CHAPTER 2
LITERATURE REVIEW

The relationship between Corporate Governance and financial performance has been one of the important issues in the Corporate Governance literature, and Index is one of the means of measuring the same. The empirical literature shows different approaches to the construction of Governance index and the role of other mechanisms in monitoring and controlling agency costs. This has an impact on the financial performance. The related literature review is organized as follows.

Chapter 2 details the studies on Corporate Governance and financial performance.

Section 2.1 details firm level cross country studies about the relationship between Corporate Governance and firm’s financial performance. Section 2.2 covers country specific firm level studies about the relationship between Corporate Governance index and financial performance. This section also covers other governance related aspects such as promoters’ holding, issue of ADR/GDRs etc. Section 2.3 deals with studies on Board size, CEO Duality and Board independence and their impact on firm performance. Section 2.4 covers studies about internal and external mechanisms of Corporate Governance. Section 2.5 deals with studies about Corporate Governance in India.

2.1 Corporate Governance and firm performance

This section deals with studies wherein the researchers have considered the firm level attributes of governance and its relationship with firm performance. The literature review covers studies about developed and emerging markets.

Klapper and Love (2004) used firm-level data (based on CLSA governance index) of 14 emerging stock markets to examine the Corporate Governance practices and firm valuations of those countries. Their findings suggest a positive relationship between Corporate Governance and firm performance proxied by Tobin’s Q and ROA. Their other findings are that there is wide variation in firm-level governance scores across countries and stock prices of better governed firms in countries with weaker legal systems, are relatively higher than the stock prices of firms in countries with stronger
legal systems. Durnev and Kim (2005) did similar studies using firm-level governance and transparency data of 859 firms in 27 countries. They find that firms which have higher governance rankings have higher firm valuations measured by Tobin’s Q. Further research findings of theirs indicate that certain firms, which have a greater need for external source of funds, also practice higher-quality Corporate Governance. Firm level cross country studies by Aggarwal et al., (2006); Bruno and Claessens (2007); show a positive relationship between Corporate Governance indices and firm market values measured by Tobin’s Q. Based on the study of 7380 firm years spanning across 22 Common Law countries, Gupta et al., (2010) find that positive firm level governance attributes are associated with reduced cost of equity and correspondingly better firm values. Based on Deminor Corporate Governance Ratings of companies included in the FTSE Eurotop 300, a study by Bauer, Gunster and Otten (2004) found positive relationship between governance indices and firm performance among European companies. Similar firm level cross country studies by Doidge et al., (2007); Durnev and Fauver (2010) find positive relationship between governance and firm values. Besides, they find that there are country specific influences on Corporate Governance practices of firms and accordingly the Corporate Governance measures differ.

The study by Martynova and Renneboog (2010) covers 30 countries in Europe and US spanning 15 years (1990-2005). They have developed firm level Corporate Governance indices for each country and their findings are that while there is positive relationship between CG and Firm values, there is no convergence in the CG practices among these countries because of changes in the business environment. They attribute this to the country specific differences in the Corporate Governance laws governing Shareholders, Managers and Bond holders.

Post Asian financial crisis of 1998, Mitton (2001) studied 399 Asian firms comprising of Thailand, Korea, Indonesia, Malaysia and Philippines. His study focused on differences in the Corporate Governance variables at the firm-level, particularly disclosures. His observations are that higher firm valuations, measured by Tobin’s Q, are associated with better disclosure quality of the financial statements, certified by big accounting firms. Research study by Claessens et al., (2000), covering 1,000 firms of East Asia and Chile, show evidence of a positive relationship between Corporate
Governance and firm performance. Their other important observation is that business groups adopt their own methods of managing business risks and do not depend much on the capital markets of the country.

Khanna and Rivkin’s (2001) study covers firm level studies of five Latin American countries of Argentina, Brazil, Chile, Mexico and Peru and their findings affirm the positive relationship between Corporate Governance and firm performance. Their other findings are that there are differences in governance practices between group affiliated firms and non-affiliated firms. Researchers Hasan, Kadapakkam and Kumar (2002), in their study on emerging markets of Hong Kong, Indonesia, Korea, Malaysia, Singapore, Taiwan and Thailand, create a cross country Index of Corporate Governance (ICG) from the published data. In their research study they find that in countries with high standards of Corporate Governance there is a positive association between the ICG and firm investments. They also observe that foreign institutional investors (FII) accord priority to governance when making investment decisions in countries.

In addition to the studies made by individual researchers, commercial agencies (Mckinsey, Deuche Bank and CLSA) made cross country assessment on the positive impact of good governance practices on firm performances. Their findings affirm the findings of the researchers.

2.2 Firm level index based studies in Corporate Governance

This section deals with the literature on the relationship between Corporate Governance and firm performance at country specific firm levels with a focus on the usage of CG index as a measure of Corporate Governance practices. Developing firm level governance indices of a specific country has its own significance and advantages since they reflect the rules and unique practices of those specific individual countries. According to Balasubramanian et al., (2010), another distinct advantage of such studies is that smaller firms are included in the studies which are overlooked in many of the cross country studies. According to Sarkar and Sarkar (2005) studies in one market may not be in consonance with the studies of other markets.

In the country specific firm level studies on relationship between Corporate Governance, and firm performance, there has been extensive use of indices. The
significant advantage of indices are that they are measurable and facilitates better communication among users. In the development of indices each researcher has used a different set of parameters, many of which are context-based. Further in the scoring method Binary method, Binary method with weightage, Weightage method and estimation methods are used by researchers. There are variations in the methodology of collection of data as well. (Survey method adopted by individuals and institutions; Data provided by Governance advisory firms-such as ISS; Data provided by stock exchanges; manual collection of data from the Annual reports).

2.2.1 Research studies using Binary methodology

The following literature study relates to the binary method adopted by researchers studying the relationship between Corporate Governance and firm performance. Beginning with Gompers et al., (2003), Black, Kim and Jang (2006); Barotini and Siciliano (2003) and others have developed their own specific indices as measures of Corporate Governance practices.

Gompers et al., (2003), (hereafter referred to as GIM) computed a Corporate Governance index for 1,500 US companies consisting of 24 anti-takeover provisions and shareholder’s rights as parameters of the governance index. The data for their research study was compiled by Investor Responsibility Research Center (IRRC) and they adopted Binary method (‘0’ or ‘1’) for scoring. First these 24 anti-takeover provisions and shareholder’s rights are classified into five groups (1-Tactics for delaying hostile takeover; 2-Voting rights; 3-Director/officer protection; 4-other takeover defenses; 5- state laws). Each firm was evaluated based on these 24 parameters and a value of 0 is assigned when a particular practice of the firm opposes anti takeover, otherwise 1 is assigned when the practices are positive. The index is the simple sum of the scores of those variables ranging from 0-24. They termed this index as G-index and considered it as a proxy for governance. The important finding of these researchers is that better shareholder rights are associated with greater firm values measured by Tobin’s Q, a proxy for firm values.

G-Index of GIM is considered as a pioneering one and a valuable contribution to the Governance literature on firm level index based Corporate Governance studies. The
concept has been widely used in many accounting and finance studies to represent governance even though it is an anti-takeover protection index and not a broad index of Corporate Governance (Cremers & Nair, 2005).

Bebchuk et al., (2009) have shortlisted six provisions out of the twenty four provisions considered by GIM (Four provisions that limit shareholder rights and two that make potential hostile takeovers more difficult). As per them these six provisions are considered to be more important than the remaining 18. The index so constituted comprising of these six provisions is termed by them as “Entrenchment index (E-index). Based on their research study, they conclude that entrenchment index is negatively associated with firm value, while the remaining 18 provisions are not correlated with firm values measured by Tobin’s Q.

Brown and Caylor (2006) use Institutional Shareholder Services (ISS) data to create their governance index. Their index comprises of 51 Corporate Governance parameters such as board structure and processes, corporate charter issues such as poison pills, management and director compensation and stock ownership. Their research findings are that firm valuations, measured by Tobin’s Q, are higher for those firms which adopt better governance practices measured by the index. They contend that such firms also perform better, are less risky, stock prices are less volatile, and pay out more dividends. The researchers also find that governance parameters are also positively related to return on assets (ROA), a proxy for firm’s operating performance.

