CHAPTER - 2

REVIEW OF LITERATURE
Chapter 2

Review of Literature

2.1 Introduction

Review of literature plays a substantial and crucial role in every academic research. Hence, the literature with respect to the well-defined problems has been collected and reviewed properly, with the focus in search of information and critical appraisal of the information.

It is a select analysis of prevailing research which is appropriate to the research topic and displays how it relates to the further investigation. It describes and justifies how further investigation may help answer some of the queries or gaps in the context of research.

Literature review gives an outline of what has been said, key writers, existing theories, and hypothesis, research questions asked, appropriate and suitable methods and methodologies and critical evaluation of work. It comprises of dissertations, scholarly articles, working papers, etc. It may consist of guidelines by regulatory authorities, conference proceedings, business reports, industry reports, research reports, etc.

There have been a plethora of studies conducted by various academicians on various aspects of corporate governance worldwide. The association between better corporate governance and corporate performance are the main areas of research. The aspects of corporate governance included in the studies are board composition, board size, audit committee, CEO duality, concentrated ownership, disclosure and transparency, the role of foreign institutional investors, etc. In the following paragraphs, a brief description of some of the past relevant studies is provided. Literature has been classified on the basis of following aspects of the study.

2.2 Corporate Governance Disclosures and Performance

Profitability has been quoted as one of the various benefits of adopting better corporate governance system. A firm’s profitability is positively associated with its corporate governance disclosure level in previous studies. The quality of corporate governance is affected by the market valuation of the firm; better-valued firms follow better governance practices. The firms wishing to enhance their firm value may do so by increased disclosure.
Various studies have found the correlation between corporate governance and firm performance. The important studies focusing on disclosure and performance are discussed as below:

Lobo and Zhou (2001) analyzed the relationship between disclosure quality and earning management. In this study, researchers used simultaneous equation model to test the hypothesis that disclosure quality and earning management are negatively associated. To measure corporate disclosure AIMR rating is used and earning management by discretionary accruals from modified Jones model. This study proved the statistically negative relationship between earning management and disclosure quality and supported evidence on how management practices flexibility under current minimum disclosure requirements to exercise discretion in earning management. Companies that disclose less information likely to engage more in earning management and vice versa.

Bozec Richard (2005) investigated the board performance relationship taking into consideration the potential effect of market competition. In this study, the researcher examined the effect of the board of directors’ characteristics and market competition on firm’s performance. The study was conducted in Canada using a sample of 25 state-owned enterprises and covered the period from the year 1976 to 2000. The results concluded that market competition has a positive impact on firm profitability and productivity. The market competition offers managers with proper disciplinary mechanisms. Board characteristics such as board independence and board committees are negatively related to firm profitability when firms are exposed to market discipline. This study recommended for further research by taking into consideration the structure and quality of board committees.

Bhat G, Hope Ole K and Kang Tony (2006) analyzed whether corporate governance transparency affects the accuracy of analyst forecasts? In this study, they investigated whether corporate governance information impact on the accuracy of forecast over and above financial information. This study provided evidence that governance transparency has a positive impact on the analyst forecast accuracy after controlling for financial transparency. This study suggested that when financial disclosures are less transparent, then governance-related disclosures play an important role in improving the information environment.

Gruszczynski M (2006) examined the relationship between the level of corporate governance and financial performance of companies in Poland. It was observed that there is a significant
association between governance rating and operating profit margin and also with debt leverage ratio. The results concluded that the companies with higher profit margin and lower debt leverage ratio are expected to have a better rating of corporate governance.

Kent Pamela and Stewart Jenny (2007) examined the relationship between the level of disclosure and corporate governance quality of Australian companies. This study supported the evidence of an association between the level of financial reporting disclosure and corporate governance structure with respect to board and audit committee diligence and external audit quality. This study acknowledged that references to specific accounting policies and number of narrative sentences do not fully measure the quality of disclosure. However, it was found that quantity of disclosure was positively associated with some aspects of better corporate governance, such as frequency of board and audit committee meetings and choice of auditors.

Mangena Musa and Tauringana V (2007) analyzed the relationship between corporate governance structure in Zimbabwe, foreign share ownership with firm level disclosure. This study found a positive relationship between foreign share ownership with voluntary disclosure and audit committee independence. This study supported the notion that foreign investors have preferences for the companies with greater disclosure and effective corporate governance structure. This study found a significant association of foreign share ownership with size, profitability, and liquidity.

Rogers Jonathan L (2007) investigated whether managers strategically alter disclosure quality in response to personal incentives, particularly that resultant from trading on their own account. He found the evidence that managers provide higher quality disclosure information before selling shares than they provide in the absence of trading.

