Chapter 4: Review of Literature

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Reference
4.1 Broad Observations:

Corporate Governance is concerned with ways in which all parties interested in the wellbeing of the firm (the Stakeholders) attempt to ensure that managers and other insiders take measures or adopt mechanism that safeguard the interests of the stakeholders. Such measures are necessitated by the separation of ownership from management an increasingly vital feature of the modern firms. In the modern era of global economies, corporate governance has been a momentous ground for research within the financial fraternity of corporate world. Whether it is a developed, semi-developed or developing economy, regulations and statutory compliances of corporate governance have been proved very impacting and influential for endorsing the strongest financial pool and ultimately better financial performance of the corporate firms of these economies.

Numerous researches have been undertaken in developed and developing markets to comprehend the relationship between corporate governance and firm performance. A study which combined all the corporate governance parameters into a combined index has concluded that better governed firms are relatively more profitable, more valuable and pay out more cash to their shareholders. Few of the foremost sub indicators of corporate governance which have been proved as significant influence for financial performance are Board procedures, Disclosures of Transactions with Related Parties, Executive and Director Compensation, Ownership Pattern, Shareholders’ Rights. The large amount of research works in developing countries have contemplated on a few selected parameters of corporate governance relating to ownership such as board independence (number of independent directors on the board),board size, CEO and board autonomy, insider ownership and ownership concentration, promoters’ control on board, to assess their impact on financial performance of firms and its’ value.

Financial economists have long been concerned with ways to address the problem of separation of ownership and management, which arises from the incongruence of interests of the equity owners and that of the managers and have conducted significant research towards resolving it. The literature emanating from such efforts have grown and much of the econometric evidence has been built on the theoretical works of Ross (1973), Jensen and Meckling (1976) and Fama (1980). At the initial level of the development of the theory of agency, especially as it relates to the firm, concern
seemed to focus more on the relationship between the management and shareholders than between them and other stakeholders. The Stakeholder theory has of late captured the attention of researchers and a survey of literature on this aspect of corporate finance can be found in the works of John and Senbet (1998). According to this theory, the firm can be considered as a nexus of contracts between management of the one hand and employees, shareholders, creditors, bankers, government and all other stakeholders on the other hand. Thus, from the point of view of the stakeholder theory, concern should go beyond the traditional management – shareholder relationship to include all other stakeholders such as mentioned above. The stakeholders’ theory has undergone some refinement in the work of Jensen (2007), who presents what he terms, “Enlightened Stakeholder Theory”. For him, the traditional stakeholder theory encourages managers to be servants of many masters with no clear guidance whenever tradeoffs (or induces or conflicts) occur, as they often do.

Shleifer, A. and R.W. Vishny (1997), “A survey of corporate governance”, briefly examine how firms can raise money without giving suppliers of capital any real power by considering reputation-building in the capital market and excessive investor optimism, and conclude that these are unlikely to be the only reasons why investors entrust capital to firms. They argue that financing to the firms without governance is unlikely to be the whole story. They also diverge that legal protection of investor rights is one essential element of corporate governance. Concentrated ownership-through large shareholdings, takeovers, and bank finance is also a nearly universal method of control that helps investors to get their money back. Although large investors can be very effective in solving the agency problem, they may also inefficiently redistribute wealth from other investors to themselves.

While exploring some of the Asian Countries, the alliance between corporate governance and financial performance is found to be driven auxiliary by board structure sub index in Korea, where it is positively associated with higher profitability of the firms. Whereas, in a study conducted for Taiwanese firms, it was concluded that shareholders in family firms with higher insider ownership and control (say 50 percent or more) have greater stimulus to monitor the firm’s operations and ensure longevity of the firm. The junction of the promoters’ interests would lead to more
efficient management and better firm performance. A recent study conducted for India (2008) has also considered all the major indices of Corporate Governance and combined them into a composite index, Indian Corporate Governance Index (ICGI) to assess its influence on firm performance. The study has found evidence of a positive and statistically significant relationship between overall Corporate Governance Index and Tobin’s Q which is an indicator of the market value of listed firms. However, this is more true of a larger sized firms included in the BSE-200 index. It is not significant for smaller sized firms.

Diverse literature suggests that both market and non-market mechanisms could be used to promote the alignment of interest of managers and stakeholders. The managerial labour market and the market for corporate takeover tend to exert pressures both within and outside the firm in order to achieve such an alignment of interest. Fama (1980) asserts that a firm can be viewed as a team, whose members realize that in order for the team to survive, they must compete with other teams, and that the productivity of each member has a direct effect on the team and its members. Thus, within the firm, each manager has the incentive to monitor the behaviour of other managers, whether subordinates or superiors. Secondly, Fama (1980) argues that the firm is in the market for new managers and the reward system must be based on performance in order for it to attract good managers or even to retain existing ones. Demsetz and Lehn (1985) provide an explanation for the weakness of the market-induced mechanisms as a means of protecting stakeholder interests. They observe that the free rider problem tends to prevent any of the numerous owners of equity from bearing the cost of monitoring the managers. Empirical works abound on the mechanisms aimed to help reduce the agency problem. Abstracting from other dimensions of corporate governance (such as incentive schemes), in this study, the focus is given on five mechanisms – insider shareholding, board composition, board size, ownership concentration and debt.

As far as the relationship being established between the corporate governance parameters as well as the financial performance and firm value is concerned, a sizable number of globally conducted studies, including those in India, have shown positive relationship with very few on the negative side. Beyond this, under this study, we have observed a definite link between good governance and firm performance. It may
be acknowledged here that over and above financial parameters taken as the sole indicators of firm performance, there are many more firms’ variables like Customer satisfaction and employee loyalties also to be proven as good predictors of the current and more importantly the future success of a company in many varied studied conducted. This study originates the review of many such literatures by broadly highlighting the findings of the studies carried out in the developed, semi developed and developing economies along with follows up with some of the studies focusing on companies in emerging economies like Korea and India. Categorically initiated review of literature are elaborated in the under mention Para.