Chong et al., (2009) compute firm-level Corporate Governance index of Mexican firms and show that better firm-level Corporate Governance practices are linked to higher firm valuations measured by Tobin’s Q, better operating performance and more disbursement of dividends to investors.

The study, by Drobetz, Schillhofer and Zimmermann (2004), explores the relationship between firm-level Corporate Governance and firm performance for a sample of 253 German firms. The data collection was based on a survey and 91 out of 253 firms responded to the survey. Based on the responses to the questionnaire of the survey and using binary method they developed CG score for each firm. Their findings support the findings of other researchers that firms with higher Corporate Governance
scores are associated with substantially higher firm values measured by Tobin’s Q. They report an improvement of 24% increase in Tobin’s Q for one standard deviation change in the governance score. Aggarwal and Williamson (2006) develop an index for US based companies which are based on Corporate Governance attributes and data provided by Institutional Shareholder Services (ISS). Their method is similar to that adopted by Brown and Caylor (2006). Their study covers a much wider set of governance provisions (64 as against 51 by Brown & Caylor, 2006) with specific focus on those governance attributes targeted by new regulations of SOX Act, 2002 and listing code of NYSE. They find a positive and significant relation between governance index and firm values.

For Chinese firms, Bai et al., (2004) construct a Governance index using binary method to reflect overall level of governance practices among listed companies in China. Broad classifications of their index comprises of board structure, ownership structure, financial transparency, market for corporate control, and legal framework. Their results indicate that better Corporate Governance leads to higher firm values, and that stock prices of firms which adopt better Corporate Governance practices, are relatively higher.

Lei and Song (2004) develop a CGI model consisting of 17 parameters covering five governance mechanisms: board structure, executive compensation, ownership structure, executives’ conflict of interest and transparency standards. Binary methodology is adopted for scoring these seventeen parameters and an index is developed. Their study includes different groupings such as H Shares, Red chips and family controlled companies which are listed on HongKong stock exchange. Their findings are that stocks of firms, which adopt better governance standards, are traded at higher prices.

Kanellos and George Karathanassiss (2007) have computed the governance index of firms quoted on the Athens Stock Exchange. Based on the index score, firms were classified into three groups: 1-Democracies 2-Semi-Democracies and 3-Dictatorships. They found higher Tobin’s Q ratios for firms grouped in democracies followed by semi-democracies and dictatorships indicating better firm valuations for good governance practices adopted by democracies.
Leal and Silva (2005), in their study of 65 non-financial listed companies in Argentina, find a positive relationship among Corporate Governance measure, Return on assets (ROA) and Tobin’s Q.

In their studies about Colombian firms, Gutierrez and Pombo (2005) developed a Corporate Governance index by conducting a survey comprising of 43 firms for the year 2004. Based on this survey, CGI of Columbian firms was constructed. They find that implementation of good governance in Colombian firms has been slow and poor as measured by the index and they do not find an evidence of a positive association between CGI and performance.

Bebchuk et al., (2009) in their study of 65 non-financial listed companies in Argentina for the period 2003-2004 developed two indices; One Corporate Governance Index (CGI) and the other Transparency and Disclosure Index (TDI). Corporate Governance Index (CGI) is developed based on responses of the firm to the survey questionnaire. The Corporate Governance Index includes three binary (0-1) variables, namely, whether the firm: (a) has a positive weight in the stock portfolio of any pension fund of Argentina (weight indicates the priorities assigned by investors of pension fund); (b) whether firms consented to respond to their governance survey; and (c) has a percentage of independent directors above the mean levels. This CGI has one of the smallest numbers of variables. The second index developed by them is the Transparency Disclosure index (TDI) which is based on the information available on the public domain. This comprises of 32 parameters and scoring is based on binary methodology. The parameters derived relate to Board structures, Disclosure, and Shareholder concerns. Their findings are that Corporate Governance practices are poor in Argentinean firms vis-a-vis international practices. However the findings are that there is a positive effect of governance index on Tobin’s Q.

In India there has been only one study based on the binary method by Balasubramanian et al., (2010). They adopted the survey method for the collection of the data and construction of Corporate Governance index. Their study findings are in consonance with other researchers, affirming positive relationship between Corporate Governance Index and firm values.
2.2.2 Weightage methods

Black et al., (2006) construct a Corporate Governance index of Korean firms and termed it as Korean Corporate Governance index \((KCGI)\). Their study comprises of 515 Korean companies listed on Korean Stock exchange and the data for the same has been collected by the exchange. Their index comprises of four sub index groups with each group comprising of different parameters and fifth group comprising of only one parameter. The four sub index groups are: 1- Shareholder Rights (5 parameters); 2- Board Structure (4 parameters); 3- Board Procedure (26 parameters); and 3- Disclosure (3 parameters); 5-Ownership Parity sub index (1 parameter). Each parameter of the sub index, other than ownership parity, is a 0-1 dummy variable which indicates whether a firm has a particular positive governance element or not. Ownership parity is a continuous 0-1 variable. All the scores are proportionately prorated to the maximum sub index value of 20. Thus, each sub index value for a firm ranges between 0 and 20 and cumulatively the sum of the sub index amounts to 100. This forms the basis of Korean Corporate Governance Index \((KCGI)\). They specifically state that while they lack a theoretical basis to assign weights to sub indices or to parameters within sub indices, their findings are that better-governed firms with higher KCGI score have higher firm values measured by Tobin’s Q. The researchers also find that KCGI is positively related to return on total assets (ROA).

Javid and Iqbal (2007) constructed multifactor Corporate Governance index for the firms listed on Karachi Stock Exchange, which is based on the data obtained from the annual reports of the firms submitted to SECP (Securities and Exchange commission of Pakistan). The index construction is based on 22 governance parameters categorized into three sub-indices: Board; ownership shareholdings; transparency, disclosure and audit. The maximum score is 100. A score of 100 is assigned if good governance factors are observed by a firm, 80 if largely observed, 50 for partially observed and 0 if it is not observed. The average is taken out and they arrive at the rating of one sub-index. By taking the average of three sub-indices they obtain CGI for a particular firm. They also find positive relationship between Corporate Governance index and firm valuations.
In India there has been one study on Corporate Governance and firm values using the weightage method by Mohanty (2003). This is given in detail in the literature review section of Indian Corporate Governance studies.

From the above literature survey, there is enough evidence to show that broad measures of good firm-level Corporate Governance practices predict higher share prices in developed and emerging markets. This evidence comes from both single-country studies, Russia (Black, 2001); Korea (Black et al., 2006); U.S (Gompers et al., 2003) and multi-country studies (Durnev & Kim, 2005; Klapper & Love, 2004).

The study of the literature also indicates that each researcher has certain objectives to measure the Corporate Governance and accordingly appropriate parameters are identified for measuring Corporate Governance. Gompers et al., (2003) used anti-takeover provisions as a measure of Corporate Governance. LLSV (2002) focused on shareholder protection. Barotini and Siciliano (2003) accorded priority to existence of pyramids or non-voting shares and Javid and Iqbal (2007) on disclosures and transparency. Mohanty (2003) had constructed CG Index of companies from mutual fund investment perspective. All these demonstrate that the selection of CG parameters is contextual, time based and business environment based.

