6 CORPORATE GOVERNANCE AND FIRM CHARACTERISTICS

6.1 Overview of the Chapter

Finally, the last objective of the current research is examined wherein the relationship between corporate governance and firm characteristics including dividend decisions and firm performance is explored. For studying dividends, the aggregate cash dividends paid by the company annually are considered as a percentage of book value. For measuring financial performance, both accounting and market measures of firm performance are taken into account. In case of corporate governance measures, an index of corporate governance indicators is created, including the number of independent directors, total board members, number of board meetings held, percentage shares held by promoters and various other indicators. The reason that corporate governance index is created for investing the last objective, and not the other objectives is that this index is best suitable for evaluating the firm performance (market and accounting performance) of the companies. It is the most efficient method for determining the firm performance characteristics as per the corporate governance. Empirical research linking corporate governance and firm performance using an index to measure the quality of corporate governance have been conducted in various countries such as - the United States, Australia, Russia, Canada, Germany, Hong Kong, Korea, Greece, India, Ukraine, Thailand, and Switzerland. These studies find a positive relationship between corporate governance and firm performance. Therefore, the current study utilizes this method to evaluate the linkage between these two variables.
The methodology for creation of corporate governance index is discussed in the next section followed by empirical model specification and results.

6.2 Corporate Governance Index

In order to measure the quality of corporate governance for the firms, researcher have constructed an index – Corporate Governance Index. The index is based on both internal and external mechanisms of corporate governance. The internal governance mechanisms considered are: (a) Board Structure, and (b) Ownership Structure, while the external governance mechanisms included are: (a) Market for Corporate control. The variables representing board structure are: Proportion of Outside directors, Board Size, Number of board meetings, Ownership structure variables are Promoters’ equity, corporate holding and Institutional holding. Market for external control is represented by shareholding by non-promoters. The description of these variables is as follows:

6.2.1 Proportion of Outside Directors:

This variable indicates the proportion of outside independent directors to the total number of directors on the board of the firm. If the board is dominated by outside directors, researcher expect such a board to be more effective, following the resource dependency approach.

6.2.2 Board Size:

This variable considers the total number of directors on the board of a company.
6.2.3 Number of Board Meetings:
In India, companies are statutorily required to hold at least one board meeting in each quarter i.e. a minimum of four meetings in a financial year. The frequency of holding the board meetings has been factored in by way of a dummy variable which equals ‘1’ if a company has held more than four meetings in a financial year and ‘0’ otherwise.

6.2.4 Promoters’ Equity:
This variable is the proportion of equity shareholding of the promoters to the total equity of the company. Higher the ratio of promoter equity to total equity means concentrated shareholding pattern of the promoters.

6.2.5 Corporate Holding:
If a corporate entity holds more than 10% equity capital of another firm, the scope of ‘tunneling’ is higher as a firm has more avenues available than individuals. Hence, researcher consider a dummy variable which equals ‘0’ if more than 10% of the equity of the sample firm is held by another firm in the promoters’ category and ‘1’ otherwise.

6.2.6 Institutional Shareholding:
This indicates the proportion of equity shareholding of Mutual Funds (MFs) and Foreign Institutional Investors (FII) to the total equity. Higher shareholding by such investors indicates higher possibility of shareholder activism, hence improves corporate governance.
6.2.7 Non-Promoter Shareholding:

Researchers measure the market for external takeovers by the concentration of equity shares with non-promoters. The rationale behind this variable is that non-promoter shareholding would act as an obstacle to tunneling activities by the promoter group and might improve the efficiency through the market for corporate control, as these shareholders have incentives to monitor and restrain the promoters. Thus, higher concentration of non-promoter shareholding would be linked to higher firm value.

6.2.8 Firm Characteristics Variables

Researchers take different firm characteristics like ROCE, RONW (%), PBDTM (%), EPS Re, Dividend rate (%), Cash EPS, PBDTM (%), Change in Price (CPM) (%), Sales, FIXED ASSETS, LONG TERM DEBT-EQUITY RATIO, DEBT-EQUITY RATIO and Closing price on BSE.