4.2 Observations from Developed Countries’ Corporate Governance System and its impact on Firms Value:

i. Agrawal A. and Knoeber C.R. (1996), examines the seven mechanisms to control agency problem between managers and shareholders under the study “Firms Performance and Mechanisms to Control Agency Problem between Managers and Shareholders”. The findings of these mechanisms in a nearly 400 U.S. firms suggest that cross sectional OLS regressions of firm performance on single mechanism may be misleading. Indeed, by ignoring any interdependence among the mechanism, they find the cross sectional relationship between firm performance and each of the four mechanisms as insider shareholdings, outside directors, debt and corporate control activity separately. While applying all mechanism together, but not within a systems framework, the relationship between firm performance and insider shareholdings evaporate. Whereas, the interdependence among mechanisms is accounted for in simultaneous system estimation, only the negative effects of outsider in board on firm performance remain.

ii. Bhagat S. and Black B. (1999), during their study of “The Uncertain Relationship between Board Composition and Firm Performance” survey the evidence on the relationship between board composition and firm performance. Boards of directors of American public companies that have a majority of independent
directors behave differently, in a number of ways, than boards without such a majority. Some of these differences appear to increase firm value; others may decrease firm value. Overall, within the range of board compositions present today in large public companies, there is no convincing evidence that greater board independence correlates with greater firm profitability or faster growth. In particular, there is no empirical support for current proposals that firms should have 'supermajority-independent boards' with only one or two inside directors. To the contrary, there is some evidence that firms with supermajority-independent boards are less profitable than other firms. This suggests that it may be useful for firms to have a moderate number of inside directors (say three to five on an average-sized eleven member board). They offer some possible explanations for these results, based on board dynamics, the informational advantages possessed by inside (and, often, affiliated) directors, and the value of interaction between different types of directors who bring different strengths to the board.

This pair of researchers through “Board Independence and Long-Term Firm Performance”, (2000) has further conducted the first large sample, long-horizon study of whether board independence (proxy by proportion of independent directors minus proportion of inside directors) correlates with the long-term performance of large American firms. They find evidence that firms suffering from low profitability respond by increasing the independence of their board of directors, but no evidence that this strategy works on those firms with more independent boards achieve improved profitability. Revealed results of this study do not support the conventional wisdom that greater board independence improves firm performance.

iii. Under the study titled as “The Non-Correlation Between Board Independence and Long Term Firm Performance”, Bhagat S. and Black B. (2001), explored the facts for three preliminary questions: First, does greater board independence produce better corporate performance, as conventional wisdom predicts?, Second, and conversely, does board composition respond to firm performance?, Third, does board size predict firm performance? They investigated that long-horizon study of whether the degree of board independence (proxy by the fraction of independent
directors minus the fraction of inside directors on a company’s board) correlates with various measures of the long term performance of large American firms. They discover evidence that low-profitability firms increase the independence of their boards of directors, but there is no evidence that this strategy works. Firms with more independent boards do not perform better than other firms. Our results support efforts by firms to experiment with board structures that depart from the conventional monitoring board. Board size also shows no consistent correlation with firm performance.

iv. Brickley, Coles and Jarrell (1997) argue that the separation of CEO and Chairman of the U.S. Firms have potential cost as well as potential benefits too. The evidence of their study suggests that the cost of separation of both these significant managerial positions is larger than the benefits for most large firms in U.S. They began empirical analysis by providing the detail depiction of the leadership structure of 737 large U.S. firms for the 1988 fiscal year. They found that almost no major firm in U.S. during 1988 had an independent outsider as chairman. Rather in almost all cases the chairman is either the former or current CEO or a person with special ties with the firm. In contrast to previous studies, they find no evidence that unitary leadership structure is associated with inferior accounting and market returns. Further, they found that changes in leadership structures have no systematic effects on stock prices.

v. Brick I. E. and Chidambaran N. K. (2006) examines the relationship between the level of board monitoring activity with increased political and regulator focus and firm value for a broad panel of firms over a six-year period from 1999 to 2005. The first set of proxies measures the level of board activity in holding meetings during the fiscal year and the second set of proxies is related to the structure and composition of the board committees. They show that the efforts of a board are driven by corporate events, such as a proposed merger or acquisition. Further prior performance appears to be a strong determinant of board monitoring activity in the sample data. Moreover, their results support the notion that board monitoring lead to increase firm value. They also find little evidence that the composition of the committees impact upon firm value.
vi. De Angelo H. and De Angelo L. (1985) learned managerial stock holdings in 45 dual class firms and find that vote ownership per se is an important motivation for these holdings in that corporate officers and their families hold a median 56.9% of the votes and 24.0% of the common stock cash flows. They also discover significant family involvement in many sample firms, and document four case studies in which controlling stockholders of dual class firms received substantial acquisition premiums for their superior voting stock. In the dual class firms they examine that, managers typically hold a majority voting interest while outside suppliers of capital hold majority interest in common stock cash flows.

vii. A study of Fama E.F. (1980) titled as “Agency Problems and the Theory of the Firm” attempts to explain how the separation of security ownership and control, typical of large corporations, can be an efficient form of economic organization. The study first set aside the presumption that a corporation has owners in any meaningful sense. The entrepreneur is also laid to rest, at least for the purposes of the large modern corporation. The two functions usually attributed to the entrepreneur—management and risk bearing are treated as naturally separate factors within the set of contracts called a firm. The firm is disciplined by competition from other firms, which forces the evolution of devices for efficiently monitoring the performance of the entire team and of its individual members. Individual participants in the firm, and in particular its managers, face both the discipline and opportunities provided by the markets for their services, both within and outside the firm.

viii. Fama and Jensen (1983) in their study on “Agency Problems and Residual Claims” develop a set of propositions that explain the special features of the residual claims of different organizational forms as efficient approaches to controlling agency problems. They state that the control of agency problems is an important factor in the survival of organizational forms. In this study paper, they explain the special features of the residual claims of different organizational forms as efficient approaches to controlling special agency problems among the private organizations. They further state that because of the unrestricted nature of the residual claims of open corporations, there is generally almost complete
separation and specialization of decision functions and residual risk bearing. According to this study, the unrestricted nature of the common stock residual claims of open corporations leads to an important agency problem. The decision process is in the hands of professional managers whose interests are not identical to those of residual claimants. This problem of separation of “ownership” and “control” – more precisely, the separation of residual risk bearing from decision functions – has troubled students of open corporations from Adam Smith (1937) to Berle and Means (1932) and Jensen and Meckling (1976). This study argues that the agency problem is controlled by decision systems that separate the management and control of important decisions at all levels of the organization.

ix. Fosberg, R. (1989) in his study “Outside Directors and Managerial Monitoring”, affirms that most medium to large size corporations in the U.S. are run by a management team that owns only a small fraction of the firm's common stock. As a result, management does not fully bear the costs of any non-value-maximizing behavior in which it engages. This provides an incentive for management to act in ways benefiting itself personally but causing the value of the firm's stock to decline. As a result, perhaps in recent years, the role of the board of directors of a corporation has received considerable attention. The study further infers that the board, as the highest level of authority in the firm, is responsible for monitoring the entire operation of the firm including the performance of its management in accordance with the shareholders wishes. Boards usually consist of members who fall into two categories: inside or management directors as members of the firm's management who also sit on the board and outside directors as individuals on the board who are not managers of the firm. Clearly, the self-monitoring incentives of management directors are limited since they benefit from some of the activities they were placed on the board to stop. Outside directors are not generally subject to this conflict of interest and are therefore more likely to engage in the managerial monitoring desired by shareholders.

x. Another study titled as “Macro Economic Determinants of Stock Market Development” initiated by Garcia and Liu (1999) assert the macroeconomic determinants of stock market development, particularly market capitalization with
the pooled data from fifteen industrial and developing countries from 1980 to 1995. This study discovers that real incomes, saving rate, financial intermediary development, and stock market liquidity are important determinants of stock market capitalization. It also discovers that macroeconomic volatility does not prove significant and stock market development and financial intermediary development are complements instead of substitutes. They measure stock market liquidity by the ratio of total value traded to GDP and the turnover ratio and financial intermediary development by the ratio of liquid liabilities to GDP and domestic credit to the private sector divided by GDP. They use the inflation level, inflation change and standard deviation of 12 month inflation rate to measure the macroeconomic stability.