From the index scoring point of view the usage of the binary method without weights is less biased and reliable and hence finds support from many researchers. While computing the index of Italian firms, Barotini and Siciliano (2003) have emphasized that an unweighted binary based index is easier to reproduce and less subjective than a weighted index. Similar opinion is echoed by Leal and Silva (2005) when computing index of firms in Brazil and Chile. Gompers et al., (2003) state that the advantage of unweighted index is that the index construction is straightforward. While the index may not accurately reflect the relative impacts of different provisions, it has the advantage of being transparent and easily reproducible.
### Index based studies

<table>
<thead>
<tr>
<th>Authors</th>
<th>Sample details</th>
<th>Focus of study</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barontini and Siciliano, 2003</td>
<td>230 Italian companies</td>
<td>Expropriation and firm values</td>
<td>High expropriation has a negative impact on firm values</td>
</tr>
<tr>
<td>Gompers et al., 2003</td>
<td>1500 large firms Listed in US</td>
<td>CGI and firm values</td>
<td>A strategy of buying stocks of firms having provisions of strong shareholder rights and selling the weaker ones results in abnormal return of 8.5% per year</td>
</tr>
<tr>
<td>Drobetz, Schillhofer and Zimmermann, 2004</td>
<td>253 firms of Neur Stock Exchange</td>
<td>CG rating and firm values</td>
<td>Strategy of buying and selling stocks based on CGI gives 12% extra returns</td>
</tr>
<tr>
<td>Lei and Song, 2004</td>
<td>106 H shares, 84 Red Chips and family based companies listed in Hong Kong</td>
<td>CGI and firm values</td>
<td>Hong Kong investors are willing to pay higher prices for stocks of firms with better governance</td>
</tr>
<tr>
<td>Gutiérrez and Pombo, 2005</td>
<td>108 non-financial firms of Colombia, Study period 1998 to 2002</td>
<td>Evaluation of CG practices adopted by Colombian firms</td>
<td>Based on CGI index parameters implementation of Governance in Colombia is poor.</td>
</tr>
<tr>
<td>Leal and Silva, 2005</td>
<td>240 companies listed in Brazilian stock exchange</td>
<td>Index and firm values</td>
<td>Positive relationship between IBCG and firm values</td>
</tr>
<tr>
<td>Black, Jang and Kim, 2006</td>
<td>526 Korean companies</td>
<td>CGI and firm values</td>
<td>10 point increase in CGI increases 6% in Tobin's Q</td>
</tr>
<tr>
<td>Brown and Caylor, 2006</td>
<td>1868 US based listed firms</td>
<td>G Index and firm values</td>
<td>Positive relation between Governance Index and firm values measured by Tobin’s Q</td>
</tr>
<tr>
<td>Aggarwal and Williamson, 2006</td>
<td>5200 firm years-US</td>
<td>CGI scores and firm values</td>
<td>Positive relationship between CGI and firm values. Non-mandatory practices by firms are accorded premium by investors.</td>
</tr>
<tr>
<td>Javid and Iqbal, 2007</td>
<td>50 firms listed in Karachi stock exchange</td>
<td>CGI and firm values</td>
<td>Positive relationship between CGI and firm values</td>
</tr>
<tr>
<td>Kanellos and Karathanassis, 2007</td>
<td>314 Greek firms</td>
<td>GI index and firm values</td>
<td>Good governance benefits shareholders and stakeholders in terms of improved firm valuations</td>
</tr>
<tr>
<td>Bebchuk, 2009</td>
<td>Listed firms in US</td>
<td>Entrenchment index and firm values</td>
<td>E index is negatively related to firm values</td>
</tr>
<tr>
<td>Chong et al., 2009</td>
<td>150 Mexican firms</td>
<td>CGI, valuations and investor returns</td>
<td>Differentiated governance practices lowers cost of equity and increases returns to investors</td>
</tr>
</tbody>
</table>

### Studies in India

<table>
<thead>
<tr>
<th>Authors</th>
<th>Sample details</th>
<th>Focus of study</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mohanty, 2003</td>
<td>103 Indian firms for the year 2002</td>
<td>Investment decisions of Institutional shareholders based on CGI</td>
<td>Institutional investors consider good CGI practices as a criterion for Investment decisions.</td>
</tr>
<tr>
<td>Balasubramanian et al., 2010</td>
<td>292 firms listed in BSE 500 for the year 2005-06</td>
<td>CGI and firm values</td>
<td>Positive relationship between ICGI and firm values</td>
</tr>
</tbody>
</table>
The above set of research studies have been based on the assumption of linear relationship between Corporate Governance index and firm performance. There are a few studies on the non-linear relationship between the two also.

In their study on the relationship between Corporate Governance and firm values, Chen, Hsiao, Kao and Shou Lu (2010) found the relationship between CG and firm values to be non-linear. The authors have used Neural network method in their analysis. Zheka (2007) finds the relationship between Corporate Governance index and firm values measured by Tobin’s Q to be non-linear. The researcher has split the firms based on the mean values of CGI and analysed the relationship between CGI and firm performance. In addition to this, a separate regression has been run using CGI Sq as an additional control variable to establish the non-linear relationship. Based on his study, Zeitun (2009) states that the relationship between CG and firm valuations of the firms listed in capital markets of Jordan is neither simple nor linear.

While studying the governance aspects of firms, researchers Brown and Caylor (2006) have highlighted that the process of governance differs depending on the nature of industry. In his research study Guillen (2001) observes that due to globalization, firms have to develop distinctive competencies so as to make a dent in international competition and this requires changes in the Corporate Governance processes. Manufacturing processes cause negative externalities in greater proportions than services. Hence the governance processes also change warranting a special focus on manufacturing sector. This research study has analyzed the relationship between Corporate Governance and firm performance of companies belonging to the manufacturing sector.

The following section of literature review is based on the resource based view of the firm. The resources could be both tangible and intangible. The asset values shown in the balance sheet are the values of physical assets and the values of the intangible assets which are paid for. However there are many firms such as software, banking etc, which operate in the tertiary sectors, whose intangible asset values are not recorded. Research evidence shows that the firm performance and its values are dependent on both tangible and intangible assets of the firm. Aggarwal and Williamson (2006) find statistically significant differences in governance practices
across firm size and industries. Hence firm’s asset size may have an ambiguous effect on the firm performance (Kumar, 2005). Smaller asset intensive firms can be more efficient than large ones because of better control by top managers over strategic and operational activities of the firm (Himmelberg, Hubbard & Palia, 1999; Sarkar & Sarkar, 2000; Williamson, 1967). Lange and Stulz (1994) suggest a decrease in firm values as firm becomes larger and more diversified.

As the economy is expanding in the tertiary sector there is growing importance of intangible assets in reshaping business values and the basic conditions of Corporate Governance (Capasso, 2004). The findings of Cohen (2005) are that traditional companies are being transformed into new organizational structures in which intangible assets are influencing the firm valuations. Stanford economist Hall (1993) states that the current market valuations are characterized by new intangible resources manifesting into a new kind of capital termed as “e-capital”.

However a study by Ahuja and Majumdar (1998) shows that large firms appoint better managers; therefore larger firms should have better performance and they can also benefit from the economies of scale.

All these mean that small tangible asset intensive firms can have better performance and firm valuations than the large tangible asset intensive companies. This research study has examined this aspect in the Indian context.

Post liberalization the competition scenario in India has changed. Competition can have a complementary impact on firm performance resulting in improvement in sales and operating efficiency of firm (Gupta, 2001). A firm’s productivity performance can be considered as a more telling indicator of efficient investment by various stakeholders of the firm and its potential for long-term growth (Kim, 2005). Sustained long-run economic growth of a firm is reflected in its sales. Improvement in productivity performance and its sales means reduction in agency costs (Baumol, 1959; Marris, 1964). Alchian (1950); Friedman (1953), and Stigler (1958) state that managerial slack cannot exist or survive in competitive industries. Hence implicitly, sales become one of the important of measures of Corporate Governance. This research study covers the link between governance and sales.
According to Shleifer and Vishny (1997), Corporate Governance defines the ways in which the suppliers of finance to corporations are assured of getting a return on their investment in a firm. Stated differently, real margins reflect proper governance. Jensen (2001) states that managers have to make trade-offs between various conflicting objectives of the management of a firm. Hence profit margin management is essential, not only for growth strategy but also to improve shareholders’ perceptions. Good Corporate Governance means that managers should not unduly or fraudulently influence, coerce, manipulate firm’s financial statements. Hence a firm’s margin is a reflection of the firm’s utilization of resources and good governance. D’Souza, Nash and Megginson’s (2000) study of 118 firms (from 29 countries and 28 industries) shows that stronger output gains for firms in competitive industries means significant increases in real profitability, real sales, operating profits and capital expenditure.

To sum up, universally, profit margin disclosed in true sense reflects good governance. This research study has analyzed the relationship between sales and firm performance.

Promoters have an important role to play in Corporate Governance process and the extent of their holding can cause or mitigate agency costs. Concentrated holding is prevalent around the world and it has numerous ramifications on firm performance (Claessens et al., 2000; La Porta et al., 2000). Even in US, contrary to belief that the ownership is widely dispersed, it is similar to the average ownership concentration of European and East Asian countries (Holderness, 2010). The East Asian crisis amply demonstrates that family based governance model affected the economy of not only these countries, but also created chaos around the world (Lemmon & Lins, 2003). Anderson and Reeb (2003) find that one-third of S&P 500 firms are family controlled. In Western Europe, the majority of public held firms remain family-controlled (La Porta et al., 2002; Faccio, Larry & Young, 2002; Maury, 2006). Such controlling families often hold large equity stakes and frequently have executive representation influencing the governance processes (Holderness and Sheehan, 1999; Burkart, 2003).