6.3 Results and analysis

For creation of index, Principal component analysis was used where in the variables which were highly correlated were removed. The results of PCA have been presented in Table 20. The value of Kaiser-Meyer-Olkin Measure of Sampling Adequacy was found to be .810 and value of Bartlett's Test of Sphericity was 3077.141 and the results were statistically significant indicating data to be fit for pattern detection.

Further, the results of principal component analysis indicate four main factors having eigen values more than 1 as shown in Table 21. The four components in total explained around 81 percent of the total variability. Further, component 1
explains around 45% of the variability followed by component 2, 3 and 4 explaining 16, 12 and 8% of the variations.

Further, the results of the pattern matrix in Table 22 indicate the composition of individual factors in each factor. The factor components having less than 0.5 scores were suppressed to get a clear picture of the important components.

The sub components of four identified factors have been shown diagrammatically using path diagram (Figure 4) with the help of SPSS Amos. The analysis was also done in AMOS to check the robustness of the results.

Finally, on the basis of factor weights obtained from the PCA, the composite variable of corporate governance was estimated in SPSS using ordinary least square method. The result generated four new variables and an average of the four variables was considered for evaluating the corporate governance and firm performance linkages.

Table 23 provides information about the standardized estimates of individual variables of the four factors. The table provide information about the relative weight of each variable in construction of index. In case of first factor the main variables are Non promoters share (NP), Indian promoters (indp), institution as non-promoters (instnp), shares held by banks as non-promoters (BankNP), Foreign Institutional Investors as non-promoters (FIINP) and Individuals as Non promoters (Indnp). The second factor comprises of three components namely Mutual funds as Non Promoters (MFNP), Non institutions as Non Promoters (Nonninstnp) and Corporate bodies as Non promoters (CBNP). The third factor has board size (BS) and Independent members on board (IM) as main variables and the fourth factor comprising of number of board meetings in each year (BM) and Promoters shares held (prom).
After computing the score of corporate governance index, the relationship among the dependent and independent variables is then determined.

Firm performance can be measured by estimating two proxy ratios, firm performance at accounting base and market base. Ehikioya (2007) discovered that the association between board size and firm’s accounting performance is positive, however, the relation was found to be negative with the firm’s market performance. Accounting-based firm performance is a measurement approach that determines the firm’s profitability with the comparison of the rate of return equal to the risk associated with cost of capital. According to Mashayekhi and Bazazb (2008), when the relationship between corporate governance and firm performance is investigated, accounting-based is preferred over market-based performance measurement as it is efficient in providing management actions outcome. The factors relating the market performance comprises of Closing Price of share (CP), Closing Price in percentage (CPM), Earning Per share (EPS), Long run earning per share (EPS1) and Long term debt Equity ratio (LDE). The factors pertaining to the accounting performance comprises of Return on capital employed (ROCE) and return on Net Worth (RONW).

Firstly, the correlation among the variables is estimated to determine the degree of correlation among them. Table 24 and Table 25 present the correlation values. The results indicate significant correlation among corporate governance index variable (CGAGG) and Closing Price of share (CP), Closing Price in percentage (CPM), Earning Per share (EPS), Long run earning per share (EPS1), Long term debt Equity ratio (LDE), Return on capital employed (ROCE) and return on Net Worth (RONW). The relationship were positive for all the variables which were significant excluding Long term debt
equity ratio (LDE) indicating higher governance leads to lower amount of debt in a company and vice versa. Further, in case of both accounting as well as market performance measures, positive relationship with the CG score was discovered.

In the next section, the relationship among the corporate governance variables and financial performance measures is established using least square method in panel framework. The empirical model tested has been presented in equation. The relationship with the composite variable is first estimated, i.e. average of the four factors of corporate governance and four factors individually. The results are presented in Table 26, Table 27, Table 28 and Table 29.