**xi.** Harmalin Et Al (1991), under their study titled as “The Effect of Board Composition and Direct Incentives on Firm Performance”, attempts to measure differences in firm performance caused by board composition and ownership structure. The findings of this study on public utilities are consistent with the view that compensation packages align the interest of most of the top management with those of their stockholders. The positive relationship is found between the change in the total compensation of the chairman and CEO and the stock performance of their firms consistent with incentives to maximize stockholders wealth. The similar result is found for all the managers as group.

**xii.** Hayes R, Mehran H, and Schaefer S (2004), in their study “Board Committee Structures, Ownership, and Firm Performance”, find the number of committees as positively related to the number of directors as well as to firm size. Firms that pay dividends have more committees. Firms with higher CEO ownership have fewer committee functions performed by the board. On the other hand, firms with larger boards, more assets, and firms with more board meetings have more committee functions. In addition, dividend paying firms have more committee functions. Neither the number of committees nor the number of committee functions are related to business segments (SICs) and firms’ age. Firms with a higher CEO ownership assign fewer tasks to each committee. The study finds no relation of
firm performance with the presence of committees or to the fraction of outside directors serving on each committee.

xiii. Holderness and Sheehan (1988) analyzed 114 NYSE or AMEX listed Corporations and found that the majority of shareholders (concentrated ownership) are approximately equally divided between corporations and individuals and are typically both the directors and officers. The findings states that the evidence is inconsistent with the proportion that individuals or corporations hold majority blocks of stocks in publicly traded corporations primarily to expropriate or consume corporate resources. In addition, it is also found that majority shareholders typically hold more of the stocks, say 64% on average, than would be rational if their sole objective were expropriation. Investment expenditures, corporate reorganizations, accounting rate of return, Tobin’s Q are statistically equivalent for majority shareholder firms and firms with relatively diffuse stock ownership. It is also evident that most individual majority shareholders do not merely monitor management team, they lead them. Many corporate majority shareholders place their representatives in top management positions. At last, the evidences are documented in this study about the importance of large block i.e. corporate majority shareholders too. The pattern they establish leads to conclude that the identity of large block shareholders could prove important for understanding the concentration of corporate ownership.

xiv. Jensen M.C. (1993) reviews the industrial revolutions of the nineteenth century and draw on these experiences to enlighten our understanding of current economic trends. He further, describe the role of the market for corporate control in affecting efficient exit, and how the shutdown of the capital markets has, to a great extent, transferred this challenge to corporate internal control mechanisms. He summarize evidence, however, indicating that internal control systems have largely failed in bringing about timely exit and downsizing, leaving only the product market or legal / political/regulatory system to resolve excess capacity. Finally, he addresses the challenge this modern industrial revolution poses for finance professionals; that is, the changes that we too must undergo to aid in the learning and adjustments that must occur over the next several decades. He
emphasizes that financial economists have a unique advantage in working on these control and organizational problems because it is understood what determines value, and how to think about uncertainty and objective functions. To do this it is to understand even better than the factors leading to organizational past failures (and successes): it is to break open the black box called the firm, and this means understanding how organizations and the people in them work.

Jensen M.C. (2001), through his study “Value Maximization, Stakeholder Theory, and the Corporate Objective Function”, examines the role of the corporate objective function in corporate productivity and efficiency, social welfare, and the accountability of managers and directors. He deduces that a firm cannot maximize value if it ignores the interest of its stakeholders. He offers a proposal to clarify what he believes is the proper relation between value maximization and stakeholder theory. He calls it enlightened value maximization, and it is identical to what he call enlightened stakeholder theory. Enlightened value maximization utilizes much of the structure of stakeholder theory but accepts maximization of the long run value of the firm as the criterion for making the requisite tradeoffs among its stakeholders. Managers, directors, strategists, and management scientists can benefit from enlightened stakeholder theory. Enlightened stakeholder theory specifies long-term value maximization or value seeking as the firm’s objective and therefore solves the problems that arise from the multiple objectives that accompany traditional stakeholder theory.

xv. Jensen M.C. and Meckling W.H. (1976) with their study of “Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure”, define the concept of agency costs, show its relationship to the ‘separation and control’ issue, investigate the nature of the agency costs generated by the existence of debt and outside equity, demonstrate who bears costs and why, and investigate the Pareto optimality of their existence. As the owner-manager’s fraction of the equity falls, his fractional claim on the outcomes falls and this will tend to encourage him to appropriate larger amounts of the corporate resources in the form of perquisites. The growth in the use of the corporate form as well as the growth in market value of established corporations suggests that at least, up to the present, creditors and
investors have by and large not been disappointed with the results, despite the agency costs inherent in the corporate form. The level of agency costs depends, among other things, on statutory and common law and human ingenuity in devising contracts. Both the law and the sophistication of contracts relevant to the modern corporation are the products of a historical process in which there were strong incentives for individuals to minimize agency costs. Whatever its shortcomings, the corporation has thus far survived the market test against potential alternatives.

xvi. John and Senbet (1998), in the study “Corporate Governance and Board Effectiveness”, examine the empirical and theoretical literature on the mechanism of corporate governance. The study focus on internal mechanisms of corporate governance and their task in upgrading different classes of agency problems arising from conflicts of interest between managers and shareholders, shareholders and creditors, and capital contributors and other stakeholders of the firm. They further infer that the board effectiveness in its monitoring function is determined by its independence, size and composition. The existence of agency problems is potentially harmful to inefficiency and wealth destruction in an economy. Corporate governance in America has increasingly shifted towards an independent board with majority of outside (independent) directors.