Fama and Jensen (1983) hypothesize that majority shareholders use their power to expropriate firm resources at the expense of minority shareholders. On the positive
side there is also an evidence of higher amount of equity ownership benefiting small investors when there is little divergence between the cash flow rights and control rights.

Against this background two sets of contrasting theories emerge regarding ownership structures and firm performance; the first one being, monitoring hypothesis or convergence-of-interest hypothesis which predicts a positive relationship between ownership concentration and firm performance; the second one being entrenchment hypothesis which posits a negative relationship between ownership and firm performance. Research studies show that both these effects are observed in a firm due to varying levels of ownership and hence the relationship between promoters holding and firm performance is invariably observed to be non-linear in developed and emerging market studies.

In a sample of 371 ‘Fortune500’ firms, Morck, Shleifer and Vishny (1988), find both the effects in firms i.e., the convergence-of-interest and entrenchment effect among these firms. Their study shows a non-monotonic relationship between board ownership and firm performance. Holderness and Sheehan (1999) also find that ownership of a firm has a non-linear impact on firm performance. While observing differences in governance systems between US and UK, Keasey and Short (1999) find that the relation between managerial ownership and firm performance consists of both alignment effect and entrenchment effect operating at different levels of managerial shareholding. The values range from maxima at 13 percent and minima at 42 percent in the firm values.

In their studies over two time periods spanning a decade (1,173 firms for 1976 and 1,093 firms for 1986), McConnell and Servaes (1990) find a strong evidence of a curvilinear relation between insider ownership and Tobin’s Q. They further observe that the maximum is reached when insider ownership is 49.4 percent. Study by Han and Suk (1998) further affirm the non-linear relationship between management ownership and performance for US firms for the period 1988-1992. In emerging market studies Bai et al. (2004) find the impact of large shareholder on firm performance to be non-linear i.e., U-Shaped among Chinese firms.
However studies by some researchers show the relationship between promoter’s holding and firm performance to be either linear or having no effect at all. Chen, Guo and Mande (2003) study the relation between managerial ownership and market value for 123 Japanese firms covering a period from 1987 to 1995 and they find a linear relationship between Tobin’s Q and managerial ownership. Agrawal and Knoeber (1996) find that the effects of insider shareholding on firm performance to be statistically insignificant.

Holderness and Sheehan (1999) do not find any consistent difference in firm performance of manager controlled and owner controlled firms. Himmelberg, Hubbard and Palia (1999) use a fixed effect panel data study and find that managerial ownership has no statistically significant effect on firm performance. Demsetz and Lehn (1985) and Demsetz and Villalonga (2001) find ownership concentration and firm performance to be unrelated. Chen, Cheung, Stouraitis and Wong (2005) study the governance structure and firm performance of 412 listed Hong Kong firms during 1995-1998. In most of the models, they do not find any relation between family ownership and firm performance, which is measured by return on assets (ROA), return on equity (ROE), market to book ratio and dividend payment.

A number of studies suggest that ownership concentration creates a trade-off between incentive alignment and entrenchment effects (Shleifer & Vishny, 1997). In this context, the question of whether a family ownership hinders or facilitates firm performance becomes an empirical issue that is related to institutional and politico-regulatory factors (Anderson & Reeb, 2003). Family control seems to affect firm performance depending on the level of transparency and regulation in the country (La Porta et al. 2002). In well-regulated and transparent markets, family ownership in public firms reduces agency problems without leading to severe losses in decision making efficiency (Anderson & Reeb, 2003). Families are more likely to maintain control when the efficient scale is small, the need to monitor employees is high, investment horizons are long, and the firm has dual-class stock (Villalonga & Amit, 2009).

Overall promoters’ holding is one of the important Corporate Governance mechanisms that affect the agency cost both in positive and negative ways. In the
Indian context there have been a number of studies regarding the relationship between promoters’ holding and firm performance which have been included in a separate section dealing with research studies about Corporate Governance in India.

American depository receipts are equity capital raised by Non-US firms. Reduction in the firms’ cost of capital is an important reason to issue ADRs (Bekaert & Campbell, 2000; Errunza & Miller, 2000; Stulz & Hyun-Han, 1999). Many developing countries particularly Korean, Latin American and Indian firms are cross-listing in the US through the American Depository Receipts (ADRs) program. Study by Reese and Weisbach (2002) shows that foreign cross-listing is associated with lower agency costs due to better supervision. Similarly Pagano, Röell and Zechnner (2002), indicate that experience in foreign markets and the firm’s reputation are other advantages of being listed abroad. Karolyi et al., (2006) find that issue of ADRs facilitates ‘functional convergence’ toward a stronger Corporate Governance environment. Chong et al., (2009) find that there are more advantages than disadvantages when a firm lists its shares in a more developed stock exchange. Research studies of Doidge, Karolyi, and Stulz (2007) show that foreign firms that list in the United States have greater firm values.

2.3. Research studies on Board Structure

2.3.1 Board Size

Boards of directors are economic institutions that help to solve the agency problems inherent to organizations. Besides satisfying numerous regulatory requirements, they exist primarily to address the issues of conflict of interests (Hermalin and Weisbach, 2000). Corporate boards ratify all important decisions related to investment policy, management compensation policy and other aspects of board governance (Bhagat & Bolton, 2008). Hart (1995); Lodi (2000) consider boards as one of the most important internal mechanisms of the Corporate Governance system for their role in monitoring, investment approvals, developing strategic guidelines, managing conflicts of interests, thus benefitting shareholders and stakeholders.

The agency problem manifests into two types of agency conflicts: first, the conflicts between shareholders (owners) and managers; second, the conflicts between
controlling majority and minority shareholders (Shleifer & Vishny, 1997). Boards of
directors belonging to both the groups (shareholders and managers) manage the
complex governance mechanism, since they have both internal and external interface.
As a team they form the core aspect of value creation in a firm.

Board size reflects a trade-off between the firm specific benefits of monitoring and
costs of such monitoring. Economic considerations such as the specific nature of the
firm’s competitive environment and managerial team drive corporate board size and
compositions (Boone et al., 2007). However there are diverging views about the board
size which are discussed in the following section

**Arguments in favor of smaller board size**

Study by Yermack (1996) about the relationship between the board size and firm
values of large US firms, suggests smaller boards. His findings are that higher
valuations often come from relatively smaller boards that have fewer than ten
members. Eisenberg et al., (1998) in their study of small and midsize Finnish firms,
recommend smaller boards. Both these findings support the theories put forward by
Lipton and Lorch (1992) and Jensen (1993). The researchers support the findings on
the premise that the aspects of both cost cutting and downsizing stemming from
technological and organizational changes, requires smaller board size. Smaller board
sizes not only reduce the agency problems and costs, but also free rider problems
associated with larger boards (Hermalin & Weisbach, 2003). For effective control by
CEO, Jensen (2001) optimizes around seven or eight members.

In the studies about emerging markets, Mak and Yuanto (2003) reported that firm
valuations of listed firms in Singapore and Malaysia are highest when the board
consists of five members. Haniffa and Hudaib (2006) in their study on Malaysian
firms, support the concept of smaller board size on the contention that each member
of smaller boards can be easily monitored and decisions can be made more quickly.
While Bhagat and Black (2008) found no solid evidence on the relationship between
board size and performance, they observed weak links of an inverse correlation
between the two. In the Indian context Kaur and Gill (2008) favor smaller boards.
Arguments in favor of a larger board size

According to Zahra and Pearce (1989), larger boards can be effective in their oversight duties relative to smaller boards and effectively monitor the action of top management and be less dominated by CEOs. Besides bigger boards can bring higher management skills and make it easier to make strategic decisions which enhances the firm values. Similarly, Singh and Harianto (1989) suggest larger boards because management proposals not benefiting shareholders are easily disapproved by the board. Findings of Dalton and Dalton (2005) show that larger boards have increased board diversity in terms of experience and skills and monitoring will be effective in such companies. Sulong and Mat Nor (2010) studied the relationship between board size and firm values measured by Q (Market value /Book value of share) ratio and find that board size is positively related to firm values for Malaysian firms. Abidin, Kamal, and Jusoff (2009) in their study of companies listed on Bursa Malaysia, found that large board sizes have positive and significant impact on firm performance as measured by the value added efficiency instead of the conventional Tobin’s Q adopted by many researchers.