In case of the first model, corporate governance score was taken as dependent variable and financial performance variables were taken as independent variables along with control variables like size, capital structure, sales of the firm. The results have been presented in Table 27. As shown in Table, a significant relationship between corporate governance score and four firm performance variables i.e. ROCE, RONW, EPS01 and EPS are found. Also, the relationships were positive for all variables except for EPS01. Furthermore, the relationship was not significant for other independent variables like PBDTM, CPM etc.

The F-statistic of the model indicates the model to significant though the value of r square is low. The low value of r square can be attributed to the complexity of the relationship between Corporate governance and firm performance.

Next, the results of individual components of corporate governance index are analyzed. Here, individual component is taken as dependent variable followed
by the same independent and control variables as discussed in the previous section.

The results indicate significant relationship among three variables i.e. ROCE, RONW and EPS. Further, the relationship is inverse in case of RONW. In case of the other variables, the relationship is not statistically significant.

In case of the other three models, a significant relationship for RONW, DE for second model is observed. Also, the relationship between FA, PBDTM, CPM for third and EPS01, DIV for the fourth model is found.

Overall, the current study could not establish link between governance and dividend policy of the firm, however in case of firm performance significant relationship was established by the results.

**Table 22 KMO and Bartlett's Test**

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</th>
<th>0.810</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bartlett's Test of Sphericity</td>
<td>Approx. Chi-Square</td>
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<tr>
<td>Df</td>
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<td>Sig.</td>
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Table 23 Total Variance Explained

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1</td>
<td>5.830</td>
<td>44.844</td>
</tr>
<tr>
<td>2</td>
<td>2.080</td>
<td>16.003</td>
</tr>
<tr>
<td>3</td>
<td>1.542</td>
<td>11.865</td>
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<tr>
<td>4</td>
<td>1.059</td>
<td>8.144</td>
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<tr>
<td>5</td>
<td>.973</td>
<td>7.482</td>
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<td>6</td>
<td>.698</td>
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<td>.477</td>
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<td>.169</td>
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<td>.096</td>
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<td>11</td>
<td>.035</td>
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<td>13</td>
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Extraction Method: Principal Component Analysis.
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<th>3</th>
<th>4</th>
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<td></td>
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<tr>
<td>IM</td>
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<td>.969</td>
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<td></td>
</tr>
<tr>
<td>BM</td>
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</tr>
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<td>Instnp</td>
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</tr>
<tr>
<td>MFNP</td>
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<td>.430</td>
<td>.401</td>
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<td>BankNP</td>
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<td>.389</td>
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</tr>
<tr>
<td>FIINP</td>
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<td>-.482</td>
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</tr>
<tr>
<td>Nonninstnp</td>
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<td>.727</td>
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<tr>
<td>CBNP</td>
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<tr>
<td>Indnp</td>
<td>.568</td>
<td>.401</td>
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</tbody>
</table>

Extraction Method: Principal Component Analysis.

Rotation Method: Promax with Kaiser Normalization.

a. Rotation converged in 7 iterations.
Figure 4 Four identified factors, Method CFA AMOS
Table 25 Standardized Regression Weights: (Group number 1 - Default model)

<table>
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<tr>
<th>VARIABLE</th>
<th>Estimate</th>
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<tr>
<td>NP</td>
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<td>Indp</td>
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<tr>
<td>Instnp</td>
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<td>BankNP</td>
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<td>FIINP</td>
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<tr>
<td>Indnp</td>
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<tr>
<td>MFNP</td>
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<tr>
<td>Nonninstnp</td>
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<td>CBNP</td>
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<tr>
<td>BS</td>
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<tr>
<td>IM</td>
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</tr>
<tr>
<td>BM</td>
<td>0.688</td>
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<tr>
<td>Prom</td>
<td>0.299</td>
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Table 26 Results of Correlation Analysis