xvii. Kang and Shivdasani (1995), examine the role of corporate governance mechanisms during top executive turnover in Japanese corporations. Consistent with evidence from U.S. data, the likelihood of non-routine turnover is significantly related to industry adjusted return on assets, excess stock returns, and negative operating income, but is not related to industry performance. The sensitivity of non-routine turnover to earnings performance is higher for firms with ties to a main bank than for firms without such ties. Outside succession in Japan is more likely for firms with large shareholders and a main bank relationship. They document performance improvements subsequent to non-routine turnover and outside succession.
xviii. Kaplan, S. and B. Minton. (1994) investigate the determinants of appointments of outsiders – directors previously employed by banks (bank directors) or by other nonfinancial firms (corporate directors) - to the boards of large nonfinancial Japanese corporations. And find such appointments increase with poor stock performance; those of bank directors also increase with earnings losses. Turnover of incumbent top executives increases substantially in the year of both types of outside appointments. They also perform a similar analysis for outside appointments in large U.S. firms and find less sensitive to stock and earnings performance than are outside appointments in Japanese companies. The research concludes that banks and corporate shareholders play an important monitoring and disciplinary role in Japan.

xix. McConnell J. and Servaes H. (1990) through their research “Additional evidence on equity ownership and corporate value”, investigate the relation between Tobin’s Q and the structure of equity ownership for a sample of 1,173 firms for 1976 and 1,093 firms for 1986 listed on either the New York Stock Exchange (NYSE) or the American Stock Exchange (AMEX). They find a significant curvilinear relation between Q and the fraction of common stock owned by corporate insiders. They also find a significant positive relation between Q and the fraction of shares owned by institutional investors. The results are consistent with the hypothesis that corporate value is a function of the structure of equity ownership.

xx. Morck, R., A. Schleifer and R.W. Vishny. (1988) examine the relationship between management ownership and market valuations of the firm, as measured by Tobin’s Q and find the evidence of significant non-monotonic relationship in the cross sectional data of 371 fortunes 500 firms during 1980. Among the older firms they discover the lower Tobin’s Q when the firm is run by any member of founding family than by any unrelated family members. The significant verdict of this study is that increase of Tobin’s Q with ownership reflects the convergence of interests between managers and shareholders, while the decline reflects entrenchment of management team.
xxi. Ross, S. (1973) in the study of “The economic theory of agency: The principal’s problem”, states that the problems of agency are really most interesting when seen as involving choice under uncertainty. This finds the optimal solution to the principal's problem implied that the fee-to-act mapping induced by the agent was completely known to the principal. In such a case it might be thought that the principal could simply tell the agent to perform a particular act. The difficulty arises in monitoring the act that the agent chooses.

xxii. Weisbach, M. (1988), “Outside directors and CEO turnover”, assembled data on board composition for all corporations listed on the New York Stock Exchange with a proxy statement available on microfiche, a total of 495 publicly held corporations between 1977 and 1980 and examines the relationship between the monitoring of CEOs by inside and outside directors and CEO resignations. It exploits the wide variation across firms in the composition of the board of directors to study how the relation between poor performance and management turnover varies with the makeup of the board. The findings suggest that firms with outsider-dominated boards are significantly more likely than firms with insider-dominated boards to remove the CEO on the basis of performance, as measured by such publicly available measures as earnings or stock returns. This result does not appear to be a function of ownership effects, size effects, or industry effects. Unexpected stock returns on days when resignations are announced are consistent with the view that directors increase firm value by removing bad management.

xxiii. Yermack, D. (1996), in his study “Higher market valuation of companies with a small board of directors”, signifies evidence consistent with theories that small boards of directors are more effective. Using Tobin’s Q as an approximation of market valuation, this study finds an inverse association between board size and firm value in a sample of 452 large U.S. industrial corporations during 1984 to 1991. The result is robust to numerous controls for company size, industry membership, inside stock ownership, growth opportunities, and alternative corporate governance structures. Companies with small boards also exhibit more favorable values for financial ratios, and provide stronger CEO performance incentives from compensation and threat of dismissal.
4.3 Observations from European Countries’ Corporate Governance System and its impact on Firms Value:

i. A study titled as “Privatization, Ownership Structure and Company Performance: The Case of Ukraine” carry out by Dean and Andreyeva (2001) divulges that company performance improves with ownership concentration. With this respect the statistically significant positive relationship is found between concentrated shareholding and company performance in Ukraine. These findings confirm the corporate governance theory that predicts better performance of companies held by large shareholders due to effectiveness of a corporate governance system. The study also finds that in Ukraine, concentrated insider-owned firms perform best. This may be a profit maximizing response of owners to a system with prevailing powerful informal norms and institutions, where personal relations are important, and with serious information asymmetry and non-transparency.

ii. A study as “The Effect of Ownership and Competitive Pressure on Firm Performance in Transition Countries: Micro Evidence from Bulgaria, Romania and Poland” by: Estrin, Konings, Zolkiewski, and Angelucci (2002) reveal analyses the effect of domestic and international competitive pressure and ownership changes in these emerging economies. Our main findings can be summarized as follows:

1). Domestic competitive pressure, measured by market structure, and increased import penetration are associated with higher firm performance in Poland irrespective of the ownership structure of firms.

2). Furthermore the positive effects of increased import competition are reinforced for foreign owned firms. In contrast, in Bulgaria and Romania, increased import penetration is associated with lower firm performance, while there is some evidence that more competitive market structures are associated with higher total factor productivity.
3). However, these effects depend on the ownership structure of firms, which suggests the existence of complementarities between competitive pressure and ownership changes.

4). The results also indicate that privatization has positive effects on firm performance. In particular, domestic private firms and foreign owned firms outperform state owned firms. Furthermore, there is evidence that foreign owned firms do better than domestically owned private firms especially in Bulgaria and Poland. The results on ownership are somewhat weaker for Romania.

iii. Oxelheim L and Randy T. (2001) in the research titled as “The Impact of Foreign Board Membership on Firm Value”, examines the effect of foreign (Anglo-American) board membership on corporate performance measured in terms of firm value (Tobin’s Q). On a basis of random sample of 253 traded firms belonging to all industries except finance, banking, and insurance with headquarters in Norway or Sweden, the study indicates a significantly higher value for firms that have outsider Anglo-American board member(s), after a variety of firm-specific and corporate governance related factors have been controlled for. They argue that this superior performance reflects the fact that these companies have successfully broken away from a partly segmented domestic capital market by “importing” an Anglo-American corporate governance system. Such an “import” signals a willingness on the part of the firm to expose itself to improved corporate governance and enhances its reputation in the financial market. Using the Anglo-American corporate governance system as a proxy for a global system, we emphasize the potential value that can be created by having outsider representatives of that system on the board of non-Anglo-American firms.