In the Indian context research studies by Jackling and Johl (2009); Lange and Sahu (2008); Dwivedi and Jain (2005) support large board size.

Findings of Beiner et al., (2006), suggest that the size of the board of directors is an independent control mechanism. As per them the variations in board size is due to the specific requirements of the firm and its operating environment.

Studies on Board size

<table>
<thead>
<tr>
<th>Authors</th>
<th>Focus of study</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yermack, 1996</td>
<td>Board size and firm values; Study covering 452 Large firms in US</td>
<td>Firms with smaller board sizes have better firm valuations.</td>
</tr>
<tr>
<td>Dalton and Dalton, 2005</td>
<td>No of directors and financial performance</td>
<td>Findings support larger board size</td>
</tr>
<tr>
<td>Brown and Caylor, 2006</td>
<td>Corporate Governance and Firm Performance</td>
<td>Board sizes between 6 and 15 have higher returns on equity and higher net profit margins.</td>
</tr>
<tr>
<td>Sulong and Mat Nor, 2010.</td>
<td>Dividends, Ownership Structure and Board Governance on Firm Value Evidence from Malaysian Listed Firms.</td>
<td>Positive relationship between board size and firm values.</td>
</tr>
</tbody>
</table>
### Indian studies on board size

<table>
<thead>
<tr>
<th>Authors</th>
<th>Focus of study</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dwivedi and Jain, 2005</td>
<td>Board size of firms and firm valuations</td>
<td>Positive and Significant relationship between board size and firm values.</td>
</tr>
<tr>
<td>Kaur and Gill, 2008</td>
<td>The Effects of Ownership Structure on Corporate Governance and performance: An Empirical Assessment in India, 117 companies listed in BSE 200 index, 2003-06</td>
<td>Firms having smaller board sizes have better firm valuations.</td>
</tr>
<tr>
<td>Lange and Sahu, 2008</td>
<td>The impact of changes to Clause 49 in India regarding Board structure and size: 43 Firms listed in NIFTY 50</td>
<td>Firm values are positively related to board size.</td>
</tr>
<tr>
<td>Jackling and Johl, 2009</td>
<td>Board structure and firm performance: Study about Top Indian companies having 65% of market capitalization, Year of study, 2005-06</td>
<td>Larger board size is suggested. Independent directors are positively correlated with firm performance: supporting resource dependency theory. CEO duality is not detrimental: does not support agency theory.</td>
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</table>

From the literature review on board size it can be seen that there are variations in the research outcomes to date. However across all research studies there is agreement regarding the key roles of the board—monitoring and advising (Lange & Sahu, 2008). Recent regulations across the world have placed emphasis on the formation of separate committees such as Audit committee, Remuneration Committee etc comprising of Board members. If due diligence is to effectively exercised then overlapping of roles are to be minimized which justifies larger board size and the same is the case with India.

#### 2.3.2 Role of CEO Duality

CEO duality is an important Corporate Governance mechanism affecting the value of a firm. CEO duality means an Executive director performing dual roles of Chairman and CEO. Stewardship theory is in favor of CEO duality, Agency theory supports CEO non-duality.
Arguments in favor of CEO Duality

Stewardship theory supports CEO Duality. Research evidence supporting stewardship theory shows that when one person is performing both roles, the director is able to act more efficiently and effectively, thereby improving the value of a firm. This is because the agency cost between the two is eliminated (Alexander, Fennell & Halpern, 1993). Brickley, Coles and Jarrell (1997) say that costs of separation are larger than the benefits for most large firms. Their reasoning for such a stand is that additional costs of maintaining a separate CEO and Chairman is not only due to separate compensation but also because of costs associated with informational asymmetries.

In his study of 304 firms of Arab countries, Elsayed (2007) contends that CEO duality attracts positive and significant firm valuations when the corporate performance is low. The researcher further states that holding dual roles as CEO/chairman creates unity across the company's managers and board of directors facilitating CEO to serve the shareholders even better.

Study by Peng, Zhang and Li (2007) covering 403 publicly listed firms in China strongly support stewardship theory (favoring CEO duality) and relatively little support for agency theory.

Some of the other supporters of the above theory are Stoeberl and Sherony (1985); Alexander, Fennell and Halpern (1993) and Brickley, Coles and Jarrell (1997). They suggest that CEO duality leads to a higher performance as it provides strength to the organization. The CEO cannot plan and make the decisions beneficial for the shareholders in the case of differences between the CEO and Chairman.

Bhagat and Jeffries (2002) justify CEO duality by stating that the interests of shareholders and the CEO can be aligned without much difficulty. This type of benefit to shareholders is wasted in the case of the firms having a non-dual structure of leadership. Jackling and Johl’s (2009) study does not support the notion of separating leadership roles of CEO in line with Agency theory.
Arguments in favor of CEO-Non duality

Proponents of agency theory suggest that the roles of the CEO and chairman should be delegated to different people in order to deal effectively with the agency problem of increasing costs and erosion of shareholder’s wealth. This method of splitting avoids domination by the CEO and lessens his potential opportunistic behavior (Jensen and Meckling, 1976). In this context, the chairman, along with his board of directors, is more likely to be responsible for certain activities, such as strategic advices, mobilizing external resources, HRM, remuneration and monitoring the CEO etc, (Johnson, Daily & Ellstrand, 1996). The Cadbury report of 1992, the SOX Act of 2002 and regulations of various bourses, Shareholder groups and the SEC, recommend separation of chair because duality may lead to suboptimal managerial performance (Brickley, Coles & Jarrell, 1997). According to Braun and Sharma (2007), when family ownership is low the separation of CEO and board chair roles is beneficial in terms of shareholders’ returns. Mallette and Fowler (1992) state that CEO duality has negative implication on firm performance.

Pathan and Skully (2010) studied 212 US bank holding companies, covering a period from 1997 to 2004. The researchers find that in the presence of opportunities for insiders to extract private benefits, the CEO and board chair roles should be separated to achieve a balance between board independence and such opportunities.

Fama and Jensen (1983) argue that combining the positions of CEO and board chair violates the basic principle of separation of decision management from decision control. White and Ingrassia (1992) contend that CEO duality leads to worsening of performance as the board cannot remove an underperforming CEO and can create an agency cost if the CEO has conflicting interest benefiting the CEO at the expense of other shareholders.

It is generally opined by the researchers that since the board of directors are responsible for the monitoring of management, CEO duality may impair monitoring effectiveness. Vance et al., (1983), Lorsch and Mciver (1989), Lipton and Lorsch (1992) and Goyal and Park (2002) provide evidence consistent with this notion.

Institutional Shareholders Services (2006) of governance reforms and Calpers [California Public Employees’ Retirement System] argue for separating the positions
of CEO and board chair, as they believe, combining these two positions give too much power to the CEO and increases agency problems.

In their study of 500 large Indian firms, Sarkar, Sarkar and Sen (2006), find that CEO duality increases earnings management (distorting adverse financial positions into favorable one). In his research study, Bliss (2011) finds that CEO duality constrains board independence.

The following section deals with research studies where CEO duality or non-duality does not affect firm performance.

Moyer, Rao and Baliga (1996) say that there is only a weak evidence to show that duality status affects the long term performance. Brian (1995) says that CEO duality can have either positive or negative effect on firm performance, depending on the industry environment. Ponnu (2008) has studied about Corporate Governance structures of Malaysia and finds that there is no significant relationship between CEO duality and company performance. Studies by Chen et al., (2008) of Chinese companies do not show a significant relationship between CEO duality and firm performance nor improvement in firm performance after change in leadership structure. The empirical research studies by Lam and Lee (2008) provide evidence that CEO duality is not necessarily bad for public companies in Hong Kong. According to him CEO duality is good for non-family firms, while non-duality is good for family-controlled firms. Dey, Engel and Liu’s (2009) research evidence shows that firms which have capable CEOs are more likely to combine CEO and board chair roles (i.e., duality).