Tsamenyi M, Eninful -Adu E and Onumah J (2007) examined the disclosure and corporate governance practices of Ghana listed firms. This study was conducted for 22 listed companies of Ghana stock exchange for the year 2001 and 2002. The factors examined were ownership structure, dispersion of shareholding, firm size, and leverage. It was found that the disclosure level in Ghana listed firms is low. All the factors have a significant effect on the disclosure level except leverage. The correlation between leverage and disclosure is found insignificant. This study contributes to the understanding of disclosure and transparency among Ghanaian listed firms which can serve as an incentive for foreign investment in the country.
Bauwhede Heidi Vander (2009) investigated the relationship between the extent of corporate governance compliance with international best practices and operating performance of listed European companies. The sample consisted of 118 companies from FTSE Euro top 300 index for which there was Dominor rating (issued by a private agency) of board structure and its functioning for the year 2000 and 2001. Corporate governance variables included were board structure; it’s functioning, corporate disclosure and operating performance as measured by return on assets (ROA). The results showed that international best practices relating to board structure and its functioning were positively associated with ROA. This study suggested that complying with international best practices of corporate governance may help companies to follow good corporate governance practices, which may prove useful for investors while assessing and measuring company performance.

Fong Steve C C and Shek Winnie W Y (2009) examined the relationship between corporate governance disclosure and financial performance of Hong Kong-based and China-based family controlled property development companies listed on Hong Kong stock exchange. The sample of the study included ten leading companies with the largest market capitalization. The corporate governance quality was measured by a checklist of mandatory and recommended disclosure developed with Hong Kong listing rules. The results of disclosure and financial ratios indicated that there is a positive relationship between corporate governance and financial performance in Hong Kong-based companies, especially operating profit margin and net profit margin. This positive association specified that better corporate governance disclosure could reduce the agency problem and protect investors who are in the minority. This study suggested for further research on the basis of survey and interviews for validating the corporate governance practices which help to attain a more inclusive view of corporate governance mechanism. It further recommended considering liquidity aspects and performance index for evaluation of the performance of companies.

Sharma Reema and Singh Fulbag (2009) analyzed the voluntary corporate governance practices of Indian companies. In this study, they constructed a voluntary corporate disclosure index based on 40 items, selected from corporate governance section of the annual report. The sample included 50 companies from different four industries such as software, sugar, textile, and paper. This study concluded that though there is a small improvement in the voluntary corporate disclosure scores of the companies, still it can be considered as a weak disclosure. The degree of disclosure varies from company to company. It was observed from
the study that companies are following less than 50% of the items of disclosure index. As per this study, there is a need to enhance the scope of existing mandatory Clause 49 by covering items from the voluntary index so that Indian companies can meet international standards of corporate governance.

Owusu-Ansah Stephen and Ganguli G (2010) analyzed large U.S companies on the basis of voluntary reporting on the internal control system and governance characteristics. The effects of variables of corporate governance including insider ownership, the frequency of audit committee, independence of audit committee, board size, board independence, multiple directorships, CEO duality, institutional holdings and auditor type on voluntary reporting on internal control systems were investigated. The sample consisted of 198 Fortune 500 companies. The analysis of study found a positive and significant relationship between voluntary reporting on the internal control system and audit committee meetings, audit committee independence, board independence. The results found no significant association between the voluntary internal control system and CEO duality, institutional stockholdings and auditor type. Voluntary reporting on the internal control system, board size, multiple directorships and insider stock holdings were negatively associated as per results. This study contributed to the prevailing voluntary literature by providing realistic evidence on the role played by governance features in the decision making of large U.S corporations to voluntarily report on their internal control system. This study suggested for future research into economic consequences of voluntary reporting on internal control system such as its impact on trading volume, volatility of prices, the overall profitability of the company, etc.

Pahuja Anurag and Bhatia B S (2010) examined the determinants of corporate governance disclosures. The objective of this study was to determine the extent to which Indian listed companies disclose their corporate governance practices by examining the annual reports of 50 listed companies. It was found that a number of important issues of mandatory requirements of Clause 49 were not disclosed by various companies. The results of this study concluded that there is an extensive scope for improvements in the corporate governance disclosure practices in the sphere of quantity and quality. Indian companies need efforts to disclose world class information to meet international standards and to participate in the global economy.
Tang Tseng-Chung (2010) in his study examined the performance of Taiwan banks and its impact on corporate governance disclosure practices. This study was conducted for 33 banks listed on the Taiwan Stock Exchange and Grey Tai Securities Market. The results of this study revealed that better-performing banks disclose less information on corporate governance to avoid the two-audience signaling problem, whereas large and high leveraged banks disclose more information on corporate governance to minimize their agency cost of debt. As per this study, larger banks disclose more to reduce public criticism or government interference in their business affairs.