4.4 Observations from Asian and/or Developing Countries’ Corporate Governance System and its impact on Firms Value:

i. Aggarwal Reena, Leora Klapper, and Peter D. Wysocki (2005), with their study of "Portfolio Preferences of Foreign Institutional Investors," examine the active investment allocations of U.S. mutual funds in emerging market equities. We
focus on emerging markets because foreign capital plays an important role in promoting economic growth in countries with developing financial systems. Moreover, emerging markets exhibit wide variation in country-level and firm level policies that potentially affect foreign investment flows. Finding of this study about the country and firm-level discretionary policies affect institutional investment in emerging markets is relevant to the on-going debate on governance reforms in global markets. The results of this research show that U.S. mutual funds are more likely to invest in equities in emerging market countries that have floating exchange rate policies and better shareholder rights, legal institutions, and average accounting quality. The results also show that U.S. mutual funds allocate more of their assets to large growth firms with high analyst following and low leverage. Our results suggest that investment by foreign institutions depends not only on the firm’s financial attributes but also on transparency and disclosure. We find corporate governance attributes to be important at both the country and firm level.

ii. Daily and Dalton (1992) examine the organizational agent / firm performance linkage focusing specifically on the role of founder chief executive officers (CEOs) and the composition of the boards of directors. The study reveals that CEOs of successful Inc. 100 entrepreneurial firms do not demonstrate a tendency to adopt inappropriate governance structures. This finding is contrary to related research which has found that stable small corporation founder CEOs are less likely to utilize prescribed governance structures, jeopardizing firm performance. Founder CEOs of these firms, however, apparently realize the benefit of outside direction and elect to rely on the independent structure and outside board direction in similar degrees as their non-founder cohorts.

iii. Kunt A. (1992) executed the study titled as “Developing Country Capital Structures and Emerging Stock Markets” and probes the relationship between stock market development and the financing patterns of corporations in developing countries. The result discovers a positive and very significant correlation exists between firm leverage and the extent of stock market development. This result supports the view that equity and debt finance are
complementary leading the equity markets and financial intermediaries also to be complementary, with existence of active stock markets resulting in an increased volume of business for the financial intermediaries.

iv. Kunt A. and Levine R. (1996) in their study of “Stock Market Development and Financial Intermediaries: Stylized Facts” compares an extensive range of indicators of stock markets and financial intermediary development, with the data of 44 developing and industrial countries. The observed result demonstrates ample cross-country differences for each indicator as well as intuitively appealing correlations between various indicators. In this study, the Stock Market Development is described with measures of stock market size, liquidity, integration with world capital markets, volatility concentration, and features of regulatory system. Whereas, Financial Intermediaries Development is described with measures of the overall size of the financial intermediary sector, the allocation of credit, the spread between borrowing and lending interest rates, and size of particular types of financial intermediaries. The study finds Japan, U.S. and U.K. as the most developed markets. Whereas, the Colombia, Venezuela, Nigeria and Zimbabwe are found to be the most underdeveloped markets.

v. Khanna, Tarun, Joe Kogan, and Krishna G. Palepu (2006), in their study "Globalization and Similarities in Corporate Governance: A Cross-country Analysis." Use data on corporate governance practices covering 24 developing countries in Asia, Latin America, and Eastern Europe and data on laws protecting shareholders and creditors from La Porta et al. (1998). The study finds strong evidence that de jure similarity in governance is correlated with several of our proxies for globalization. These proxies are not limited to those that measure capital market integration. Further, the de jure results are not driven by similarity with U.S. corporate governance. Rather pairs of economically interlinked countries display similarity to each other’s systems, especially if both countries are ‘economically developed’ ones. Finally, they find virtually no evidence of de facto convergence in corporate governance in an array of estimations at the country, industry and firm levels. An interpretation is that, even though countries
might imitate the doctrine of each other’s corporate governance systems, their implementation is subject to significant lags.

**vi. Klapper, L.F. and I. Love (2002), “Corporate governance, investor protection, and performance in emerging markets”** concentrate on country-level investor protection measures and focus on differences in legal systems across countries and legal families. With the use of firm-level corporate governance rankings across 14 emerging markets, the study finds wide variation in firm-level governance across countries in the sample and that the average firm-level governance is lower in countries with weaker legal systems. The study explores the determinants of firm-level governance and finds that governance is correlated with the extent of the asymmetric information and contracting imperfections that firms face. It also finds that better corporate governance is highly correlated with better operating performance and market valuation. Finally, the study provides evidence that firm-level corporate governance provisions matter more in countries with weak legal environments. These results suggest that firms can partially compensate for ineffective laws and enforcement by establishing good corporate governance and providing credible investor protection.

**vii. Pouraghajani et al (2013) investigates the influence of Board Characteristics on the performance of companies listed in Tehran Stock Exchange. The relationship between characteristics of the board and the performance of companies was examined and results show that there is no evidence indicating significant effects of CEO duality and outside board institutional members on return on assets (ROA) as a measure to evaluate performance in the studied sample. It is clear from this finding that there is no advantage in separating the roles of CEO and chairman or vice-chairman. Since, institutional directors constitute the largest group of shareholders; it is supposed that these shareholders provide enough resources to monitor company and reduce risks related to agency problem. However, it can be concluded that there is a significant relationship between board characteristics (including variables of CEO duality and outside board institutional members) and return on equity (ROE) as the second measure to evaluate performance.
viii. Taktak S. and Triki M. (2012), in their study “The Effect of Board and Ownership Structure on the Efficiency of Banks in Tunisia: The Stochastic Frontier Approach”, explore the governance characteristics of the Tunisian listed banks and to detect the impact of the internal governance mechanisms on their efficiency during the period 2002-2009. The findings indicate that the structure and the size of the board of directors and the ownership structures present divergent effects on the banks efficiency. Then, empirical results show that Tunisian listed banks display a middle efficiency level of 81.60% during the period 2002-2006. The deterioration of the efficiency level is owed to big public bank; in fact, private banks are more efficient than the public ones. It indicates that the improved level of efficiency of Tunisian banks is not about size, since an increase in size has a negative and statistically insignificant effect on efficiency.

ix. Kim P. et al. (2012) aims to review corporate governance in relation to ownership structure of domestic owned banks in terms of government connected ownership and foreign ownership of commercial banks in Malaysia. Empirical study identifies that there are two types of bank ownership in Malaysia which are private owned banks and the domestically owned banks or foreign-owned banks. The findings confirm that foreign-owned banks were implementing good corporate governance and had higher advantage of increasing their performance, and private domestically-owned banks were at implementing corporate governance. As a result, they have a better performance than that of foreign-owned banks. Subsequently, shareholders with information also have an important role to play and they can force the bank management to implement better corporate governance. In order to be positive, bank managers implement efficient corporate governance and establish positive control mechanism. This may have different concerns on implementing good corporate governance. For example, foreign-owned banks may be concerned about implementing good corporate governance practices across various management levels. As a result, their performance is much better than that of private domestically-owned banks in the Malaysian banks.
4.5 Observations from Indian Countries’ Corporate Governance System and its impact on Firms Value:

