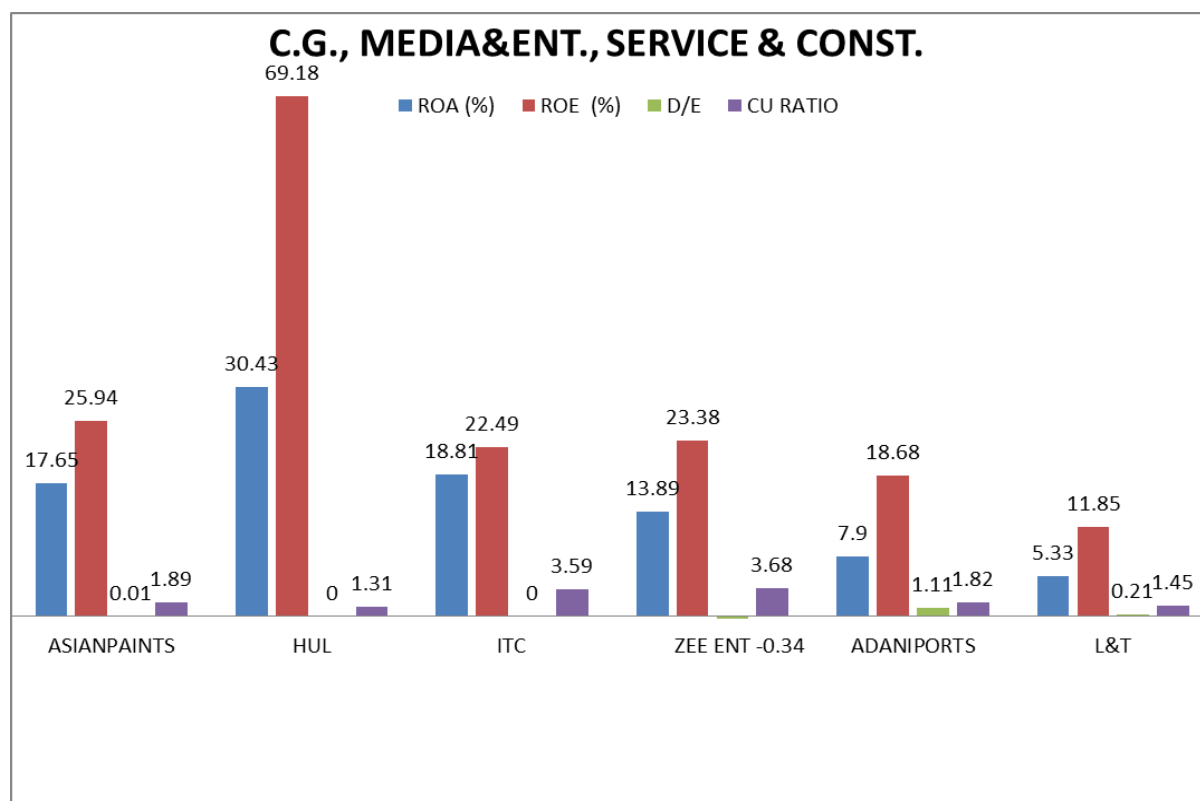
Cement and Telecom

Cement and telecom are two different sectors. In cement sector, there are 3 companies; and in telecom sector, there are 2 companies in which Bharti Infratel is growing very well, as well as UltraTech Cement Company is good indicator for cement sector.



C.G., Media and ENT, Service and Const

C.G. is included all sectors, in which HUL Company is very well being company, and all ratios prove that company is now in growing stage. And other sectors are really good.

**CONCLUSION**

Nature of corporate administration relies upon the honesty, capacity and cohesiveness of board individuals, reasonableness with respect to administration, nature of corporate and budgetary detailing and investment of the considerable number of partners in basic leadership process. The top managerial staff, senior administration authorities and partners are the fundamental players of corporate administration framework winning in a co. Great administration gives steadiness and development to the venture and in addition assembles certainty among the speculators. Our exploration finding of positive effect of administration on money related execution is in conformance with existing examination comes about. The control variable firm size is likewise found to have huge effect on corporate budgetary execution. Estimate has been discovered to

be decidedly connected with every one of the measures of firm execution.

In addition, an endeavor has additionally been had to think about the effect of corporate administration on budgetary execution of those examined organizations which had actualized an aggregate no. of 41 organizations in NSE Nifty-50. In above we compute ANOVA in this exploration we think about promoters are very little more factually noteworthy distinction amongst ROA and ROE. Along these lines, we finished up promoters are not constructive outcome of ROA and ROE and furthermore we dismiss this speculation. In other research including relationship. On the off chance that individual connection itself is .426**. This demonstrates a solid direct connection between Size (BOD) and ID. On the off chance that individual connection itself is .484**. This shows a solid straight

connection between Current Ratio and D/E proportion. It indicates connection between wide size and ID and other C.R. furthermore, D/E proportion it is certain solid connection. In the event that the the BOD and resources, Shareholder's reserve, FII, Public and furthermore related with benefit of the all organization. All areas are performing extremely well and given best execution.

Different institutional financial specialists search for the administration record of the organization before making interest in it. Industry savvy examination of corporate administration will be useful for financial specialists in adjusting their portfolios. Great administered organizations can draw in more capital from outside institutional financial specialists. Henceforth, it will influence the gainfulness in a positive way.

REFERENCES

- [1]. Corporate governance on the financial performance of the firms listed at the NSE between statement of the companies listed at the NSE between connection is sure so corporate administration is likewise impact on money related execution. And furthermore, all the proportion are help for 2008 listed on S&P CNX Nifty 50 Index by MJ MUTUNGA - 2015.
- [2]. Vidyasagar University. *J Commerce Corporate Governance Financial Performance*. 2013; 18. ISSN 0973-5917.
- [3]. *Int J Econ Finance*. 2016; 8. Published by Canadian center of science and education.
- [4]. Mugenda (2003) <https://scholar.google.com/citations?user=FovF9ccAAAAJ&hl=en>.
- [5]. Banaras Hindu University, Varanasi, UP, India. *Amity J Corporate Governan*. 11: 15–33p.
- [6]. Contrary to claims in the literature, Bhagat and Bolton (2008).
- [7]. Bhagat, B.S. Black. The correlation between board independence and long term firm performance, *J Corporat*. 2002; 27: 231–74p.
- [8]. *Int J Adv Res Technol*. 2015; 4(2).