

Implementation Of Corporate Governance And Its Impact On Indian Companies In Present Scenario

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ABSTRACT

This paper examines the impact of corporate governance on the performance of Indian companies based on the corporate governance poll conducted by Asia money. Corporate governance is a set of rules, practices and processes followed by a company or an organisation considering the benefit of the investors, management, customers, suppliers, creditors, community and the government -the stakeholders of the company. It is a special art of administration which refers to the separation of management and ownership. The shareholders are the owners of the business as they have contributed capital to run the company. But all the shareholders are not involved in the management of the day to day activities of the company. The work of governance is delegated to the management team. Efficient management leads to good corporate governance. In this paper the impact of corporate governance is measured by the monthly closing value of the shares of the company which are identified as the best company and given ranks as per corporate governance poll result by Asia money. Study period of four years from Jan 2014 to December 2017 is considered. Corporate governance poll result of the year 2014, 2015 and 2016 are taken and as the result of poll are published in the month of December it is considered as the event month and eleven months prior to the event announcement is considered as the pre event period and twelve months after the event are considered as post event period. The study concludes that the result of the poll has not significantly affected the share prices of the stocks in the BSE market.

Keywords: Corporate Governance, Poll, Asiamoney, BSE, Monthly Closing Share Price.

1. INTRODUCTION

Corporate governance refers to a practice or method by which a company or organisation is administered efficiently by implementing effective strategic decision to ensure long term success of the organisation. Transparency which is the most important right of the stakeholder is ensured through corporate governance and it leads to investor protection. It leads to increase in confidence of investment. Corporate governance aids in achievement of goals and objectives of the organisation which leads to increase in value of the company.

The Securities and Exchange Board of India Committee on Corporate Governance defines corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company."

As the employees of the organisation expecting salary, customers concentrate on the provision of good quality of goods and services, suppliers depend on prompt payment and good trading relationship and the other stakeholders expecting benefits and reputation, investors mainly

concentrate on the financial return from the organisation which is confirmed through transparency. As investors are the owners of the business their interest on the organisation is to be protected which is considered as a most important factor.

Asia money is a financial publication founded in 1989. It has now merged with other key capital markets publications from the Euro money Institutional Investor Group: Total Securitization and Derivatives Week, Euro week to form Global Capital. Global Capital delivers daily services dedicated to the following key market sectors: FIG/bank finance including corporate bonds, covered bonds, syndicated loans, leveraged finance, equity, global emerging markets, securitization and offshore RMB.

Asia money offers analysis on the financial and investment markets for borrowers, capital issuers, senior corporate and government monetary decision makers and institutional investors with business interests in Asia Pacific. It is a monthly publication with daily news and analysis on the Global Capital website. Asia money also publishes the following institutional rankings under the Asia money

RESEARCH BANNER

- Broker's Poll
- FX Poll
- Cash Management Poll
- Corporate Governance Poll
- Private Banking Poll
- Fixed Income Poll

2. REVIEW OF LITERATURE

The article titled **“A Study of the Impact of Corporate Governance Practices on Firm Performance in Indian and South Korean Companies”** by Pooja Gupta and Aarti Mehta Sharma focussed on the corporate governance practices followed by companies in India and South Korea. Parameters like Board structure, Board Constitution, Different committees, Independent directors and their roles, Conflict of interest and disclosure of information. The objective of the paper is to determine the existence of relationship between corporate governance and firm performance and concluded that corporate governance practices have limited impact on both the share price of the companies as well as their financial performance.

Balasubramanian.N, Bernard S and Black, Vikramaditya Khanna in their study titled **“The Relation Between Firm-Level Corporate Governance and Market Value: A Case Study of India”** has analysed the descriptive analyses of firm level governance in important emerging markets, the connection between the firm level governance and firm market value on emerging markets. The study has built a broad Indian Corporate Governance Index and concluded a positive and statistical and significant association between Indian Corporate Governance Index and firms market value in India.