By and large several studies examine Indian corporate governance till now. World Bank (2005), Sarkar & Sarkar (2000), and Mohanty (2003) examine how firm-level governance influences the behavior of institutional investors, or vice-versa. Mohanty (2003) finds that institutional investors own a higher percentage of the shares of better-governed Indian firms. This is consistent with research in other countries (Aggarwal, Klapper and Wysocki, 2005; Ferreira and Matos, 2007). Other individual research works initiated by varied scholars are discussed as under.

i. Bhattacharyya and Rao (2005) examine whether adoption of Clause 49 (an important set of governance reforms in India) predicts lower volatility and returns for large Indian firms. Their result shows significant reduction in the Beta, indicating the security risk reduction and ultimately reduction of expected returns on the investment leading to the reduction of cost of capital of experimental group of companies. Black & Khanna (2007) conduct an event study of the adoption of Clause 49. They rely on the phased implementation schedule, in which “large” firms were required to comply before “small” firms, and report positive returns to a treatment group of large firms relative to a control group of small firms, around the first important legislative announcement. Dharmapala and Khanna (2008) report that small Indian firms which are subject to Clause 49 react positively to announced plans by the Indian securities regulator to enforce the Clause, relative to similar firms not subject to clause 49. Other studies of Indian firms are more peripherally related to this one. Khanna, Kogan and Palepu (2006) study instances of minority shareholder expropriation by Indian firms. Bertrand, Mehta and Mullainathan (2002) provide evidence on tunneling within Indian business groups.

ii. Balasubramanian B. N., Black Bernard S. and Khanna Vikramaditya (2009), has studied “Firm-Level Corporate Governance in Emerging Markets: A Case Study of India”. The goal of this research is to contribute to the literature on the connection between firm-level governance and firm market values and support the
research conducted by researchers on Indian Firms. They also examine whether there is a cross-sectional relationship between measures on governance and measures of firm performance and they find positive relationship for an overall governance index and for index covering shareholders rights.

Their former study finds that most but not all responding firms meet the board independence rules under Indian law, which require either 50% outside directors or 1/3 outside directors and a separate CEO and board chairman. The board chairman often represents the controlling business group or other controlling shareholder. Also it is observed that most but not all firms have the legally required audit committee; many have a (legally required) audit committee member with financial or accounting expertise. Related party transactions are common, but approval requirements for them are often weak. Only about 2/3rds of firms provide annual reports on their websites.

They have also made study on “The Relation between Firm-Level Corporate Governance and Market Value: A Study of India” in 2010 and provide a detailed of firm-level governance practices in an emerging market, based on a 2006 survey of Indian firms. They also investigated the role of particular aspects of governance, such as board structure, in predicting firms’ market values and found no association between the variables of the study. The association between an overall index and firm market value breaks down when one investigates which aspects of governance underlie the overall relationship.

iii. Bertrand Marrinne, Mehta P., and Mullainathan S. (2000) strived to develop fair model of exploring the extent of tunneling activity in pyramid kind of Indian firms and find that the tunneling of money both into and out of firms in India occurs through non-operating profits. This implies that transfer pricing (which would affect operating profit) is not an important source of tunneling in India. Their finding also suggests that firms that have more resources tunneled to them are valued more by market. This study also suggests that those firms with fewer resources tunneled from them are also valued more. Finally the group that tunneled less resource is valued more in this research.
iv. Black B. and Khanna V. (2007), under their research “Can Corporate Governance Reforms Increase Firms’ Market Values? Evidence from India” states that Clause 49 requires, among other things, audit committees, a minimum number of independent directors, and CEO / CFO certification of financial statements and internal controls. They report evidence on investor reaction to the May 1999 announcement of India’s plans to adopt the Clause 49 governance reforms, considered a watershed event in the evolution of Indian corporate governance. These reforms were patterned on a voluntary Corporate Governance Code issued in the previous year by the Confederation of Indian Industry (CII), and were supported by the CII. They find that large firms gain 4.5% on average, relative to small firms, over a 3-trading-day event window beginning on the announcement date. This result is highly statistically significant and survives a variety of robustness checks. Moreover, this study found that faster growing firms and cross-listed firms benefited more than other firms. This suggests that firms in need of capital benefited more and that the Indian governance reforms complemented the higher disclosure standards that usually apply to cross-listed firms. The concluding remarks of the study say that investors expected the Clause 49 reforms to benefit large firms, and likely also medium-sized firms. This suggests that properly designed mandatory corporate governance reforms can increase share prices in an emerging market such as India.

v. “Ownership Structure and Firm Value: Empirical Study on Corporate Governance System of Indian Firms” commenced by Deb and Chaturvedula (2004) study the relationship between ownership concentration and firm market value. They study and investigate the relationship between ownership structure and value in firms of India by testing for “Monitoring and Expropriation” hypothesis as well as “convergence of interest” and “Entrenchments hypothesis”. This study is based on cross-section data of 443 Indian firms (from both manufacturing & service sector) included in S&P CNX 500 index of National Stock Exchange (NSE) of India. The value in Indian firms was found to be a monotonic increasing function of ownership concentration. But it could not find any evidence in support of expropriation hypothesis. The study also finds that at a certain range of insider
ownership, Indian managers get entrenched and beyond which the convergence of interest occurs. It also suggests that Indian managers need a proper corporate governance mechanism in place to discipline them towards shareholders value maximization. Largely, the discovery of this study put advance facts in support of ownership structure as an effective corporate governance mechanism for Indian firms.

vi. A Study as “Corporate Governance, Enforcement, and Firm Value: Evidence from India” by Dharmapala D and Khanna V. (2011) analyzes the impact of corporate governance on firm value using a sequence of reforms in India (Clause 49) enacted in 2000, for which more severe penalties were introduced in 2004. A regression discontinuity analysis, focusing on the thresholds for application of the reforms, leads to similar results. Across various specifications, the estimated effect is at least 6% of firm value. This effect is large, but comparable in magnitude to effects found in other studies of major corporate governance reforms, especially in emerging markets. In some specifications, the estimate implies an effect as large as 14%. There is some evidence suggesting that accounting performance (defined as “profits before depreciation, taxes and interest” or PBDIT) improved for Clause 49 firms (relative to non-Clause 49 firms) upon the introduction of Section 23E. However, this result is not robust to the inclusion of firm specific trends in PBDIT.

vii. A study carried out for India(2012), as “Corporate Governance Practices and Financial Performance of Selected Family Managed Medium Sized Listed Companies in India” by Mukhopadhyay J. et al. from S. P. Jain Institute of Management & Research, have tried to assess the influence of corporate governance on financial performance of family managed companies in India. Ahead of Mandatory and Non-mandatory / Recommendatory requirements under SEBI clause 49, they have considered the voluntary guidelines to be adopted by the firms as their corporate governance measures.

