Findings and Recommendations

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7.1 Key Empirical Findings: 

The study decisively explored the legal and regulatory framework concerning corporate governance, examined the corporate governance mechanism and its key indicators, as well as empirically analyzed its effects on performance and values of the firms. The study has been limited to all the companies that comprise the BSE-200Index for five financial years from FY 2007-2008 to FY 2011-2012. From the interpretations emerging out of our empirical analysis in Chapter VI, it is now recognized that corporate governance mechanism, when executed in the precise fortitude, would have a positive influence on financial performance and values of the firms, irrespective of their size, ownership, location, category of the industry, economy, etc. Based on the interpreted outcomes and inferences of our study, we are making some findings and recommendations for the concerned players and stakeholders of the subject matter in the underneath conversation.

7.1.1 The Legal Regulatory Framework Concerning Corporate Governance in Diverse Countries:

Majority of the regulatory authorities, government sponsored bodies and committees, business and investors’ associations and other regulators of diverse countries have developed and issued governance practice guidelines along with the norms, principles and codes in the form of ‘minimum standards’ or the ‘best practice’, from the post 1990s onwards. These have been commenced in the developed and emerging countries in various forms vise OECD principles, GM board guidelines, SEBI’s voluntary guidelines of the corporate governance, SOX Act’s provisions, etc. The 56 countries in the Commonwealth, including the 27 states in the EU and the United Kingdom, have opted for a code of principles and practices on a ‘comply or explain’ basis, in addition to certain governance issues that are legislated. A review of the legal and regulatory framework concerning corporate governance in Diverse Countries revealed that:

- For managing the corporate governance issues and mechanism, most of the economies have formed either Security & Exchange Commission (SEC) or a federal regulatory agency or even federation or regulatory body called commission, council or committee.
• All those commissions and regulatory bodies have recommended having a minimum number of committees to be formulated in listed and or registered firms.

• The detailed guidelines for the accounting and auditing of the business of the firms have been suggested and framed under codes and principles on corporate governance.

• The recommendations for board of directors and other matters concerning to different categories of the directors on the board have been given by every regulatory and governing bodies of diverse countries.

• The rights, relationship and responsibilities of the shareholders have been highlighted in most of the codes and principles of the corporate governance of the diverse economies of the globe.

• Fair remuneration and responsibilities of the executive members of the board as well as the leading management persons of the firms have been precisely described by most of the codes and principles of the corporate governance by diverse economies.

• The roles and responsibilities of the board of directors have been well defined by every diverse country’s codes and principles of firms’ corporate governance.

• Transparency in Financial Reporting and Disclosure of the corporate information has been made mandatory by every economies of the globe under the adopted corporate governance mechanism.

• The principles and guidelines on the relationships and interests of external and related parties are well described in most of the codes of firms’ corporate governance mechanism of every economy.

• This way, the corporate governance regulations of the business existence and operation remains mostly unique in multi economies of the globe.

7.1.2 The Legal Regulatory Framework Concerning Corporate Governance in India:

During the period of post-independence from 1947 till the economic reforms in the 1990s, the Indian Corporate Sectors have immerged as a mix of Government and Private Firms (Family Business Groups, Individual Companies and Multinationals) as well as PPPs, and had espoused an authority and control approach to the developments. Post Liberalization in 1990s has radically speculated the Indian
Economy and opened up its doors for world economy to associate and contribute for each other. This has gradually relaxed the government’s complex norms and controls over licensing, market entries and pricing of the products waging to the labors, etc. This has generated modest motivations for the Private Firms’ Managers and Executives to willingly take up the good governance mechanism in their firms. A review of the legal and regulatory framework concerning corporate governance in India revealed that:

- Most of the recommendations, guidelines, principles and regulations related to the corporate governance in India are aligned to those of the other global economies.
- Starting from Companies Act duly formed in 1956 to the formation of SEBI in 1992 and till Company Bill 2012, every regulation comprises the detailed guidelines related to various concerns of corporate governance of Indian firms.
- The corporate governance system is by and large a hybrid of the outsider and the insider systems to be based on different models of the corporate governance.
- The government regulations of business entry, exit and operations remain complex up to certain extent due to influence of different theories of the corporate governance prevailed traditionally.
- The Indian legislation and regulatory system provides one of the highest levels of investors’ protection with a high disclosure and transparency in reporting.
- In terms of investors’ protection and creditors’ rights, the Indian Corporate governance system provides tremendous protection to the capital lenders.
- The quality of public enforcement of securities laws in India appears easy. It appears that de facto protection of investors’ rights in India triumph beyond the dejure protection in any other part of the world economies.
- The leading committees chaired by senior business ancestors in India have been instrumental in bringing about far reaching changes in corporate governance through their detailed studies and recommendations followed by the formulation of Clause 49 of Listing Agreements and its revised version.
- India’s corporate governance reforms have mainly focused on internal mechanisms and compare favorably with the rest of the world.