<table>
<thead>
<tr>
<th>Probability</th>
<th>CGAGG</th>
<th>CP</th>
<th>CPM</th>
<th>DE</th>
<th>DIV</th>
<th>EPS</th>
<th>EPS01</th>
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</thead>
<tbody>
<tr>
<td>CP</td>
<td>0.257117</td>
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</tr>
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<td>CPM</td>
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<td>0.0062</td>
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<tr>
<td></td>
<td>0</td>
<td>0.1725</td>
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</tr>
<tr>
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<td>0.089939</td>
<td>-0.02472</td>
<td>-0.06566</td>
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<tr>
<td></td>
<td>0.3456</td>
<td>0.7959</td>
<td>0.4915</td>
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<tr>
<td>DIV</td>
<td>0.094684</td>
<td>0.461352</td>
<td>-0.04482</td>
<td>0.025724</td>
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<td></td>
<td>0.3207</td>
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<td>0.6389</td>
<td>0.7878</td>
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<td>EPS</td>
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<td>0.460995</td>
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<td></td>
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<td>EPS01</td>
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<td>0.87333</td>
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<td>-0.13257</td>
<td>0.475123</td>
<td>0.965146</td>
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<td></td>
<td>0.0157</td>
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<td>0.1635</td>
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Table 27 Correlation among different variables

<table>
<thead>
<tr>
<th>Correlation</th>
<th>FA</th>
<th>CGAGG</th>
<th>LDE</th>
<th>PBDTM</th>
<th>ROCE</th>
<th>RONW</th>
<th>SALES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability</td>
<td>FA</td>
<td>CGAGG</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FA</td>
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<td></td>
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<tr>
<td>CGAGG</td>
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</tr>
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<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>LDE</td>
<td>-0.36265</td>
<td>0.10421</td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>0.0001</td>
<td>0.2742</td>
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<tr>
<td>PBDTM</td>
<td>-0.14966</td>
<td>-0.40619</td>
<td>-0.06873</td>
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<td></td>
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<td></td>
<td>0.1153</td>
<td>0</td>
<td>0.4715</td>
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<td></td>
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</tr>
<tr>
<td>ROCE</td>
<td>0.561907</td>
<td>0.064436</td>
<td>-0.24819</td>
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<td>1</td>
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<tr>
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<td>0</td>
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<td>0.0083</td>
<td>0.0029</td>
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<tr>
<td>RONW</td>
<td>0.475232</td>
<td>-0.01832</td>
<td>-0.10075</td>
<td>0.386292</td>
<td>0.952073</td>
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<tr>
<td></td>
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<td>0.8479</td>
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<tr>
<td>SALES</td>
<td>-0.0988</td>
<td>0.069931</td>
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<td>0.3</td>
<td>0.4638</td>
<td>0.3634</td>
<td>0.1924</td>
<td>0.0803</td>
<td>0.0657</td>
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</tbody>
</table>
Table 28 Panel OLS Aggregate Score as Dependent Variable

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
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<tbody>
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<td>-0.12</td>
<td>0.14</td>
<td>-0.85</td>
<td>0.40</td>
</tr>
<tr>
<td>LDE</td>
<td>0.56</td>
<td>0.81</td>
<td>0.69</td>
<td>0.49</td>
</tr>
<tr>
<td>PBDTM</td>
<td>0.02</td>
<td>0.02</td>
<td>0.72</td>
<td>0.47</td>
</tr>
<tr>
<td>ROCE</td>
<td>0.08</td>
<td>0.04</td>
<td>1.96</td>
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</tr>
<tr>
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</tr>
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<td>0.02</td>
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<td>0.43</td>
</tr>
<tr>
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<td>0.84</td>
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<td>0.49</td>
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<td>0.27</td>
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</tbody>
</table>

R-squared | 0.337824 | Mean dependent var | -8.93E-08
Adjusted R-squared | 0.25756 | S.D. dependent var | 2.195266
S.E. of regression | 1.89155 | Akaike info criterion | 4.221434
<table>
<thead>
<tr>
<th>Sum squared resid</th>
<th>354.2181</th>
<th>Schwarz criterion</th>
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<td>Hannan-Quinn criter.</td>
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<td>Durbin-Watson stat</td>
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<tr>
<td>Prob(F-statistic)</td>
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Table 29 Panel OLS, First Component as Dependent Variable CG1