Tiwari Deepesh (2010) examined the comparative corporate disclosure practices between India and America. This study examined the extent of disclosure of mandatory and voluntary information in the presence of acts, rules and guidelines of regulatory bodies. This study discussed the role of two forces i.e. the regulator and the capital market. Indian corporate sector is facing the problem of disciplining the dominant shareholders and protecting minority shareholders, while in the U.S the governance issue is that of disciplining the management who has ceased to be effectively accountable to the owners. It has been concluded that better corporate governance in India lies in efficient and vibrant capital market. There is a possibility that Indian companies may approach Anglo-American pattern of near separation of ownership and management over a period.

Vyas Vijay H and Solanki Ashvinkumar H (2010) analyzed the impacts of disclosure and other corporate governance mechanisms on the cost of equity in Asia’s emerging markets with newly released surveys from Credit Lyonnais Securities Asia (CLSA). This study suggested that there is no single model of good corporate governance practices, corporate governance system may differ from country to country because of ownership and control mechanism and good corporate governance depends on regulatory and legal frameworks, cultural factors, the structure of product, factor markets and industry sectors.

Chatterjee D (2011) examined the corporate governance practices based on the content analysis. The sample was 30 Indian companies which form the BSE Index. The objective of this study was to find out whether companies are complying with the code prescribed by SEBI or not. The annual reports for the year 2001-2002 were considered for this analysis. The only text used within the corporate governance reporting section was analyzed. It was found that companies are providing limited basic information. Some companies are not even
providing mandatory information. As per this study, there is a variance in the extent and quality of information disclosed by companies in their annual reports.

Pandya Hemal (2011) examined the relationship between corporate governance structures and financial performance of Indian Banks. This study was conducted for public and private banks operating in India and objective was to examine the relationship between CEO duality and proportion of independent directors on the firm performance as measured by return on assets (ROA) and return on equity (ROE). The study concluded that there is no significant relationship between corporate governance structures (board independence, CEO duality) and financial performance. This study suggested for further research on other corporate governance issues such as board size, board compensation, ownership structure and qualitative issues of the board such as board decision-making process which impact the financial performance of corporations.

Sanan Neeti and Yadav Sangeeta (2011) studied the impact of corporate governance reforms brought out by SEBI and Clause 49 on the financial disclosures of the Indian companies. The study was carried out with 30 BSE listed companies for the pre-reform period (2001-02 to 2004-05) and post-reform period (2005-06 to 2008-09). The corporate governance disclosure index was developed on the basis of attributes drawn from standards and poor’s transparency and disclosure survey (2008). The results of the study revealed that there is an improvement in the financial disclosures scores in the post-reform period but overall disclosure level is moderate. There is a long way to go for Indian companies to be at par with international standards. This study suggested the market regulators such as SEBI should have the power to prosecute top management of companies involved in frauds and penalties should be made more stringent.

Jiao Yawen (2011) analyzed the relationship between corporate disclosure rankings, investment management, and various corporate performance measures. The researcher used AIMR (Association for Investment Management and Research) corporate governance rankings to measure the adequacy of corporate disclosure. The period of study was from 1979 to 1996 and covered hundreds of firms in more than 40 industries every year. The performance measures used were Tobin’s Q, net profit margin, sales growth and research and development intensity. It was found that there is a positive association between disclosure ranking and stock returns, market valuation, future operating performance and future R&D
intensity. The study showed a positive association between changes in disclosure rankings and future unexpected operating performance. As per results, the disclosure rankings were highly correlated with the firm value. This study recommended that corporate disclosure reveals managers' efforts to communicate positive private information about future earnings to shareholders. Managers can reduce the short run market pressure and stock misvaluation by improving corporate disclosure quality.

Pahuja Anurag (2011) analyzed the linkage between board effectiveness and quality of corporate governance. In this study, corporate governance quality index and board effectiveness index were constructed for Indian firms. The sample for the study included 50 Indian public limited listed companies. The results of a study conducted for the year 2008, concluded that board effectiveness is positively associated with corporate governance characteristics. Greater the effectiveness of the board, the better is the quality of corporate governance. Corporate governance quality is influenced by market valuation of the firm i.e. better-valued firms follow better corporate governance practices. This study also found that larger firms are having a better quality of corporate governance practices because they have larger resources to undertake additional corporate governance initiatives and receive a lot of attention from investors.

Subramanian S and Reddy V Nagi (2011) studied the relationship between voluntary disclosure and competitiveness of Indian markets in International product market. The results revealed that firms get competitiveness in the international market when they voluntarily disclose more about their board practices and that lead to an increase in the market value of shares. But voluntary disclosures about ownership related issues reduce the market value of share and growth of Indian corporate firms in the international market. This study suggested for Indian firms to find an equilibrium regarding ownership disclosure which will help to reassure investors and other stakeholders about firm’s financial credibility, while not displaying the kind of information useful to competitors which could lead to competitive disadvantage.