**Studies on CEO Duality**

<table>
<thead>
<tr>
<th>Authors</th>
<th>Research topic</th>
<th>Focus of study</th>
<th>Findings</th>
</tr>
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<tbody>
<tr>
<td>Peng, Zhang and Li (2007)</td>
<td>CEO duality and firm performance</td>
<td>403 publicly listed firms in China</td>
<td>Findings Supports stewardship theory (favoring CEO duality)</td>
</tr>
<tr>
<td>Jackling and Johl (2009)</td>
<td>Board structure and firm performance; evidence from top Indian companies</td>
<td>Top Indian companies with 65% market cap</td>
<td>Does not support agency theory; CEO duality has no detrimental effect on firm performance</td>
</tr>
<tr>
<td>Dey, Engel and Liu (2009)</td>
<td>CEO and board chair roles: To split or not to split.</td>
<td>Impact of CEO duality on financial performance</td>
<td>Firms which have capable CEOs are more likely to combine CEO and board chair roles without affecting the firm performance</td>
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2.3.3 Board independence

One of the most widely accepted features of good governance in recent years has been “boardroom independence”. Conventional wisdom demands that a significant proportion of company boards should consist of “independent” non-executive directors.

It is often cited that independent directors are the cornerstones of good Corporate Governance. Over the last decade, particularly post Asian Financial Crisis (AFC), the global movement toward outside director representation has accelerated. Primarily it started with the Cadbury Report (1992) recommending that publicly traded companies in U.K should have at least three outside directors. CaLPERS and NACD insist on adopting similar guidelines. Apparently this trend of global movement is made on an assumption that outside directors may be able to make better decisions and enhance the monitoring role (Dahya, Dimitrov & McConnell, 2008).

Related research literature suggests two theories; agency theory and stewardship theory. Proponents of the agency theory, Fama and Jensen (1983) and Brickley et al., (1994) argue that independent directors may reduce agency cost and improve firm performance. They contend that the role of independent directors on the board of directors is to effectively monitor and control firm activities in reducing opportunistic managerial behaviors and expropriation of firm resources.

Studies by Agrawal and Knoeber (1996) have observed that the proportion of independent directors is correlated to firm performance.

You, Caves, Smith and Henry (1986) find in their research studies that companies with more independent directors tend to be more profitable than those with fewer independent directors. Firms that substantially increase the proportion of independent
directors have above-average stock price returns (Denis & Sarin 1997). In their research studies, Adams and Mehran, (2003) find that increasing the level of the proportion of independent directors increases firm performance as they are more effective monitors of managers.

In their studies in emerging markets, Yuetang, Ziye and Xiaoyan (2007) observe that in Chinese companies the proportion of independent directors to all directors is positively related to companies' financial performance. Further their study results indicate that agency theory is suitable for China's capital market.

Lefort and Urzua (2007) in their study about firms in Chile over a four year period find that, the proportion of outside directors affect company values and companies having proportional directors improve Corporate Governance and ameliorate the agency problem.

The OECD Principles of Corporate Governance recommends that a significant proportion of the board’s tasks be fulfilled by “non-executive board members capable of exercising independent judgment”. In 2003, the Higgs report on Corporate Governance also advanced the concept of the independent directors, which offers a further locus of independent power on the board. Such a strong emphasis on director independence is borne from a concern about the distribution of power at the top of a company. Just as there exists a separation of powers in the broader political system, e.g. between the executive, legislature, and judiciary, more responsible Corporate Governance is expected to occur, if the inherent power of company insiders (led by the CEO) is countered by independent non-executives. According to this perspective, if board members are not independent, they are vulnerable to management ‘capture’. This may lead them to sanction corporate behavior that runs contrary to their fiduciary duties to external shareholders and other stakeholders.

Farinha and Viana (2006) found that board diligence and independence matters about modified opinion in financial statements. In recent studies about Indian firms, Jackling and Johl (2009) provide support for the agency theory stating that the outside directors on boards are associated with improved firm performance. Based on a sample of 500 large Indian firms, Sarkar, Sarkar and Sen (2006) analyzed the effect of board independence on earnings management and their research results indicate that it
is not board independence *per se*, but rather board quality that is important for earnings management. With respect to inside directors, their study results indicate that CEO-duality and presence of controlling shareholders on the board increases earnings management. Morck (2010) finds that independent directors are more ethical and rational in their approach.

On the contrary proponents of stewardship theory opine that independent directors will reduce board’s efficiency and alleviate companies’ financial achievements (Caselli & Gatti, 2007; Hermelin & Wesbach, 2000; Yermack, 1996; Klein, 1998). In the Indian context Balasubramanian et al (2010); Lange and Sahu (2008) contend that the proportion of independent directors may not matter much in firm valuation.

**Studies on Board independence**

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<tr>
<td>Sarkar, Sarkar and Sen, 2006</td>
<td>Board of Directors and Opportunistic. Earnings Management: Study of Indian firms</td>
<td>Board quality is more important rather than mere independence to avoid <em>earnings management</em></td>
</tr>
<tr>
<td>Caselli and Gatti, 2007</td>
<td>Corporate governance and independent Directors: Study of Italian firms</td>
<td>Independent directors impact the rate of return only on deals which require very specific skills, i.e. during turnaround and acquisitions</td>
</tr>
<tr>
<td>Bhagat and Black, 2008</td>
<td>The Non-Correlation Between Board Independence and Long-Term Firm Performance</td>
<td>Firms with more independent boards do not perform better than other firms.</td>
</tr>
<tr>
<td>Black, Kim and Jang, 2008</td>
<td>Corporate Governance and Firms' Market Values: Study of Korean firms</td>
<td>A minimum number of outside directors, without significant ties to management or controlling shareholders, constitute good corporate governance.</td>
</tr>
<tr>
<td>Morck, 2010</td>
<td>Corporate Governance Behavior of independent directors and Non-Executive Chairman</td>
<td>Independent directors, non-executive chairman induce greater rationality and are more ethical</td>
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</table>

**2.4 Other Governance mechanisms**

Corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard, adverse selection, agency conflicts and agency costs. Agency conflicts are an inherent feature of modern corporates. Berle and Means (1932) have argued that separation of ownership from management leads
to agency costs. Governance literature identifies various internal and external control mechanisms to contain the agency costs. Some of these mechanisms are briefly discussed in the following section

2.4.1 Internal mechanisms

Corporate Governance and Auditors role

Effective internal Corporate Governance mechanisms are associated with lower agency conflicts (Klapper & Love, 2004). The internal mechanisms include internal and external auditors, audit committees and management (Cohen et al. 2004). Both internal and external auditors have complementary roles to play for implementing Corporate Governance effectively thereby reducing some of the agency costs. However the auditors must maintain their independence, for their roles to be effective. This gives assurance to the board, management and investors on the adequacy of internal controls and on the integrity of financial statements.

2.4.1.1 The Role of Internal auditors in Corporate Governance

Internal auditors are personnel within an organization who test the design and implementation of the entity's internal control procedures and the reliability of its financial reporting. According to a model of Corporate Governance put forth by the Institute of Internal Auditors (IIA), the internal audit function is one of the four cornerstones of effective Corporate Governance, along with the audit committee of the board of directors, executive management, and the external auditor (IIA 2005a). This is because it evaluates corporate activities, helps a firm adhere with regulatory standards and industry practices, ensures sound financial reporting and facilitates full-time focus on risks and controls. In this context, the primary role of internal auditors is to focus on the implementation of accounting standards and control systems (Fanning & Piercey, 2010). Thus Internal auditors have two roles to play a) provide independent, objective assessment of the organization’s activities b) act as catalysts for change, advising or advocating improvements to enhance the organization’s structure (Abhudabhi centre of Corporate Governance).

The collapse of corporate giants in the past decade has shown that there has been failure in the internal control systems. Thus there is an increased emphasis on internal
auditing to implement monitoring and control systems over management’s financial reporting decisions (Archambeault et al. 2008). Research findings of Aggarwal, Erel, Stulz and Williamson (2008) are that, internal governance (part of internal auditing) and investor protection are complements rather than substitutes. Audit committees and Boards seek extensive assistance from internal auditors for addressing internal Corporate Governance issues (Prawitt, Smith & Wood, 2009).