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<th>Variable</th>
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<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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<td>FA</td>
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<td>0.070</td>
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<td>LDE</td>
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<td>0.397</td>
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<td>PBDTM</td>
<td>-0.005</td>
<td>0.011</td>
<td>-0.489</td>
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</tr>
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<td>ROCE</td>
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<td>0.021</td>
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<tr>
<td>RONW</td>
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<tr>
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<td>R-squared</td>
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<td>Mean dependent var</td>
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<td>Adjusted R-squared</td>
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<td>S.D. dependent var</td>
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<td>Akaike info criterion</td>
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<td>Sum squared resid</td>
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<td>Schwarz criterion</td>
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<td>Hannan-Quinn criter.</td>
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Dependent Variable: CG2
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</tr>
<tr>
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<tr>
<td>RONW</td>
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<td>SALES</td>
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<td>1.22E-07</td>
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</tr>
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<tr>
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<tr>
<td>R-squared</td>
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<td>S.D. dependent var</td>
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### Table 30 OLS Results, Third Component as Dependent Variable

**Dependent Variable: CG3, Method: Least Squares**

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<th>Std. Error</th>
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<th>Prob.</th>
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<td>-1.72</td>
<td>0.09</td>
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<td>0.40</td>
<td>1.13</td>
<td>0.26</td>
</tr>
<tr>
<td>PBDTM</td>
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<td>0.01</td>
<td>1.81</td>
<td>0.07</td>
</tr>
<tr>
<td>ROCE</td>
<td>0.01</td>
<td>0.02</td>
<td>0.69</td>
<td>0.49</td>
</tr>
<tr>
<td>RONW</td>
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<td>0.01</td>
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<td>-------</td>
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<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td><strong>SALES</strong></td>
<td>0.00</td>
<td>0.00</td>
<td>1.34</td>
<td>0.18</td>
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<td>0.01</td>
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<td>0.01</td>
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<td>0.72</td>
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<td>-0.63</td>
<td>0.53</td>
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<td><strong>DIV</strong></td>
<td>0.00</td>
<td>1.24</td>
<td>0.22</td>
<td></td>
</tr>
<tr>
<td><strong>C</strong></td>
<td>-0.22</td>
<td>0.24</td>
<td>-0.90</td>
<td>0.37</td>
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</table>

<p>| <strong>R-squared</strong> | 0.22 | Mean dependent var | 0.00 |
| <strong>Adjusted R-squared</strong> | 0.13 | S.D. dependent var | 1.00 |
| <strong>S.E. of regression</strong> | 0.94 | Akaike info criterion | 2.81 |
| <strong>Sum squared resid</strong> | 86.58 | Schwarz criterion | 3.13 |
| <strong>Log likelihood</strong> | -144.51 | Hannan-Quinn criter. | 2.94 |</p>
<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FA</td>
<td>-0.09</td>
<td>0.06</td>
<td>-1.48</td>
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<td>LDE</td>
<td>-0.24</td>
<td>0.35</td>
<td>-0.70</td>
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<td>0.01</td>
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<td>ROCE</td>
<td>-0.01</td>
<td>0.02</td>
<td>-0.31</td>
<td>0.76</td>
</tr>
<tr>
<td>RONW</td>
<td>0.02</td>
<td>0.02</td>
<td>1.02</td>
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</tr>
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<td>SALES</td>
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<td>0.01</td>
<td>-1.36</td>
<td>0.18</td>
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<td>CP</td>
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<td>0.00</td>
<td>1.52</td>
<td>0.13</td>
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<tr>
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<td>0.23</td>
<td>-1.33</td>
<td>0.19</td>
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<tr>
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<td>0.00</td>
<td>-1.93</td>
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<td>--------------------------------</td>
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<td>------</td>
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<tr>
<td><strong>R-squared</strong></td>
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<td>Mean</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>dependent var</td>
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</tr>
<tr>
<td><strong>Adjusted R-squared</strong></td>
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<td>S.D. dependent var</td>
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<td><strong>S.E. of regression</strong></td>
<td>0.81</td>
<td>Akaike info criterion</td>
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<td>Hannan-Quinn criter.</td>
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<td>Durbin-Watson stat</td>
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<td><strong>Prob(F-statistic)</strong></td>
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</table>
7 CONCLUSION AND SUMMARY