Yang Jun (2011) conducted a study on corporate governance and firm value. This study was conducted in Canada to know the impact of corporate governance on firm value. The period of study was from the year 2004 to 2008, and the sample consisted of 106 firms over a five years period. This study found an insignificant and weak association between corporate
governance and firm value. The results have shown two perspectives; one is unobservable private information make some firms to adopt sound corporate governance and same information have increased the value of firm and another is adopting sound governance system hurts the firms by dropping their firm values.

Eberhart Robert N (2012) examined the value differences between Japanese firms on the basis of legal systems to know the convergence of corporate governance system. This study supported the evidence that shareholders oriented, more transparent system of corporate governance enhanced the corporate value as compared to the firms following traditional system of statutory auditors.

Nicuale Bordean O and Pop Zenovia C (2012) conducted a comparative study of corporate governance issues between Germany and Romania. This study focused on cross-case analysis, taken data from the annual reports of pharmaceutical industry from Germany and Romania. The areas covered were corporate governance compliance, transparency, roles and responsibilities of the board of directors and compensation. The results concluded that companies in the developing countries like Romania have a long way to go. It needs to set up a proper governance system and follow sound corporate governance practices to achieve a high level of disclosure practices.

Rouf Abdur Md. (2012) investigated the corporate governance disclosure and financial performance of companies in Bangladesh. He conducted this study to examine the relationship between financial performance and level of governance disclosure. This study was conducted in 2007 on the basis of sample drawn from 94 listed companies in Bangladesh. The disclosure index was constructed on the basis of 40 items of information and performance measured by return on assets. The results showed that higher profitable firms are positively related to the level of corporate governance disclosure.

Sarkar Jayati, Sarkar Subrata and Sen Kaustava (2012) documented the strong association between corporate governance index and market performance of Indian companies, where companies with better governance practices earn significantly higher rates of return in the market.

Siahaan Fadjar O.P (2013) investigated the impact of good corporate governance mechanism, firm size and leverage on the firm value. This study was conducted for 28 manufacturing
companies listed on stock exchanges of Indonesia from the year 2007 to 2011. As per this study leverage and number of independent directors on the board do not affect the firm value. Firm size and board size have impact on the firm value.

Sharma Smriti, Saxena Pravin and Saxena Nitin Kishore (2013) conducted a study to examine and evaluate the level of conformance with the principles of OECD of corporate governance. This study was conducted for the year 2010-11 for the companies listed in 30 BSE Sensex companies. As per the results the principle of “Role of Stakeholders in Corporate Governance” has attained greater importance. The principle of Disclosure and Transparency and Board Responsibilities needs to be more emphasized by Indian companies for better corporate governance practices at international level.

Renny N, Nurcahyo B, Kurniasih A and Sugiharti B (2013) examined the impact of good corporate governance practices on the corporate performance. This study was conducted in Indonesia for the period of 2006-2010. The sample size included 34 companies with the largest size. Good corporate governance consists of five basic principles which are transparency, responsibility, independence, accountability and fairness. The results of the study concluded that good corporate governance has a direct impact on the corporate performance as measured by EVA. This study supported the evidence that implementation of good corporate governance affects directly corporate performance. As per this study, corporate performance increases as the firm size increases because of implementation of good corporate governance. As per this study implementation of good corporate governance can be useful for the investors before making investment decisions. It was suggested for future studies to collect data by conducting surveys and by sending a questionnaire to the sampled companies, so the assessment of good corporate governance can be more objective.

Sahu Tarak N and Manna Apu (2013) investigated the impact of board composition and board meetings on firm’s performance of manufacturing companies in India. Board composition characterized by board size, a number of executive directors, board independence, and chairman’s identity. The corporate performance was measured by net profit, net sales, return on capital employed, EPS, Tobin’s Q, EVA, and MVA. This study was conducted for the period 2006 to 2011, for 52 Indian manufacturing companies listed on BSE. This study concluded that Indian manufacturing industry is characterized by moderate profitability and satisfactory market performance. As per this study, there is a positive
relationship between board size and performance and a negative relation was found between board independence and corporate performance. Board meetings and performance were positively associated. This study suggested for building a strong governance system to protect shareholder’s wealth and value of the firm. It further recommended for future studies to include other board characteristics like gender diversity, education level of directors, the presence of foreign directors etc.

Bijalwan J G and Madan Pankaj (2013) analyzed the corporate governance practices, transparency and performance of Indian companies. This study consisted a sample of 121 companies listed on BSE and was conducted for the period of 2010-2011. On the basis of a self-designed questionnaire, the researcher highlighted the importance of transparency and disclosure. The results concluded that transparency and shareholder’s rights affect the firm performance. The observations of the study have shown that the firms with high level of disclosure in accounting and financial matters have better financial performance as compared to the firms with poor transparency level. The observation was that the firms with high level of transparency could raise funds from shareholders easily and enjoy the advantages of low cost of equity. As per the results of the study, the firms in which minority investors are not ignored gain the trust of existing shareholders and they desire to retain the shares of the company in the long run which in turn enhance the firm value.