7.1.3 Effects of Corporate Governance on Firms Performance and Values in India:
Both Multivariate and pooled regression analyses have been carried out to examine the corporate governance and firm performance relationship between 192 total publicly listed companies of S&P BSE-200 Index. The study employs a panel regression model which involves pooling of observations on a cross-section of units over selected time periods of financial year 2007-08 to 2011-12 and provides results that are simply not detectable in pure cross sections or pure time-series studies. The panel regression equation differs from a regular time-series or cross section regression by the double subscript attached to each variable. The major findings were as:

- There were total 76 Service Sector, 116 Manufacturing and therefore total 192 Indian Firms were selected for the study.

- Majority of the Corporate Governance Indicators have significant positive impact on the firms’ performance and values except the indicator of Board Size and control variable of Debts in the case of all three subsets of the selected firms.

- The regression analysis of all dependent / performance variables and independent variables of Directors Share and number of Outside Directors on the board produce significantly positive results individually and along with entering the control variables too under all three subsets of the firms.

- The regression analysis of all dependent / performance variables and independent variable of Ownership Concentration also produce positive but not significant results individually and along with entering the control variables too under all three subsets of the firms.

- Board Size as independent variable influence negatively on all performance variables in both the models of individual and along with entering control variables.

- The advance corporate governance indicators of CEO status as duality with Chairman and Foreign CEO operating the firms have significantly positive influenced on all firms’ performance and values variables under all three subsets of the firms.

- Firm Size and the Age of the Firm as control variables produce mix impact on the firms’ performance variable with negative impact on P.E. Ratio and TobinsQ and positive on ROA and RONW of the selected service sector firms.
However, the Firm Size as control variable impacts negatively on all performance & value variables except RONW of the manufacturing sector firms. In the case of Age of the Firms under this sector, it creates again mix impact with negative on P.E. Ratio and TobinsQ and positive but not significant on other two performance variables of ROA and ROMW.

While combining all selected firms together, the impact of firm size and age of the firm as control variables produce similar impact to those of manufacturing sector on its performance and value variables. This might be due to larger portion of all firms fall under the manufacturing sector.

T – Test analysis shows significant differences in the derived values of TobinsQ between Service Sector Firms, Manufacturing Sector Firms and All Firms Together.

Foreign CEO Status of Service Sector Firms represented by FOREIGNCEO_Ser has T-test Significance value of 0.008 which is different than those of both the other subsets of firms. Along with very less mean value of this variable, the findings confirms that the very negligible number of Service Sector Firms have Foreign CEO on their management.

The P Value of F Test in case of all regression models for all performance / dependence variables demonstrates less than 0.05 that proves that these regression models are significant in nature.

Simultaneously, the Adjusted R Square statistics for all models explain significant level of percentages of correlations between entered variables in the regression analysis for all subsets of firms too.

At last, in the coefficient table of regression analysis, there is no presence of multicolinearity because Variable Inflation Factor (VIF) value for all independent variables is found less than 10 and the tolerance value is found as more than 0.1.

7.2 Recommendations for Indian Companies:
On the basis of these conclusions we have attempted to make a few recommendations for leading Indian companies – those which are already listed and those which are intending to get listed on the Stock Exchanges. These recommendations are more relevant for some of the well performing and fasted growing firms in many sectors for
whom a new platform has been created by BSE and NSE for raising equity from the market. With an increasing number of promoter managed companies and transforming from SMEs to limited companies turning to the equity market for raising low cost funds it is imperative for them to be prepared for greater transparency and accountability, board independence and responsibility towards minority shareholders and many other compliances toward the governance of their firms publicly after opening their wings for the public to invest into them. The implications of these measures of good governance on firm performance and values in these companies have to be weighed against the larger benefits of raising funds from public.