7.1 Overview of the chapter

This chapter provides a summary of main results of the present study. Specifically, the important findings, major contributions and limitations of the study have been discussed. Finally, directions for further research and suggestions are offered by the author.

7.2 Summary of Findings

The results are of the current study are comprehensively discussed in this section, however, it is imperative to present the summarized findings. The following table corresponds to the same.

Table 31 Summary of Findings

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>To examine the present status/Pattern of corporate governance in the companies</td>
<td>To fulfil this objective, the trends in corporate governance variables is analyzed which includes average Board Size, Number of Outside Directors, Proportion of Outside Directors and Board Meetings held during the period 2002-2014 for the sample firms indicated board size almost constant and large in size</td>
</tr>
<tr>
<td>To study the effect of corporate governance on capital structure of companies.</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td></td>
</tr>
<tr>
<td>which is due to large size of the corporation's. The number of outside directors doubled between 2002 &amp; 2005 and then it further stabilized between 45 to 47 % from 2007 onwards due to more strict regulations. The average Board meetings of the current sample varied between 4 to 6 meetings during the period 2002-2014 where, the highest numbers of Board meetings on an average were conducted from a period of 2005 till 2007.</td>
<td></td>
</tr>
</tbody>
</table>

| To investigate this objective, the relationship between corporate governance variables such as board size, independent directors, number of board meetings and ownership structure with capital structure decision of the current sample firms is evaluated. Long term and short term debt equity ratios are evaluated as the factors of capital structure. It is found |
that the corporate governance has a prominent positive impact on the capital structure.

To evaluate the effect of corporate governance on dividend policies of the companies.

Overall, the current study could not establish link between governance and dividend policy of the firm.

To identify and establish link between corporate governance, capital structure and corporate dividend policies individually and collectively.

Corporate governance is found to have a significant relationship with capital structure and cost of capital. However, its relationship with dividend policy is inconclusive.

To identify and establish link between corporate governance and firms accounting performance and firms market performance

Both firms accounting and market performance was found to be positively related with corporate governance.

On an average, the Board size of listed Indian firms is 4 to 5 members. Further, it can be seen that most of the firms had less number of outside directors in their firms in 2002. It was observed at the time of data collection also that some companies had less outside directors till the end of year 2002 even after the mandatory guidelines of having at least 50% independent directors as per Kumar Mangalam Committee. This shows that compliance with the guidelines or listing agreements left a lot of scope for improvement.
After 2005, more strict regulations were adopted and companies were even threatened for delisting if they did not add independent directors to its board to meet the minimum stipulated norms. As a result, there was remarkable increase in the proportion of outside directors of the companies. For most of the companies, this proportion increased to 50% and for some companies, it even reached more than 50%. These independent directors were added to the Board under pressure from the stakeholders on grounds of bringing in expert and diverse opinion so as to improve decision-making process.

By the end of the year 2006, almost all the firms had more than minimum 50% outside directors. Along with that, this addition of outside directors was accompanied by the removal of a director in some other category; as a result, researcher observed a decline in this selected variables in 2006. After 2006, most of the firms were able to meet the mandatory requirements of maintaining the minimum amount of independent members which can be seen though stability of the indicators after 2007.