The data are collected from annual reports (2005-06 and 2009-10) of 237 medium sized family managed listed Indian firms. During the scrutiny of annual reports
and after several data gaps, the researchers enabled to extract the financial data for only 57 firms. The study essentially reveals that the Corporate Governance has a definite impact on financial performance of family managed firms. The Medium sized Family Managed firms are defined as those having promoters’ shareholding at 25 percent or more of the total shareholding and total assets ranging from ₹200 crore to ₹2,000 crore. Citing the results of other studies it is argued that key parameters of corporate governance help to influence the performance of firms, particularly family owned firms in developing countries and in India. However, studies of unlisted family firms have not found such significant results. Other studies have also concluded that there is a positive effect on firm performance if the CEO is a family member particularly the first generation or founder CEOs (Anderson and Reeb, 2003; Maury, 2006; Villalonga and Amit, 2006).

From the correlations between various corporate governance measures and key financial variables, it is found that Tobin’s Q, Market Capitalization, Total Assets, Total Sales, Interest-coverage Ratio and P/B Ratio are positively correlated and highly regression with R-Squared ranging from 0.31 to 0.45. Out of the adjusted data for 2010 bringing out the impact of corporate governance parameters more sharply, Tobin’s Q has shown a high and positive relationship with beyond compliance initiatives taken by the sample firms. The major corporate governance parameter influencing Tobin’s Q and Market Capitalization is Voluntary Disclosure of remuneration package of Non-executive Directors. More details like the fixed component as well as the performance related component of the total remunerations, as suggested under voluntary guidelines issues by Ministry of Corporate Affairs, Government of India, try hard at profit maximization and growth of the company. Apart from this, The Total Assets and Total Sales have also been positively impacted and influenced by the corporate governance parameters like, Board Composition, Number of Subsidiaries and Associate Companies and Shareholders’ Rights to Information.

In conclusion the corporate governance practices as the measures taken beyond mere compliance with mandatory and non-mandatory norms and voluntary disclosures relating to remuneration packages of Non-executive Directors have
been the most influential on financial performance in 2010. Apart from their significant influence on Tobin’s Q and Market Cap, these have also impacted Total Sales, P/B Ratio, Interest coverage ratio and Return on Net worth.

viii. Another study titled as “The Effects of Ownership Structure on Corporate Governance and Performance: An Empirical Assessment in India” conducted by Dr. Parmjit Kaur and Dr. Suveera Gill (2008) from University Business School, Punjab University, Chandigarh mapped out the ownership structure for 134 companies of BSE-200 Index for six financial years from FY 2000-2001 to FY 2005-2006. This study has revealed that on an average the Indian Promoters together with persons acting in concert held around 34 percent of the total outstanding shares from 2001 to 2006 along with the highest stake in 54 percent of all cases. During this period, the share of foreign institutional investors has phenomenally increased by 164 percent. Further, the results highlight that the ownership concentration both in terms of the fraction of shares held by the largest shareholders and Herfindal index increased for the average company over the study period. This study found significant positive effect of institutional ownership on company profitability. It extends the evidence for the fact that higher promoters’ ownership (both Indian and foreign) leads to higher corporate performance. Simultaneously, it is found that there is no significant effect of board size and board composition on company performance under this study.

This research project, by using a data set of 117 publicly listed companies of BSE-200 Index for the F.Y. 2003-2004 to FY 2005-2006, has found some interesting relations between ownership structure (shareholding pattern) and other dimensions of corporate governance, such as ownership concentration, board size and board composition by invoking cross-sectional and pooled regression analyses. This research has also found significant positive relationship among institutional ownership and company profitability. It is evident that higher promoters’ ownership (both Indian and foreign) indicates to higher corporate performance. The contradicting results are found about the effect of non-institutional investors on performance. These non-institutional investors comprise individual investors, bodies corporate and others who constitute minority class of shareholders. As
likely these non-controlling minority shareholders cannot be projected to exert any impact on the performance of the company. The results also highlight the fact that ownership concentration has no significant influence on company performance. Growing the fraction of independent directors on the board can improve monitoring, but no significant effect are found for this factor in this study, and thus have no conclusive evidence to support the effect of monitoring on company performance. The present study also found no significant effects of board size and board composition on company performance. The concluding remarks of the study say that it is not only the distribution of ownership but also the types of large shareholders that have a significant impact on performance. It seems the ownership structure of Indian companies reduces agency conflicts but can result in self-seeking behaviour and pursuit of private gains of control.

ix. A Study conducted by Rejie George Pallathitta of Cochin University of Science and Technology (CUSAT) published in 2005, titled, “Corporate Governance and Firm Performance: An Analysis of Ownership Structure, Profit Redistribution and Diversification Strategies of Firms in India” has been focused on firm performance duly impacted by three different dimensions vise Ownership Structure, Business Groups and Firm Diversification. Among these, the review of literature is undertaken based on data for ownership structure under corporate governance practices i.e. first part of the study of 1005 firms which are related to their financial performance in 1999-2000 and categorized in 15 varied industry types. For measuring the strength of corporate governance of a firm, the study has compiled and used two major Performance Variables of Return on Assets (ROA) and TobinsQ (Q) along with the seven Ownership Structure Variables and two Control Variables of the sampling firms.

Broadly the results reveal that Foreign Ownership of the firms positively affects to and statistically significant with both the financial performance variables. In contrast, the categorical Domestic Ownership by institutions and corporations had reported very negligible and negative ROA and Q. In summary, the study demonstrates that stipulation of disaggregating foreign ownership into foreign institutional and foreign corporate shareholdings. This is because the fundamental
forces governing the investments by both these categories are immensely different. In the case of domestic financial institutions, Indian private institutional investors could gain in prominence and skill. Finally, the legend as far as directors and their relatives’ shareholding are concerned is an assorted container.

x. Mohanty, Pitibas (2003), under the study “Institutional Investors and Corporate Governance in India." preach that the basic objective of an institutional investor is to maximize its own shareholders’ wealth and not to monitor the activities of the companies in which it has invested. The study discovers that the corporate governance index of nineteen measures is positively associated with financial performance measures like Tobin’s Q and industry-adjusted excess stock returns. It reveals that the money is lent by the development financial institutions as well as mutual funds into the companies with better corporate governance measures. This fact along with its eagerness to improve financial performance has become the major motive for the positive relationship between corporate governance index and financial performance measures.

xi. Sarkar and Sarkar (2000) in their study “Large Shareholder Activism in Corporate Governance in Developing Countries: Evidence from India”, provide evidence on the role of large shareholders in monitoring company value with respect to a developing and emerging economy, India, whose corporate governance system is a hybrid of the outsider-dominated market-based systems of the UK and the US, and the insider-dominated bank-based systems of Germany and Japan. The picture of large shareholder monitoring that emerges from this case study of Indian corporate is a mixed one. Like many of the existing studies, while it is found block-holdings by directors to increase company value after a certain level of holdings, it finds no evidence that institutional investors, typically mutual funds, are active in governance. It also finds support for the efficiency of the German/Japanese bank-based model of governance; the results suggest that lending institutions start monitoring the company effectively once they have substantial equity holdings in the company and that this monitoring is reinforced by the extent of debt holdings by these institutions. The analysis of this study also highlights that foreign equity ownership has a beneficial effect on company value.
In general, it supports the view emerging from developed country studies that the identity of large shareholders matters in corporate governance.