Our study has brought into spotlight the high and positive relationship between the key corporate governance indicators practiced by the leading Indian firms and their financial performance. Among the mandatory parameters of corporate governance it is observed that number of observed corporate governance indicators have had a positive and significant influence on P.E. Ratio, ROA, RONW and Tobin’s Q. Among the control variables of Debt, Firm Size, and Age has displayed a mixed impact on these four major financial variables.

This again and again emphasizes the dispute that companies that have made substantial investments and given the priority for improving their governance practices have been rewarded by higher valuations as well as financial performance. Firms falling in the S&P BSE-200 Index as well as those competing to be a part of this index could therefore be apprised of the long term benefits of moving in that direction. It is recommended to these firms that they should continue focusing overall developmental initiations aiming towards maximizing the firm values and financial performance through the adoption and compliance of corporate governance in the precise and minimum required manner.

Even though promoters and their family members in these companies generally exercise control over all strategic and policy related issues, it is crucial to welcome the role of employees, particularly senior management in the growth and profitability of firms. These will inevitable unfold far reaching implications on their financial performance and growth in the long run by increasing the ownership concentration.
We therefore recommend that firms having less involved management and mostly controlled and managed by the reserved group of people should open up their concentration of the ownership for the top managerial personnel of their firms. These companies may also mull over appropriate actions intended at greater value creation for all their stakeholders, especially their employees and senior management as this would raise greater confidence of their own employees and customers and increase investors’ trust so essential to prolong in the capital market and sustain falling in the leading index of the firms in the country. These companies would also have to tender a bigger role to their independent directors and reward them with performance related compensations since these would in the long run result in higher returns and better valuations in the market. In this regards, the outside directors and their proportion on the board should be recognized with the appropriate rewarding system to be adopted and making them more involved and focused on the practicing and safeguarding for good governance of the firms.

In the post LPG era, more and more Indian firms are expanding their global operations and the assorted categories of the industries and sectors are not far behind to transform themselves as global firms. This process has reduced the boundary barriers between two economies and introduced the global technologies, skilled manpower sharing and the flow of capitals from the foreign market place. This has created more challenges and complexities in the managing, organizing, and governing the business operations of complex corporations in today’s world. Therefore, it is more significant even for managers and directors to use and apply the modern techniques and discard the traditional systems of applying their skills towards complying for corporate governance.

Since the regression analysis result of Board Size of the selected firms derive negative influence on the performance variables, it is also emphasized and recommended to minimize the size of the board of the Indian firms. It is also recommended to raise the involvement of the Foreign CEO in the cases of the Indian Firms having any foreign collaborations or tie-ups. Though the result of the CEO Duality status produces positive influence on the performance variables, it is recommended still to increase
the separation of the CEO and Chairman of the board in the Indian firms. This is because of the derived results emphasizing on the positive impact of CEO status on all performance variables.

### 7.3 Recommendations for Legislative and Regulatory Authorities:

While accumulating and scrutinizing the corporate governance reports and data on its indicators of leading Indian companies, it was observed that the system of reporting corporate governance initiatives has yet to be made precise and adopted much easily since 2009 since several amendments were made in SEBI Clause 49 and Voluntary Guidelines of 2009. The prototype reporting system of the barest minimum has not changed for a large majority of Indian firms falling into the mandatory categories to comply with the corporate governance reporting.

Although many of the selected companies share all their compliance measures with their minority shareholders, a large majority are used to report only that which is mandatory. Some of the measures of corporate governance need to be reported only to the board or the Audit Committee. Hence, all such measures are not included in the corporate governance reports of these firms. Minority shareholders are therefore not fully aware of companies’ compliance with even the mandatory provisions. These information gaps had posed some constraints for our study as well.

Compliance to Clause 49 was made mandatory since 2006 and the same have been amended in 2009 along with the release of voluntary guidelines on corporate governance. The reference period for our study was 2007-08 to 2011-12. It is a bit time now to propose the policy level recommendations for the compliance related issues concerning the Indian companies. This should include some steps toward recognizing the corporate governance compliance in the form of monetary as well non-monetary motivational system to be offered to those firms who comply with all governance mechanism consistently since last 5 to 10 or more financial years. These firms may be given some relaxations from the compliance related reporting part for 2 to 3 years in-between to make them more diverted and free towards strengthening the corporate governance structure of their firms.
The firms complying regularly and consistently for some duration and going for IPO or secondary market capital rising may be given some repose from fulfilling the additional reporting norms at that time and making them in a taxation relief category for certain financial years. This would encourage and divert many more Indian firms toward fulfilling and complying with the corporate governance norms and parameters.