Further, in case of analysis of the trends in the ownership patterns in terms of the percentage shares held by promoters and non-promoters the results reveal that on an average there was an increase in promoters shares for 8 companies along with that percentage shares held by the promoters declined for 10 companies out of the sample. In case of Tata motors and Reliance industries the company has experienced both increase and decrease in promoters shareholding over a period of 13 years. Though researcher could observe change in the pattern of ownership of various stakeholders whether such changes influenced the dividends, level of governance, capital structure etc. was studied in the consecutive chapters.
In case of results pertaining to second main objective wherein researcher investigated the relationship between capital structure and corporate governance variables by taking both Short and Long term Debt Equity ratio as dependent variables and a set of corporate governance variables like board size, independent board members, number of board meetings held etc. and control variables for the purpose of analysis.

The analysis of basic properties of data like skewness indicate the data was not normal and presence of greater values compared to the mean values. Further, in case of Kurtosis, the results indicate high peaks in the data. Furthermore, similar pattern was reflected if researcher see the standard deviation of the variables. Certain variables like Closing price, Dividend Rate, PBDT had a very high standard deviation reflecting high variability in these measures.

Results of correlation analysis show inverse relationship between number of board meetings and percentage of outside directors and positive relationship between board size and proportion of outside directors. The results on the relationship between number of board members and other independent variable indicate significant relationship among six of the 24 variables namely Non-promoter Corporate Bodies share holdings, Closing price on BSE, Non-promoter FIIs - Shares holdings, Non-promoter Individuals share holdings, Institutions as Non-promoter share holdings and Promoters shares. The relationship was not significant in case of other variables. The results of the correlation matrix also show inverse relationship between Closing price on BSE, Debt Equity, Non-promoter FIIs - Shares held, Non-promoter Individuals – Shares and Non-promoter Institutions – Shares and number of board members.
Further, researcher also found significant positive correlation between Shares held by Indian Promoters and board size. Furthermore, negative relationship between Profit before dividend tax and Independent member in board was observed.

Furthermore, researcher study the correlation between Debt Equity ratio and other explanatory variables and found significant relationship for the following variables i.e. DIV, EPS, EPS01, FA, INDNP, INDP, INSTNP, LDE, MFNP, NP, PBDTM, PROM, ROCE, RONW. The relationship was found to be positive in case of INDNP, INSTNP, LDE and NP. And inverse for rest of the variables. Finally, studied the correlation between LDE with other variables and found significant correlation between NP, PROM, ROCE and RONW.

Taking a step further researcher study the relationship using panel data framework where researcher take corporate governance variables as dependent variable followed by capital structure variables and control variables. The results indicate significant relationship between BS, BM, PROM, NP, Sales and EPS. The results also indicate inverse relationship between PROM, NP, RONW and EPS. Further, positive relationship in case of BS and BM is established. When researcher analyze the same relationship by taking into consideration long term debt equity ratio researcher found significant positive relationship with Board Size and sales of these sample firms along with that the results also indicate inverse relationship with EPS and Number of Board members. In the same line, when studied the relationship between long term Debt Equity ratio and individual categories of ownership structure, found positive relationship between INSTNP, long term debt equity ratio and Inverse relationship was also found in case of MFNP and FIINP.
In last objective researcher explore the relationship between corporate governance and firm performance. For measuring financial performance researcher has consider both accounting as well as market measures of firm performance. In case of corporate governance measures create an index of corporate governance indicators including the number of independent directors, total board members, number of board meetings held, percentage shares held by promoters and various other indicators. For creation of index Principal component analysis was used where in the variables which were highly correlated were removed. The results of PCA have been presented in Table 20. The value of Kaiser-Meyer-Olkin Measure of Sampling Adequacy was found to be .810 and value of Bartlett's Test of Sphericity was 3077.141 and the results were statistically significant indicating data to be fit for pattern detection.

Further, the results of principal component analysis indicate four main factors having eigen values more than 1. The four components in total explained around 81 percent of the total variability. Further component 1 explained around 45% of the variability followed by component 2, 3 and 4 explaining 16, 12 and 8 % of the variations.