xii. World Bank Report (2005) on “India: Role of Institutional Investors in the Corporate Governance of their Portfolio Companies” falls within the framework of cooperation on matters of corporate governance between the World Bank and the GOI, through the MCA and the newly founded National Foundation for Corporate Governance (NFCG). This paper is followed by the completion of the country’s corporate governance ‘Report on Observance of Standards and Codes’ (ROSC) assessment by the World Bank in April 2004. ROSC benchmarks India’s corporate governance framework to the OECD Principles of Corporate Governance (The OECD Principles). It focuses on the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and the duties of the board of listed companies. The assessment found that over the last decade or so, a series of legal and regulatory reforms have improved the Indian corporate governance framework markedly; the level of responsibility and accountability of insiders have been strengthened, fairness in the treatment of minority shareholders has been enhanced, together with board practices, and transparency. Nonetheless, enforcement and implementation of laws and regulations remain important challenges.

The report finds that most domestic mutual funds take a passive role in the corporate governance of their portfolio companies. They seldom, if ever review the agenda of shareholders meetings, do not attend shareholders meetings, and do not exercise their voting rights, unless something goes drastically wrong, or if a takeover situation occurs. Nor do they disclose their voting records. Foreign institutional investors tend to exercise their ownership rights more actively. Insurance companies and banks are somewhat more active than domestic mutual funds but less active then foreign institutional investors. The latter institutions do attend shareholders meetings, vote at shareholders meetings or through postal ballot and convene informal meetings with management on an ad hoc basis, but like the first group, they support incumbent management. They sometimes consult with other institutional investors.
4.6 Summary of These Literatures’ Study:

The clear things to be surfaced from the above depth review is that empirical work in the area of corporate governance has undergone a remarkable growth, founded mostly on the basis of management–shareholder conflict and to a lesser but increasing extent on the stakeholder theory. Despite the volume of empirical evidence, there has been no consensus on how to resolve the problem. The lack of consensus has produced a variety of ideas (or mechanisms) on how to deal with the problem of agency. The above literatures’ study suggests that both market and non-market mechanisms could be used to promote the alignment of interest of managers and stakeholders. The managerial labour market and the market for corporate takeover tend to exert pressures both within and outside the firm in order to achieve such an alignment of interest. Empirical works abound on the mechanisms aimed to help reduce the agency problem. Abstracting from other dimensions of corporate governance (such as incentive schemes) we focus on five mechanisms – insider shareholding, board composition, board size, ownership concentration and debt which is perhaps allied with strengthening the stakeholders’ theory.

There is a perceptible variance between the results of the studies carried out in USA and Western Europe and those carried out in the Asian, developing and fastest emerging economies like India and China. According to a series of studies about corporate governance culture prevailing and advancing since more than last 5 decades in the U.S. and other developed economies, it is clearly visible that most of the governance criteria and measures positively relate to the firm performance, financial strengths, everlasting establishment, and capital competency of the firms. As far as the Asian culture of corporate governance is concerned, from the above study of Khanna T. et al. (2006), it is infer about 24 developing countries in Asia, Latin America, and Eastern Europe and their laws protect the shareholders and creditors noticeably. The proxies for globalization are not limited to those that measure capital market integration. Rather pairs of economically interlinked countries display similarity to each other’s systems, especially if both countries are ‘economically developed’ ones. Finally, they find virtually no evidence of de facto convergence in
corporate governance in an array of estimations at the country, industry and firm levels. An interpretation is that, even though countries might imitate the doctrine of each other’s corporate governance systems, their implementation is subject to significant lags.

Whereas, according to the World Bank Report (2005) as stated above and many other significant studies in the corporate governance observance, India’s corporate governance framework has set the benchmark to the OECD Principles of Corporate Governance spotlighting on the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and the duties of the board of listed companies. Over the last decade or so, Indian corporate governance framework have been improved by a series of legal and regulatory reforms; the level of responsibility and accountability of insiders have been strengthened, fairness in the treatment of minority shareholders has been enhanced, together with board practices, and transparency. One thing which has clearly emerged from the review is that the overall corporate governance measure i.e. corporate governance Index has a positive relationship with financial performance of companies across all countries both developed and emerging markets. It is when different parameters of corporate governance i.e. sub-indices are measured that the variations occur in the relationships.

Starting from Ross, S. (1973) and Jensen M.C. and Meckling W.H. (1976) till the World Bank Report (2005), differently used measures of Corporate Governance could be listed out as: Agency Problems & Costs, Agency Problems and Residual Claims, Block-Holdings by Directors, Board Committee Structures, Board Composition and Direct Incentives, Board Effectiveness, Board Independence, Board Size and Board Composition, Capital Structures and Emerging Stock Markets, CEO / CFO Certification of Financial Statements, CEO Duality and Outside Board Institutional Members, Concentrated Insider-Owned Firms, Concentrated Shareholding, Controlling Stockholders, Complementary Equity and Debt Finance, Debt and Corporate Control Activity Separately, Effectiveness of Small Boards of Directors, Enlightened Stakeholder Theory, Foreign Board Membership, Higher Promoters’ Ownership, Imitating Doctrine of Each other’s Corporate Governance Systems, Insider Shareholdings, Level of Board Monitoring Activity, Lower Volatility,

Most of the cross country studies have concentrated on three to four major parameters of Corporate Governance. Whereas, the commonly used measures of financial performance have been Tobin’s Q, Return on Assets, Return on Equity, Profitability, Profit after Interest and Tax, Sales Growth, Share Turnover and Firm Valuation, Market Capitalization, Dividend Payout, Earnings Per Share, Assets Growth, etc.

The reassessment and scrutiny of the upshots getting from the above research studies right through the world economies and their comparison with those emerging out of studies for Indian corporate world has helped us in designing appropriate methodology for our study besides formulating and testing hypotheses. The above in-depth review facilitate more applicably in the light of the Relationship between Corporate Governance Indicators and Firm Value in India and the prevailing corporate governance regulatory and legal framework. The mechanisms we are concerned with in this study can be divided into five: striking a balance between outside and inside directors; promoting insider (i.e., managers and directors) shareholding; keeping the size of the board reasonably low; encouraging ownership concentration; and encouraging the firm to have a reasonable amount of leverage in the expectation that creditors might take on a monitoring role in the firm in order to protect their debt holdings.
References:


END OF CHAPTER - IV