2.4.1.2 The Role of External Auditors in Corporate Governance

Lutzenberger (2010) opines that external auditors form one of the four pillars of Corporate Governance. The external auditor attests the accuracy of information provided by management to investors. A "true and fair view" is the crux of an audit opinion as given by an Auditor which compels managers to implement appropriate accounting policies and also discourage creative accounting practices. This will monitor manager’s behavior thereby addressing agency problems and facilitating better management of risk (Ojo, 2009). Finally the financial audit remains an important aspect of Corporate Governance that makes management accountable to shareholders for its stewardship of a company (Beattie et al., 2001).

2.4.1.3 Corporate Governance through Audit committees

The Audit Committee of the Board is today seen as a key fulcrum of any company. Being mandatory under Clause 49 and section 292A of the Companies Act -1956, the Audit Committee can be of great help to Board in implementing, monitoring and continuing good Corporate Governance practices to the benefit of the company and its stakeholders. The external auditor is under the fiduciary burden and to protect his independence, Audit committees can play an effective role by appointing the right type of external auditors and their terms of reference (Fan & Wong, 2002). The audit committee also assists the board of directors with its Corporate Governance oversight responsibilities in the areas of:

* Firm's external auditing and the integrity of the firm's financial statements
* Internal auditing processes to assure that the firm's internal controls are effective
* Regulatory and legal compliance
* Risk management to assure effective allocation of the firm's resources (financial, human, tangible assets and goodwill)

Over a period of time, the role of the audit committee as a central facet in the execution of first-rate Corporate Governance has been continually evolving and in future the audit committee may be called upon to address specific issues that fall outside of its primary role.

Thus from the above literature review one can infer the inalienable relationship among the triad group (internal auditor, statutory external auditor and audit committee) and their critical role in transparency and accountability resulting in better Corporate Governance practices.

2.4.1.4 Role of employees in Corporate Governance

Employees have, traditionally been viewed as "outsiders" to the corporation (Hill, 2006). The conventional model of the governance framework is built on the primacy of shareholders and accordingly the regulatory framework is built up. In reality many of the processes of Corporate Governance are implemented through the employees and their role is becoming important because their participation not only improves governance but also enhances wealth creation. Research findings of (Blair, 1995; Blair & Stout, 1999; Roberts & Steen, 2000) affirm that shareholders’ long-run interests are well-served by including employees in Corporate Governance. Muthuswamy, Bobinsky and Jawahar (2009) state that in modern corporation employees implement the Corporate Governance systems and their role should be duly recognized.

2.4.2 External mechanisms

2.4.2.1 The Legal System

Research evidence shows that development of money and capital markets is largely dependent on investor protection in a country – *de jure* and *de facto*. Research by Khanna (2009), suggests that better corporate laws and governance tend to be correlated with better stock market development, more dispersed ownership structures, and higher firm values. Firms rely on external finance, both equity and
debt, in meeting their investment needs. This involves basically a set of complex contractual arrangements influenced primarily by the legal system of the country, within which the firm operates. With better investor protection and lower expropriation by controlling shareholders, outsider investors intend to invest more or pay higher share prices in the hope that more of the firm’s profits would be returned back to them in the form of interest or dividends (La Porta et al., 2000). Klapper and Love (2004) suggest that better firm level governance mechanisms can improve the investors’ protection to a certain degree, but firms alone cannot fully compensate for the absence of a strong legal system of the country thus complementing the role of better legal systems.

Cross country studies covering 27 countries by La Porta et al., (2002) find that in countries where shareholder rights are better protected by the law, investors are willing to pay more premiums, resulting in better firm valuations. As a consequence, they also contend that the cost of borrowing and equity is also low.

In contrast to the legal systems in developed economies, the legal protection of the firm’s shareholders or creditors in many developing economies tends to be very low because of the differences in interpretation of the legal systems and poor legal enforcement (Shleifer & Vishny, 1997). Similarly, debt contracts enforced through better legal systems help creditors to protect and exercise their rights through liquidation or bankruptcy process (Shleifer & Vishny, 1997). All these will reduce the transaction costs (reduced controls and covenants) and consequently the agency costs. The legal system of a country also determines the Corporate Governance structure in relation to the rules regarding the ownership and board structures, mergers and liquidations and shareholders’ rights (Gugler et al., 2003).

2.4.2.3 Role of financial regulatory Institutions in Corporate Governance: The role of capital markets

Efficient capital market systems can mitigate the agency problems through disciplining the management and improving the firm’s overall governance (Drobetz et al., 2004). Capital markets are an important source of finance for firms (Samuel, 1996) and they can exert both direct and indirect influence on the governance practices of the listed firms (Singh, 2003). The direct governance measures include:
tightening listing requirements, controlling insider dealing arrangements (insider trading), imposing disclosure and accounting rules, ensuring protection of minority shareholders and attracting efficient managers (Claessens, 2003; Singh et al., 2002).

From the investment perspective, research findings by Gugler et al., (2003) support the view that the strength of a country’s external capital market determines the degree of a firm’s investment performance. Shleifer and Vishny (1997) contend that a firm is likely to get external finance not only because of the reputation of the capital market and excessive investor optimism, but also by adopting good governance practices. External investors take into account governance aspects such as better investor protection and lower expropriation in their investment decision (LLSV, 2002). As per them better governance quality reduces the agency costs to the external providers of funds in relation to their monitoring and auditing costs and expropriations by controlling shareholders’ and insiders.

However, in developing economies, the role of the capital markets in the Corporate Governance process is likely to be less effective (Iskander & Chamlou, 2000). This is because of weaker Corporate Governance practices, dominance of a few large firms, low trading volumes and liquidity and dormant behavior of institutional shareholders. In the case of developing economies, the effectiveness of the pricing (e.g. both allocative and takeover) mechanisms tends to remain rudimentary because lack of transparency proper and disclosures (Alba et al., 1998; Tobin, 1984). In this context Indian capital markets are reasonably efficient.

2.4.2.4 Competition in Product Markets as Corporate Governance Control mechanisms

Friedman (1953) says that perfect competition in product markets solves the associated problems of Corporate Governance and agency costs. This is because perfect competition would ensure economic efficiency. Gillan (2005) examines different aspects of Corporate Governance, including compensation structure and CEO turnover and affirms the findings of Friedman (1953). Tobin (1984) dissects share price efficiency of the stock market into information arbitrage efficiency and fundamental valuation efficiency. Valuation efficiency means where share prices are
fairly reflected in the future discounted earnings of the firm which is dependent on operating performance. Koke and Renneboog’s (2003) study investigates the impact of Corporate Governance and product market competition on total factor productivity growth in Germany and the UK. For Germany, productivity grows faster in firms controlled more by financial institutions, such as banks and insurance companies, and intense competition reinforces this beneficial impact. For the UK, they find that shareholder control leads to substantial increases in productivity in poorly performing firms and product market competition is a substitute for block holder control. In both the countries their research findings support the general notion that competition mitigates managerial agency problems because managerial slack is avoided. Sales of a firm are one of the measures of effectiveness of managing competition.

2.4.2.5 The Monitoring Role of Takeover reducing agency costs

Various researchers have been suggesting that an active takeover market, controls agency costs. Research findings by Manne (2008) suggest that the market for corporate control can be one of the important tools for improving the efficiency of firms, thereby contain the agency costs. Cyert, Kang and Kumar (2002) find that effective internal governance by the Board of Directors and external takeover threats by large shareholders act as substitutes in imposing managerial control. Empirical evidence shows that firms in active capital markets, which do not demonstrate expected performance, face the risk of being taken over, resulting in managerial redundancies and loss of reputation. This forces them to be efficient thus reducing agency costs. Albuquerque and Wang (2008), find that the managerial expropriation depends upon both internal and external control systems. A strong disciplinary role of the market for corporate control is a good supplement to internal governance failures scheme and imperfect competition in the product market. This is because efficient competitors always plan growth strategies for scaling up using the M&A route. Weir and Laing (2002) found that takeovers play a positive monitoring role on the poor internal governance practices of offeree companies. Shleifer and Vishny (1986) observe that large shareholder plays an important role in takeovers and serves as a monitor of the managers and in this process they can create value for the firm. Cremers and Nair (2005), and Cremers, Nair and John (2009) suggest that good
Corporate Governance and the threat of takeovers improve firm values. Extending this argument Ruback and Jensen (1983), find that hostile takeovers improve firm values. While the above researchers find positive relationship between active takeovers and good Corporate Governance practices, there are certain research findings which have contrasting views. Research finding of Franks and Mayer (2001) is that hostile takeovers do not perform their disciplinary role as expected, as directors from both the badly and normally performing offeree companies are removed from their positions. They also found that not all offeree companies in hostile takeovers are bad performers as their peer companies. In another study, Herman and Lowerstein (1986) observe that offeror companies are not necessarily better performers than offeree companies before takeovers.