In case of first factor the main variables are Non promoters share(NP), Indian promoters (indp), institution as non-promoters(instnp), shares held by banks as non-promoters (BankNP), Foreign Institutional Investors as non-promoters (FIINP) and Individuals as Non promoters(Indnp). The second factor consisted of three components namely shares held by Mutual funds as Non Promoters (MFNP), Non institutions as Non Promoters (Noninstnp) and Corporate bodies as Non promoters (CBNP). The third factor had board size (BS) and Independent members on board (IM) as main variables and the fourth factor
comprising of number of board meetings in each year (BM) and Promoters shares held (prom).

The estimated correlation coefficients among selected indicate significant correlation among corporate governance index variable (CGAGG) and Closing Price of share(CP), Closing Price in percentage(CPM), Earning Per share(EPS), Long run earning per share(EPS1), Long term debt Equity ratio(LDE), Return on capital employed(ROCE) and return on Net Worth(RONW). The relationship were found to be positive for all the variables and were significant excluding Long term debt equity ratio (LDE) indicating higher governance leads to lower amount of debt in a company and vice versa. Further, in case of both accounting as well as market performance measures found positive relationship with the CG score.

For main results of this chapter wherein researcher applied least square method in panel framework to unravel the relationship among corporate governance variables and financial performance measures. The relationship with the composite variable i.e average of the four factors of corporate governance and four factors individually was tested. In case of first model where corporate governance score was taken as dependent variable and financial performance variables were taken as independent variables along with control variables like size, capital structure, sales of the firm. The results showed significant relationship between corporate governance score and four firm performance variables i.e. ROCE, RONW, EPS01 and EPS. Further, the relationships were positive for all variables except for EPS01. Furthermore, the relationship was not significant for other independent variables like PBDTM, CPM etc.
In case of individual components of corporate governance index the results indicate significant relationship among three variables i.e. ROCE, RONW and EPS. Further, the relationship is inverse in case of RONW. In case of other variables the relationship was not statistically significant. In case of other three models find significant relationship for RONW, DE for second model. FA, PBDTM, CPM for third and EPS01, DIV for the fourth model.

7.3 Limitations of the research

During the course of this research, some limitations and challenges were encountered that might have affected the results of this study. They are elaborated below:

I. Tedious Process: In the present research process, a large set of data was evaluated and multiple tests & analysis were conducted; the data record-keeping and processing might have affected interpretation of results.

II. Resource Constraints: The data collection in the present research has been secondary data. Possibly more refinement could be brought out by collecting primary data which has been out of scope of present study of the researcher.

III. Limitation of scope: The research only utilizes the Bombay stock firms of India, and therefore, it is restricted in location and same conclusions cannot be drawn for other firms.
7.4 Recommendations:

On the basis of the findings revealed in this research and the studied literature review, the following are recommended for stakeholders and future researchers:

i. **Corporates**: Corporate governance has a significant impact on both the capital structure and a firm’s performance, there is a dire need to re-modify the policies for better corporate governance in Indian companies to acquire higher amounts of growth, sustainability and development. With the help of effective corporate governance, the cost of equity can be brought down and as a consequence, the companies can attain greater investment. The Corporate may achieve the objective by inducting more professionals with diversified experience in their Boards and top management.

ii. **Regulatory and Voluntary Bodies**: Voluntary and Regulatory Bodies are concerned with viability, sustainability, growth, transparency of Corporates and economy at large as well as consumer protection; the policies regarding constitution of board, listing agreement, corporate audits, etc. should be continuously reviewed and updated for control and protection. This will result in efficient corporate capital structure, performance and reducing capital cost of the firm. NFCG is doing a fine job in promoting corporate governance and should focus on promoting more research on relevant themes.

iii. **Future Researchers**: Since the current study was dependent on the secondary data available, as also this research could not provide more conclusive results for the association between dividend policy and
corporate governance, further research can be done by incorporating more corporate governance variables. The researcher may also consider to use the primary data of some selected firms across different stock exchanges. The researcher in this domain can take this study as a foundation to further uncover the relationship of these variables with capital structure, cost of capital and dividend policies.