Ben P. John (2014) studied the corporate governance index and firm performance of sample drawn from BSE 100. In this study, he developed own designed corporate governance index which represented the disclosure score. The author calculated firm performance by market price to book value and return on capital employed. This study found a weak but significant association between corporate governance index and market value of firms. About return on capital employed and index, the study found no significant relationship. As per this study, more disclosures result in higher valuation by investors. So, it is in the interest of firms to not only follow proper disclosure norms as per the Clause 49 guidelines but also to ensure that they undertake measures that reflect their assurance to compliance so that best corporate governance practices are observed.

Kumari Prity and Patnayak J K (2014) analyzed the role of board characteristics as a control mechanism of earning management. In this study, they examined the impact of corporate governance attributes on the practice of earning management through discretionary accruals.
The results supported the evidence of a positive association between the presence of earning management practices and board size. There was no association found between earning management and board independence, and a negative relationship was found with the absence of CEO duality. Earnings management practice misrepresents the actual information and sometimes misrepresents the information about the financial and market position of the company, which in result misguides the shareholders and other stakeholders of the company. So, there is a need for better corporate governance for monitoring the business affairs and controlling the earning manipulation practices. This study suggested for restricting the earning management to limit the board size and separate CEO and chairman’s position.

Gupta Pooja and Sharma Arti Mehta (2014) conducted a study on corporate governance practices followed by Indian and South Korean companies. This study considered parameters like board composition, board structure, committees, roles of independent directors, conflict of interest and disclosure of information. The objective was to find out whether there is a relationship between corporate governance and firm performance or not. This study was an attempt to find whether better corporate governance leads to better performance of the companies. The results concluded that corporate governance has limited impact on both the share market prices as well as on their financial performance. In this study, it was observed that Indian companies follow more stringent corporate governance practices based on US model as compared to South Korea which follows stakeholder form of corporate governance. There is a huge difference in mandatory disclosures and governance practices among two countries.

Marshall Diana –Weekes (2014) determined the level of corporate governance disclosure practices undertaken by public listed companies listed on Barbados Stock Exchange (BSE). He used content analysis to derive disclosure score. As per the results leverage, economic sector, and audit quality were not the determinants for a high level of corporate governance disclosure practices. The companies which participated in other markets proved to be a good indicator of the higher level of corporate governance disclosures.

Scholtz Henriette and Smit Anna-Retha (2015) examined the various factors affecting the level of conformance with corporate governance recommendations for companies listed on Alternative Exchange (AltX) in South Africa. The results of this study found that larger companies where Chairman of the board and CEO are separate, companies with an
independent audit committee and companies with higher debt ratio are more likely to confirm with corporate governance recommendations. This study did not find any evidence that level of corporate governance conformance are affected by growth and profitability of companies or by characteristics of corporate governance such as independence of board

2.3 Corporate Governance, Board Composition, and Board Size

Board of directors plays a vital role in corporate governance. The significance of board composition based on executive and independent directors, diversity based on skills and background has been recognized in the literature.

Board size is one of the substantial factors related to corporate governance in various studies. Literature has discussed the various sources of board size effect. The following are the details of some previous important research studies:

Jensen (1993) discussed the significance of smaller boards. As per his study, small boards can improve the performance of corporations. When board size gets beyond seven or eight people, they are less likely to function effectively. He proposed that larger boards lead to less open discussions of managerial performance and larger control by CEO. Thus, larger board size can reduce the board’s ability to resist CEO Control.

Cheng Eugene and Coutenay Stephen (2006) examined the association between board monitoring and voluntary disclosures. This study found that board size is not associated with the voluntary disclosure; boards with a majority of independent directors have significantly higher level of voluntary disclosure than firms with balance boards.

Laksmana Indrarini (2008) examined whether certain board and compensation committee characteristics are correlated with the extent of board disclosure. The results supported the evidence that effective board and committee characteristics are associated with the greater communication to shareholders about board practices. As per this study large board size brings diversity in terms of background and skills and performs better than smaller boards. Furthermore, the results showed that boards with the power to act independently from top management provide more disclosure. As per this study board disclosure increased with the time and resources devoted to board duties. It had been recommended that firms need to limit the CEO domination in director nomination process and reduce CEO influence in shaping
board and committee meetings agenda to get a stronger board that would perform their duties and roles effectively. This study suggested for further research in the area of board governance process, board meeting quality, and boardroom expertise.