“Institutional Investors and Corporate Governance in India” by Pitabas Mohanty in his paper has used nineteen measures of corporate governance to develop corporate governance index. This paper has analysed that corporate governance index is positively associated with financial performance measures like Tobin's Q and industry-adjusted excess stock returns of Indian companies. The study also found that companies with good financial performance have

actually performed better compared to companies with poor governance records. The study also found that development financial institutions have extended loans to companies with good governance records. The study also found that the mutual funds (other than UTI) have invested companies with good governance records. However the study found that there is no effect of equity the investment of the institutional investors on the corporate governance records of the companies. Rather the institutional investors as a group have invested in companies with good financial performance.

3. STATEMENT OF THE PROBLEM

The corporate governance depicts the management of the company to its stakeholders. It is a method of directing and controlling the companies. Failure of corporate governance leads to many problems. The collapse of international giant likes Enron, World Com of the US and Xerox of Japan and Satyam of India is due to the absence of good corporate governance and corrupt practices adopted by management of these companies. Poor corporate governance is directed towards decrease in the confidence level of the shareholders. Lack of good corporate governance lead to failure in the achievement of business decisions which leads to devaluation of the company. There will be a decrease in the value of the goodwill of the company due to the bad corporate governance. Now a days corporate governance is gaining importance and the shareholders consider it as a major factor of investment decision. Corporate governance adoption has to be reviewed for the better performance of the company as well as the nation.

4. NEED FOR THE STUDY

Corporate governance is gaining popularity from the past decades and many investors are becoming aware of it. Good corporate governance is essential for the growth of the company which leads to growth of the economy of the nation. Efficient implementation of corporate governance ensures transparency and fairness and thereby protecting the rights of the shareholders to a greater extent and eliminates fraudulent activities and thereby minimising risk. Effective corporate governance leads to development of brand loyalty, good customer relationship, good market reputation, monitor the risk level of the company and honest and transparent monitoring of each and every activity of the organisation. In India clause 49 of the listing agreement to the Indian Stock Exchange has been formulated for the improvement of the corporate governance of all listed companies and it came into effect from 31st December, 2005. The most important factor considered by the investors to predict the future performance of the company is the stability of the stock price. Investors believe that corporate governance has impact on the stock prices of the company. So in this study the impact of result of corporate governance poll by Asia money on the monthly closing share price of the companies which are ranked are analysed.

5. OBJECTIVES OF THE STUDY

The following are the objectives of the study

- To test the normality of the monthly closing stock prices of the Indian companies ranked by Asia money under Corporate Governance Poll 2014, 2015 and 2016.
- To study the impact on the monthly closing share price of the ranked companies on BSE based on the result of Asia money corporate governance poll 2014, 2015, 2016.

6. HYPOTHESIS OF THE STUDY

The hypothesis of the study are as follows.

NH1: There is no normality on the monthly closing stock prices of the Indian companies ranked by Asia money Corporate Governance Poll 2014, 2015 and 2016.

NH2: There is no impact on the monthly closing share price of the ranked companies on BSE based on the result of Asia money corporate governance poll 2014, 2015,2016.

SELECTION OF THE SAMPLE

In this study based on monthly closing share prices of the companies ranked by Asia money corporate governance poll in 2014, 2015 and 2016(from January to December) based on the availability of the data are as follows.

TABLE 1
LIST OF COMPANIES RANKED BY ASIA MONEY UNDER CORPORATE GOVERNANCE POLL

Best Overall for Corporate Governance (India)		
Corporate Governance Poll 2014		
Rank	Name of the Company	Name of the Industry
1	Infosys Ltd	IT Consulting & Software
2	Tata Consultancy Services Ltd	IT Consulting & Software
3	Axis Bank Ltd	Banks
4	Wipro Ltd	IT Consulting & Software
5	Mindtree Ltd	IT Consulting & Software
Corporate Governance Poll 2015		
1	Marico Ltd	Personal products
2	Drreddys Laboratories Ltd	Pharmaceuticals
3	Ultratech Cement Ltd	Cement & Cement Products
4	Infosys Ltd	IT Consulting & Software
5	Tata Motors Ltd	Commercial Vehichles
Corporate Governance Poll 2016		
1	Mahindra Mahindra Ltd	Cars & Utility Vehicles
2	Bharti Airtel Ltd	Telecom Services
3	Tata Motors Ltd	Commercial Vehichles
4	Idea Cellular Ltd	Telecom Services
5	Bajaj Auto Ltd	2/3 Wheelers