The regulatory authorities like MCA, SEBI, NFCG could contemplate to initiate and sponsor many such kind of research studies on corporate governance practices and financial performance, with a larger sample size. Such studies could be undertaken categorically for a larger sample size possibly for different segments of industries and for different sizes of the firms influencing good governance on financial performance. This type of Studies, seminars, conferences at national and international level could also bring out the measured suggestive and researched information and literature towards improvements to be made over the years by the listed firms, which could help in assessing the effectiveness of the existing regulations in the capital market.

7.4 **Is there any need for a distinguish regime of Corporate Governance for any specific industry?**

The analysis reveals that the corporate governance indicators of service sector firms need to be strengthening in compare to those of the manufacturing sector. This is because of having 40 percent (76 firms among total 192 firms) representation by this sector firms in the selected S&P BSE-200 Index firms. In contrast to this fact, there are number of service firms in Indian performing extremely well among many leading service firms at global level in varied services like IT and ITES, Financial Consultancy, Legal and Process Advisory, Medical and Healthcare services, Insurance and risk management, etc. This also includes many SMEs marching towards transforming themselves into the large service sector firms. In other words, post LPG the boundary barriers of cross border exchanges of the resources have been removed which instigates these firms to grow globally with the following and adoption of the governance norms thoroughly.
7.5 Significance of setting a better Monitoring Mechanism:
Since the Indian capital market has been expanded and attained maturity regulations, the corporate governance is bound to increase in keeping with the global standards. This needs to be monitored by more strong and flattened body of corporate governance mechanism. This monitoring mechanism need to focus on a more sophisticated process of auditing the implementation process followed by reconciliation of the complied governance regime by the Indian firms. Monitoring has to be done both internally and externally by the Stock Exchanges and/or any other indispensable body of corporate governance mechanism. Discrepancies in the compliance of corporate governance mechanism have to be conveyed to this body. With the superfluity of regulations and compliances to be fulfilled by the listed companies and no proper monitoring and reconciliation systems even the bigger sized firms have not been able to fully comply with those which are really necessary.

With the enactment of the Companies Amendment Bill, 2012 the burden of compliance with a new spate of regulations have covered many companies under different categories vise insurance, banking, electricity generation and distribution, etc. Beyond the fundamental guidelines and clauses, a number of other improvements were proposed in this Act in addition to those have been discussed under the Company Bill 2008. This would increase the compliance burden of the firms falling in the compliance regime. In line to this incremental force of the compliance, there must be the monitoring mechanism to be reinforced in a stronger way to enable to required implementation and reconciliation of the compliance regime.

7.6 Role of Apex Bodies and Industry-specific Associations:
These apex bodies and industry associations those are formed for reinforcement and benefits of the member companies have by and large concentrated on issues concerning larger sized public limited companies till now. These entities could play an advisory and facilitating role while assisting their members, particularly the SMEs and private companies entering the capital market. While it is possible for the larger sized listed companies to appoint consultants and legal advisors, even for raising
funds from foreign institutional investors and foreign direct investors, the same may not be possible for SMEs and Private companies. Different services starting from awareness and training program for corporate governance regulations and mechanism till the financial and legislative advisory services could be provided individually to companies as the constraints of each may be different depending upon its size and ownership patterns till that point of time.

The scattered and unorganized form of these firms as members of those bodies and associations need to be supported for availing the benefits of the improved governance practices and to enter into the open capital and other resources market for transforming themselves into large firms. A good corporate governance culture could thus evolve leading to the strengthening of the entire financial sector. These bodies and associations may initiate to get their members complied with the corporate governance mechanism collectively and together for all members. They may also initiate to organize the conferences and seminars for industry–academia affiliation to support their members getting guidance and directions to comply with the corporate governance regime though the leading academicians and educators too.