Guest Paul (2009) examined the impact of board size on firm performance. He conducted a study for large sample of 2,746 UK listed firms for the period 1981-2002. As per this study, board size had a negative impact on profitability, share returns, and Tobin’s Q. The negative relationship was found in large firms having larger boards. The results supported the evidence that problems of poor communication and decision making weaken the effectiveness of larger boards.

Swamy Vighneswara (2011) conducted a study on corporate governance and firm performance in unlisted family-owned firms. The variables studied for corporate governance mechanism included board size, family ownership, outside directors, audit committee and family CEO. The results showed that larger boards encourage team development, facilitate inter-organizational links and strategy making. Larger boards hold a wide range of expertise which in turn helps them in better decision making. This study offered the evidence and thrown a new light on competitive advantages of small family firms in terms of their positive influence on firm performance. As per the results, the potential value of resources and proficiencies are more likely to be capitalized when the size of the family firm is small. Small family firms are better aligned and thus increasing the performance of the firm.

Sheikh Nadeem, Wang Zongjium, khan Shoaib (2013) investigated whether the internal attributes such as outsiders directors, board size, CEO duality, managerial ownership and ownership concentration have an impact on the performance of firms. This study was conducted in Pakistan for the period of 2004 to 2008. The annual reports of 154 firms over a period of five years were taken into account. The results had shown a positive association between firm size and performance. Outsider’s directors and managerial ownership were negatively associated with the measures of performance, whereas board size and ownership concentration had a positive effect on performance. The results revealed that internal governance measures had a significant impact on firm performance.

Zaheer (2013) studied the effects of duality, board size and board composition on corporate governance disclosure in Pakistan. The researcher investigated the impact of small and larger board size, executive and non-executive board members and CEO duality on the extent of
disclosure practices of 53 listed companies in Karachi Stock Exchange. As per this study, larger board size positively affects the corporate disclosure level and CEO duality and board composition do not significantly impact the level of disclosure.

Isa Muhammad and Muhammad Sabo (2015) conducted a study to examine the impact of board size on corporate social responsibility disclosure of listed firms in Nigeria for the period 2014-2015. The study found the positive association between board size and corporate social responsibility disclosure. It was concluded that larger board sizes are more likely to be versatile than the smaller ones because they have proficiency from various angles that mobilize resources for optimal utilization and such larger board size should be encouraged. This study recommended competent board size 9 to 15 members to direct the affairs of firms.

### 2.4 Corporate Governance and Presence of Family Members on the Board

Literature cited the family ownership as another important aspect of corporate governance. Martinez (2007: 87) defined the family-controlled firms as "a firm whose ownership is clearly controlled by a family or group of families and where members of these families are also present on the board of directors and top management." It has been a controversial topic in corporate governance among economists and research scholars in the last three decades. The countries like the UK and the US have dispersed ownership, outside system of corporate control with large equity markets (Nestor and Thompson 2000: 5). In contrast, developing countries have heavily concentrated ownership (La Porta et.al. 1998: 1150). The majority of Asian capital markets have insider systems, with a small number of quoted companies and concentrated share ownership.

Family-run business groups play a key role in Indian business sector. The presence of family members on the board hinders the performance of concerns. As per a study conducted by global financial services major Credit Suisse, 67% of all listed companies in India are family controlled which is the highest among top 10 Asian countries. (Reporter 2011).

Family-controlled companies that dominate Indian business have been quick to knock evolving business opportunities, but governance standards remain an issue, as per Moody’s Investors Service, the US-based global rating agency. (Moody’s 2016). The following are the summaries of prior literature on family ownership:
Pancholi and Desai (1997) attempted to examine the influence of ownership pattern on the financial performance of Indian companies. They observed that concentration of ownership brings a higher level of commitment and reduces the discretionary behavior of corporate board and therefore improves the profitability which leads to an improved corporate governance.

Chen and Jaggi (2000) investigated the association between family control, independent non-executive directors and financial disclosures in Hong Kong. The results found that the association between financial disclosure and independent directors is weaker in the case of family controlled firms as compared to the non-family controlled firms.

Ho and Wang (2001) conducted a study on the relationship between corporate governance structure and extent of voluntary disclosure in Hong Kong. The results indicated that percentage of family members on the board is negatively associated with the extent of voluntary disclosure. This study provided empirical evidence to the policy makers and regulators in East Asia for implementing the two new board requirements on the audit committee and family control.

Chau and Gray (2002) conducted a study on ownership structure and voluntary disclosure of listed companies in Hong Kong and Singapore. An analysis of annual reports revealed that extent of outside ownership is positively associated with the level of disclosures. The results proved that level of disclosure is less in family controlled or “insider” companies since the demand for the information is quite low as the shareholders might get the information by themselves.