Source: www.globalcapital.com

7. SOURCES AND COLLECTION OF DATA

The study was based on the secondary data. The companies are selected based on the result of the Corporate Governance poll 2014, 2015 and 2016 by Asia money. The monthly closing share prices of the companies are collected from www.bseindia.com.

8. PERIOD OF THE STUDY

The entire study period was from January 2014 to December 2017. For the Corporate Governance Poll conducted in 2014, 2015 and 2016 the month of December is considered as the event month and eleven months prior to the event month and 12 month post to the event month are considered for the study.

9. TOOLS USED FOR ANALYSIS

- Descriptive Statistics
- Graphical Method

DESCRIPTIVE STATISTICS

This research includes survey and fact finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present.

a. Mean: is also known as arithmetic average, is the most common measure of central tendency and may defined as the value which we get divided the total of the value of various given items in a series by the total number of items.

$$\text{Mean } \bar{x} = \frac{\sum x_i}{n}$$

Where $\bar{x}$ = the symbol we use for mean (pronounced as χ bar)

$\sum$ = symbol of summation

x_i = value of the items χ , $i = 1, 2, \dots, n$

n = total number of items

b. Median: is a positional average and is used only in the context of qualitative phenomena, for example, in estimating intelligence etc., which are often encountered in sociological field. Median is not useful where items to be assigned relative important and weights, it is not frequently used in sampling statistics.

$$\text{Median (M)} = \text{Value of } \left(\frac{n+1}{2}\right)\text{th item}$$

c. Standard Deviation: is most widely used measure of dispersion of a series and is commonly denoted by the symbol ' σ '. Standard deviation is defined as the square root of the average of square of deviation.

$$\sigma = \sqrt{\frac{\sum (x_i - \mu)^2}{N}}$$

Where, σ is Population of standard deviation

X is Observation

μ is population mean

N is Total number of elements in the population

GRAPHICAL METHOD

One of the powerful data evaluation tool is graph. The graphs provide quick and visual summaries of the data. The time series plots show the trend over time. It displays the relationship between the two or three variables when comparing the data set with multiple observations. It is a diagrammatic representation of the data. The independent variable is

represented on the X axis (horizontal line) and the dependent variable is represented on the Y-axis (Vertical line). The perpendicular axes intersect at a point called origin. The graph has four quadrants representing the positive and negative values of the variables.

10. LIMITATIONS OF THE STUDY

The following are the limitations of the study.

- The study was based on the secondary data collected from the website of Bombay Stock Exchange.
- The study was limited to a particular period from January 2014 to December 2017.
- The study was limited to the result of Corporate governance poll by Asia money in 2014, 2015 and 2016
- Limited study tools were used to determine the impact of result of corporate governance poll by Asia money on the monthly closing share price of the companies.

11. DATA ANALYSIS AND INTERPRETATION

TABLE 2
RESULTS OF DESCRIPTIVE STATISTICS OF MONTHLY CLOSING SHARE
PRICES LISTED IN BSE AS PER THE RESULT OF ASIA MONEY CORPORATE
GOVERNANCE POLL 2014, 2015 AND 2016