7.7 Contribution of the study:
The study contributes to the literature through its empirical findings that highlight the role the major corporate governance indicators play on corporate performance, in an emerging economy such as India. The study also finds that various economies of the glob precisely identified their codes and principles of the corporate governance which by and large cataract on the similar regimes of the governance of their corporate. The enforcement and influence of these codes and principles on corporate governance, business practices and enforcement standards is also contributed in this discussion. The governance researchers would have an opportunity to appreciate the applicability and limitations of the existing governance framework. It also affords insight to policy makers interested in improving corporate governance standards in the context of unique institutional, legal and regulatory setting.
It is evident that the Indian regulatory bodies have reformed the corporate governance regime and mechanism since last one decade which lay emphasis on the significance of the credibility and integrity of listed companies, the responsibilities of directors and management, the protection of minority shareholders, and comprehensive disclosures. This reformation also covers the voluntary initiations to be taken by these corporate to gratify the interest of many other stakeholders. Conversely, there are major spaces and drifts in the execution of governance regime. The governance environment can be attributed to weak enforcement mechanisms. As pointed out earlier the development of a corporate governance system by itself would not deliver every reform goal until and unless related changes are not brought about at the macro- and micro-levels as far as the monitoring mechanism of the same is concerned.

The empirical evidence is also contributed through detailed survey of literature on the corporate governance indicators impacting on firms’ performance and values followed with the same outcomes of formal research analysis of the data collected in this study too. The outcome of this study is consistent with many other authors’ findings and results of their studies investigating the performance of firms affiliated to groups of companies from several emerging countries. Apart from this general finding, the study provides empirical evidence on core performance measures to be influenced by major corporate governance indicators. The analysis shows the presence of a significant directors’ shareholding effect within selected firms with higher performance. Subsequently the study also experiences a significant decline in performance due to increase in the size of the board of these firms. The study observes that firms that have high levels of ownership concentration as well as increasing number of outside directors on the board are characterized by better performed Indian firms.

While India boarded into the reformation with LPG in the early 1990s, it has progressively incorporated and collated along with the global economy. The incident of globalization of wealth wherein foreign investor especially foreign institutional investors secure their holdings is quite perceptible from the study. This growth of shareholding is expected to have a pervasive influence on corporate governance on two accounts. First, foreign institutional investors seek to preserve their global
integrity and therefore maintain higher governance standards in their operations. Second, they have greater ability to enforce governance rules because of their expertise and experience over the years. This is very well evident in the present study through the positive influence being generated on the firms’ better performance and more values creation by the Foreign CEO actively involved and participated in the firms’ business operation in compare to those without having any Foreign CEO. This is even proved with very less number of firms having any Foreign CEO in the present study.

The study suggests that it is not only the foreign CEO but also the duality of CEO to be represented by Chairman of the board have a significant influence on the performance and values of the firm. There is evidence that higher CEO status representing the separation of CEO from Chairman is beneficial to the company as it improves firm performance and positively affects values too. It seems the CEO status of Indian companies reduces agency conflicts and may result in safeguarding from self-seeking behaviour and pursuit of private gains of control in the case of separation of CEO from the Chairman.

Further, the study puts forth inconclusive effect of debts component as well as the size and age of the firms as control variables on corporate performance and values. It is therefore imperative to improve effectiveness of leverage of the firms in the capital structure to strengthen their earning power. Secondly, regarding the board size, the study recommends smaller boards to create more positive impacts on the firm performance and value. Rather than having a large number of board members, it is suggested to bring in a few with the required expertise and knowledge to efficiently run the company. At last, the study throw in the indication having the sectorial dummy of manufacturing sector as more authoritative on the performance and value creation in contrast to that of the service sector.

7.8 Future scope of the study:
Despite the limitations of the study as enlisted in above chapter, the study is relevant and timely given the increasing importance of corporate governance across the globe
in general and India in specific. The findings provide researchers, students, academicians, corporate, and others with many valuable understanding of differences in the governance practices and performance of the Indian firms. Specified with certain contradictory results obtainable in the present study and definite earlier studies using Indian firms’ data, it is evident that there are many issues relating to the relationship amongst corporate governance and firm performance, which remain yet to be solved. Future studies may further explore into other governance-specific variables (for example, board committees, remuneration patterns, board skill, etc.) and their relationship with the firm performance.

The revised clause 49 of the listing agreement comprises many voluntary guidelines of corporate governance, and beyond compliance, and many more under the corporate governance norms. Therefore, studying the effects of voluntary guidelines and beyond compliance norms of corporate governance on firms’ performance can provide interesting and reliable information enabling better understanding of governance issues to be resolved in India. These kind of studies would be then feasible for the field to contribute ideas to improve the confidence and wellbeing of not only investors at large but also for the other stakeholders like suppliers, consumers, employees, other concern human beings and many immortal parts of the society at large.

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