Anderson and Reeb (2003) investigated the association between founding-family ownership and performance among S&P 500 companies in the US. They found that family firms perform better as compared to non-family firms. The results destroyed two myths: first that family ownership and involvement has a negative impact on firm performance and second, that adverse impact on minority shareholders.

Martinez and Stohr (2007) conducted a study of the firms listed in Chilean Stock Exchange to find out the relationship between family ownership and firm performance. The results supported that public family firms perform better because they take advantage of their strengths to overcome weaknesses. They professionalize their management and governance
when they feel the pressure of market scrutiny and when have to be accountable to minority shareholders.

Ehikioya Benjamin I (2009) conducted a study in Nigeria to examine the association between corporate governance structure and firm performance. The researcher analyzed the data for a sample of 107 firms listed in Nigerian stock exchange for the years 1998 to 2002. As per this study, more than one family member on the board and CEO duality have a negative impact on firm performance. Firm size and leverage have a significant impact on performance and no evidence found in support of board composition on performance. This study suggested that there is a need for equity ownership to be concerted in the hands of individuals, corporations and institutional bodies, which will create better incentives for the investors to undertake the monitoring process and will lead to better performance. The results have shown that firms with higher level of ownership concentration have a higher market valuation. The results recommended the firms to separate the positions of CEO and chairman to enhance the performance and to encourage the efficiency in decision-making mechanisms. There is a need for the firms to provide continuous training and development for the board of directors to ensure proper discharge of their responsibilities.

Cheung Yan L., Stouraitis A and Tan W (2010) studied the impact of corporate governance on future company stock returns and future company risks. In this study they constructed an index of corporate governance, following three rating exercises during the years 2002 to 2005. The results revealed that family firms and firms with concentrated ownership structures are associated with bad corporate governance. Good corporate governance is associated with both higher stock returns and lower risks. The quality of corporate governance (measured by the level of scores in corporate governance) seems very important in explaining future risk and company returns. As per this study, the firms with low and medium disclosure scores are in need to improve their corporate governance practices.

Mohamad Wan and Sulong Zunaidah (2010) attempted to address two important research issues, which include the level of corporate governance disclosure by listed companies in Malaysia and to what extent corporate governance mechanisms affect company disclosure. The results of the study revealed that higher percentage of family members sit on the board are significantly have a lower level of disclosure in the annual reports. This study suggested
to the regulators to impose additional regulations i.e. not allowing any family members to hold the two top positions on the board that is chairman and CEO of the board.

Klai Nesrine and Onri A (2011) attempted to analyze the impact of the corporate governance mechanism on the financial reporting quality of Tunisian firms for the period 1997 to 2007. This study emphasized on the characteristics of the board of directors and the ownership structure of the firms as a corporate governance mechanism. The findings of the study discovered that governance mechanism affected the financial information quality of Tunisian firms. Tunisian firms are lacking board independence and having a high degree of concentrated ownership. A per this study the power of the state and institutional investors improves the quality of financial reporting, while the presence of foreigners, families, and block holders are associated with poor reporting quality. This study recommended for further research in this area.

Prencipe A and Bar-Yosef S (2011) made a study to investigate the relationship between the corporate governance and earning management in family-controlled companies. The objective of this study was to concentrate on the earning management issue in family controlled firms which are characterized by a higher risk of collusion and lower board independence. The sample consisted of 137 and 140 non-financial companies listed on Milan stock exchange covering the period for the years 2003 and 2004. The board independence was measured by two parameters 1) Proportion of independent directors on the board 2) CEO duality. The results supported the evidence that percentage of independent directors on the board and CEO duality had negative effect on the earning management of family-controlled companies. The results suggested that regulators should pay special attention to the selection of board members and their independence should be guaranteed.

Jalila J and Devi S (2012) found the association between ownership structure and segment disclosure in Malaysia. The results proved that increase in family and founding family ownership influence the segment disclosure. Higher the percentage of family shareholding, lesser is the extent of segment disclosure.

Chen Charles, Gul Ferdinand A and Lynn Stephen (2012) examined the corporate financial disclosure practices in Hong Kong. This study established the relationship between audit quality and the level of corporate financial disclosure. In This study presence of non-executive directors and role of family, ownership was also considered. The results of the
study for the years 1993 and 1994 by using 174 observations of listed Hong Kong companies showed that there is a negative relationship between auditor choice and corporate disclosure. The results concluded that the association between non-executive directors, auditor’s choice, and corporate disclosure only exists for non-family controlled companies. These mechanisms play a less important role in family-controlled firms.

Ali Ahmadi (2014) examined the impact of ownership structure on corporate voluntary disclosure in emerging markets of Tunisia. He found that voluntary disclosure is negatively significantly associated with family ownership. As per the results of the study, family ownership decreases the level of voluntary disclosure.