	Mean	Median	Maximum	Minimum	Probability
As Per Corporate Governance Poll 2014 (January 2014 – December 2015)					
INFOSYS	2480	2255.725	4359.25	985.35	0.3583
TATA CONSULTANCY SERVICE	2472.094	2517.3	2738.2	2128.25	0.3131
AXIS BANK	756.4583	559.525	1921.4	377.8	0.0175
WIPRO	569.8167	567.275	659.25	505	0.3390
MINDTREE	1322.742	1318.975	1639.25	885.4	0.6107
As Per Corporate Governance Poll 2015 (January 2015 – December 2016)					
MARICO	324.7625	287.875	449.85	222.1	0.2615
Dr.REDDY'S	3376.21	3217.925	4310.15	2937.25	0.0369
ULTRATECH CEMENT	3167.392	3138.6	4029.15	2666.1	0.2471
INFOSYS	1312.608	1120.3	2294.85	975.45	0.0188
TATA MOTORS	448.4563	458.725	593.65	298.45	0.6463
As Per Corporate Governance Poll 2016 (January 2016 – December 2017)					
MAHINDRA AND MAHINDRA	1299.602	1328.225	1466.9	751.05	0.0000
BHARTI AIRTEL	371.75	358.325	529.4	289.7	0.0373
TATA MOTORS	445.2813	456.975	537.45	300.25	0.6732
IDEA CELLULAR	95.03333	93.2	118.3	73.95	0.4090
BAJAJ AUTO	2788.738	2807.55	3323.2	2200.4	0.9777

Source: Data has been collected from www.bseindia.com and computed using E-views.

Analysis of Descriptive Statistics of Monthly Closing Share Prices listed in BSE as per the result of Asiamoney Corporate Governance Poll 2014, 2015 and 2016

Table-2discloses the descriptive statistics of monthly closing share prices listed in BSE as per the result of Asiamoney Corporate Governance Poll 2014,2015 and 2016. The probability value is less than 0.05 for Axis Bank during the period January 2014 – December 2015, Dr.Reddy's and Infosys during the period January 2015 – December 2016 and Mahindra and Mahindra and Bharti Airtel during the period January 2016 – December 2017. Therefore the null hypothesis of **“There is no normality on the monthly closing stock prices of the Indian companies ranked by Asia money Corporate Governance Poll 2014, 2015 and 2016”**is rejected for the above mentioned companies. The probability value is greater than 0.05 for Infosys, Tata Consultancy Services, Wipro and Mindtree during the period January 2014 – December 2015, Marico, Ultratech Cement and Tata Motors during the period January 2015 – December 2016 and Tata Motors, Idea Cellular and Bajaj Auto during the period January 2016 – December 2017. Therefore the null hypothesis of **“There is no normality on the monthly dosing stock prices of the Indian companies ranked by Asia money Corporate Governance Poll 2014, 2015 and 2016”** is accepted for the above mentioned companies.

12. FINDINGS OF THE STUDY

The following are the findings of the study

- The corporate Governance Poll – 2014 : The BSE monthly closing share prices of Infosys and Axis Bank has attained maximum value in the pre period than the post period. In the post period the prices of the companies are stable and not much differences in the share prices over the time period of January 2014 to December 2015.
- Corporate Governance Poll – 2015 : The closing share prices has attained maximum value in the pre period than the post period for Dr.Reddy's and Infosys whereas for Ultratech Cement there is increase in the prices of the shares in the post period and the shares prices of the other companies remain stable during the study period January 2015 to December 2016.
- Corporate Governance Poll – 2016 : . There was a increase in the monthly closing share prices of Bajaj Auto where as the monthly closing share price of the other companies remain stable during the post and pre period which shows that the Corporate Governance Poll 2016 does not have impact on the monthly closing prices of the shares of the companies which are ranked in the Poll.

13. SUGGESTIONS OF THE STUDY

The following are the suggestions of the study

- Awareness about the importance of corporate governance should be created among the stakeholders.
- Evaluation of corporate governance should be done regularly to eradicate frauds and scams.
- Transparency must be ensured through corporate governance.

14. CONCLUSION

The strategy of efficient monitoring and supervision of the organisation along with adopting the best corporate governance practices help in efficient management of the organisation and early identification of frauds to eliminate them to protect the interest of the stakeholders. From this study it is found that the investors of Bombay stock Exchange are not significantly influenced by the result of the Corporate Governance Poll of the year 2014, 2015 and 2016 by Asia money. Therefore the knowledge about the corporate governance should be imparted to the stakeholders of the organisation to ensure its transparency. A good corporate governance practice has greater impact on the performance of the organisation.

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