Lakhal Nadia (2015) examined the relationship between corporate governance disclosure practices, ownership structure characteristics and earning management for French listed firms. The results have shown that families, institutional investors and multiple large shareholders negatively influence earning management and hence, act as good corporate governance devices to limit managerial discretion.

2.5 Corporate Governance and Gender Diversity on the Board

The issue of gender diverse boards has attained significant attention during the last two decades. Various countries are introducing initiatives to encourage gender diversity in the boardroom. Some countries like Norway, Spain, and Netherland, have mandated gender quotas for corporate boards (Deloitte, 2011). The Countries like UK, Australia, and Germany are asking companies to set voluntary boardroom gender diversity policies or quotas. Gender diversity quotas have been justified on the basis of notions of impartiality and equality in the prior literature.

In India, gender diversity on the corporate boards was not mandatory under revised Clause 49, 2004. But from 1st April 2015, it became mandatory for companies to have one woman director on the board (SEBI circular April 17, 2014). As per corporate gender gap report, 2010, women corporate employees’ percentage in India is 23% which is very low as compared to U.S (52%) and Brazil (35%). India figures poorly with only 9% women at senior management level (Srinivasan and George 2013: 7). India’s woman labor participation rate is 35%, one of the world’s lowest as per McKinsey Report (Bhandari and Pillay: 2015).
India, 850 listed companies in NSE have all men boards as per estimates of IndianBoard.com (Edwin 2014). Prior literature has reported the significance of gender diversity on the boards.

Brown, Brown and Anastasopoulos (2002) found that service of women on boards is symbolically important, especially as the face of culture, society and the changes in the workplace so quickly. They concluded that women on the corporate boards make a real difference to how board functions, the strength of its governance and how this contribution lead to better overall performance.

Kravitz David A (2003) investigated how firm performance varied with the percentage of women employees employed in the company. The research revealed positive impact of women participation on firm performance. Firm performance enhanced with women participation up to a maximum of 50% and is reduced after that. As per the results, profitability was highest at an intermediate level of women representation.

Francoeur Claude, Labelle Real and Desgagne Bernard Sinclair (2007) found whether and how women participation in the board and senior management enhance the firm’s performance. The results found that companies working in the complex environment do generate positive and substantial abnormal returns when they have a high proportion of women directors. This study supported the policies being discussed and implemented in various countries and corporate bodies to foster the progression of women participation in the business.

Adams and Ferrier (2009) revealed that women directors on the board have a significant impact on board inputs and firm outcomes. The sample consisted of U.S firms and results have shown that gender diversity has a positive impact on the performance of companies that otherwise have weak corporate governance. In corporations with strong governance, however, enforcing gender diversity quotas in the boardroom could ultimately reduce shareholder value.

Adams, Gray and Nowland (2011) conducted a study to investigate “Does gender matter in the Boardroom?” This study found that gender of directors appears to be value –relevant. Women directors may add value because of their monitoring ability. Shareholders value additions of female directors more than they value additions of male directors. This study
recommended that appointing women directors on the board may help to resolve value-decreasing stakeholder conflicts.

Ferdinand, Bin, Anthony (2011) studied the effect of gender diversity on the board on earning management and earning quality. The results found lower earnings management and higher earnings quality in firms that at least have one female director on the board. But in short, this study suggested for firms to increase gender diversity on the boards as part of improving corporate governance in their firms.

Ferdinand, Bin and Anthony (2011) studied whether gender diverse boards in U.S listed firms make them more transparent and improve the informativeness of stock prices. This study provided detailed insights into two broad areas, first is to understand the association between board quality, shareholders rights, disclosure and stock price informativeness; another is to examine how gender diversity impacts disclosure and thereby affect stock price informativeness. The results supported the evidence of a positive association between the gender diversity in the corporate board and stock price informativeness. The results suggested that gender diversity facilitates private information collection even in the corporations which display poor earning quality.

Abdulla Shamsul Nahar (2014) found the causes of gender diversity in large Malaysian firms. He examined the factors that determine the appointment of women director on the board. The results have shown that gender diversity is positively correlated with board size and presence of family member on the board. As per the results women appointment on the board is very much influenced by family ties rather than commercial reasons. The results have shown a positive relationship between board independence and proportion of women directors on the board, but a negative association between gender diversity and firm performance. The evidence suggested that women director’s appointment is largely driven by tokenism and family connection rather than by business case.

Rhode Deborah L and Packel Amanda K (2014) discussed diversity on corporate boards among U.S companies. This study examined whether diversity has been shown to improve corporate financial performance, reputation, and board decision making. The results concluded that relationship between diversity and performance had not been convincingly established. This study suggested that diversity can improve decision making and enhance company’s public image by conveying commitments to equal opportunity and inclusion. To
attain such benefits diversity must ultimately extend beyond tokenism and companies must be held more liable for their progress.