To summarize, overall evidence points out to the fact that active market for corporate control forces managers to focus on efficiency thereby reducing agency costs.

2.4.2.6 Shareholder Activism

Effective and active participation by shareholders can lead to better Corporate Governance reforms. Planned activism checks managerial discretion thereby curtailing misappropriations and agency costs (Monks and Minow, 2001). Activism is exercised through voting and managerial engagement. As per the principal-agent framework of Jensen and Meckling (1976), proper activism is one of the important Corporate Governance monitoring devices. Carleton, Nelson, and Weisbach (1998) say that active investors may engage and consult with management and non-executive directors to resolve any governance issues behind the scenes. Becht, Franks, Mayer, and Rossi (2008) conducted an in-depth analysis of the activism undertaken by Hermes UK Focus Fund and find that abnormal returns of 4.5% for the period 1998-2004 was attributable to the effectiveness of its activism.

However there are contradicting views of the positive effect of shareholder activism. Webb, Beck, and McKinnon (2003) found that active intervention by shareholders in the decision making process could be self-defeating. There is a considerable amount of research evidence indicating negative impact of such shareholder activism (Pound, 1992; Black, 1998; Gillan & Starks, 2000; Bhagat & Romano, 2001). Karpoff’s (2001) study about the impact of shareholder activism shows that only improvement
in the governance structures without changes in the strategies of firms may not improve firm’s earnings.

2.4.2.7 Shareholder Voting

Voting is the cheapest form of activism. Since it obviates other costly mechanisms, regulators have placed increased emphasis on informed voting as a means of improving governance. Shareholders use voting as a channel of communication with boards of directors, and protest voting can lead to significant changes in Corporate Governance and strategy (Yermack, 2010). The researcher further states that market-based methods are being used to establish the value of voting rights. Signals sent by shareholders who vote against the incumbent management have negative market reactions, if dissent signals fundamental problems with the company’s governance structure and its bleak performance. This prompts institutions such as pension funds, mutual funds and local authorities to vote their shares in an informed and responsible manner (Myners, 2004).

There is also specific provision in the Combined Code to facilitate engagements between management and major shareholders (Section 1.D Combined Code, 2006).

2.4.2.8 Institutional investors and Corporate Governance

The influence exerted by institutional shareholders differs between developed markets and emerging markets. In the developed markets, institutional investors, being an important part of the capital market, tend to influence the process of Corporate Governance. Study by Samuel (1996) finds that institutional investors tend to be more efficient than individual investors in collecting, analyzing and acting on objectives, firm specific fundamental information, and thus influence a firm’s investment and other financial decisions. As per Mallin’s (2004) research findings, effective engagement of the firms by the institutional investors solves the agency problems. Engagement process includes; periodic evaluation of overall governance disclosures; Exercising voting power; Intervening whenever necessary

In line with the above findings, the Institutional Shareholders’ Committee (ISC), California Public Employees' Retirement System (CaLPERS) and other active organizations believe that good Corporate Governance leads to better performance.
They seek corporate reforms to protect their investments. Their Corporate Governance team challenges companies and the status quo by proxy voting and closely working with regulatory agencies to strengthen financial markets. They also focus on the governance processes of ailing companies to turn them around.

Hermes Funds of UK also operate the same way as that of CaLPERS. Their practices also are rooted in the fundamental belief that companies which involve such institutional shareholders are more likely to achieve superior long-term financial performance than those without. Regular communication with companies is core to Hermes’ approach to applying its Corporate Governance policy. Mohanty (2003) finds that institutional investors in India base their decisions of investment on the Corporate Governance practices of the firms.

In contrast, Samuel (1996) does not find any evidence of the impact of institutional ownership on investment performance in developed markets. However, his research evidence shows that the monitoring and disciplinary activities of institutional investors may act as a viable alternative to debt finance as well as the market for corporate control, particularly in firms in developing countries which rely more on debt than equity. The reason for lack of control is because institutional investors in developing economies generally represent only a small part of a diversified portfolio and also may not be strong enough to impose fairness, efficiency, and transparency (Iskander and Chamlou, 2000). Similar findings are also reported by Sarkar and Sarkar (2000) who do not find an important role played by institutional investors in the Corporate Governance aspects of Indian companies.

Overall there has been a growing trend among institutional investors, even in emerging markets, to pursue active engagement policies.

2.4.2.9 Corporate governance: The role of creditors-lending institutions

An active debt market can mitigate the agency problem by providing the debt holders with the incentives and power to monitor and control insiders’ expropriation (Stiglitz 1985; Gul & Tsui, 1998). According to Shleifer and Vishny (1997) the strong covenants help creditors to reduce agency costs by controlling cash flow rights as well as control rights. Creditors can liquidate a firm, acquire the assets used as collateral, and convert the debt into equity, so on (Shleifer & Vishny 1997). Among S & P 500
firms based in the US, Anderson et al., (2000) found cost of debt to be inversely related to board size, audit committee independence, size and meeting frequency. This demonstrates the selective approach adopted by the lenders.

2.4.3 Corporate Governance and Cost of Equity Capital

Better governed firms have better access to equity finance at lower rates which reduces agency costs (Claessens, 2003; LLSV, 2000; Singh, 2003). Gompers et al., (2003) observe that poor Corporate Governance provisions can mean additional agency costs to the firms in the form of inefficient investment and other capital expenditure decisions (additional cost of capital).

The conventional Capital Asset Pricing Model (CAPM) states that expected return is equal to the sum of the risk free return plus beta times the market premium. This concept is valid where there are no transaction costs. There are additional transaction costs due to inefficient investments and borrowings. Drobetz et al., (2004) argue that, apart from the systematic risks embedded in the beta, Corporate Governance could be treated as an additional risk factor for which investors require an adequate compensation in terms of higher expected returns. Lombardo and Pagano (2002) indicate that investors expect additional compensation for their expected monitoring costs, auditing costs, and other forms of expropriations associated with the firm’s governance process. They find that Outsiders are likely to provide more finance and expect lower rates of return if they are given greater assurance of a return on their investment (through better governance).

Based on the CLSA survey of emerging markets Chen et al., (2007) find that improvements in both disclosure and non-disclosure aspects of Corporate Governance mechanisms reduces the cost of equity capital. They find that cost of equity capital reduces by 1.26% when there is improvement in Corporate Governance rankings (non-disclosure aspects) from the 25th percentile to the 75th percentile. Similar improvements in disclosure segment reduce the cost of equity by 0.47%. This observation substantiates the arguments of Aggarwal and Williamson (2006) that investors appreciate adoption of voluntary governance practices beyond the mandated ones. Research findings by Hail and Leuz (2006) indicate that in countries with legal protection of minority shareholders, extensive disclosure lowers the cost of capital.
Legal protection encompasses both rights stipulated by laws and the effectiveness of enforcement of those laws (La Porta et al., 2006). Doidge, Karolyi and Stulz (2007) further add that besides the country and firm level Corporate Governance factors, levels of financial development and access to capital also reduce the cost of capital. Findings of Zhu (2009) are also similar. While investigating the linkages between Corporate Governance and cost of equity capital associated among developed commonwealth countries, Gupta, Krishnamurti and Rad (2010) find better governance reduces the cost of equity.

**Studies on the relationship between Corporate Governance and cost of equity**

<table>
<thead>
<tr>
<th>Authors</th>
<th>Focus of study</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>LLSV, 2000</td>
<td>Legal determinants of equity; study covering 49 countries</td>
<td>Better quality of law enforcement reduces the cost of equity</td>
</tr>
<tr>
<td>Lombardo and Pagano, 2002</td>
<td>Legal determinants of the return on equity; Study covering 183 firms in developed economies spread across 22 countries</td>
<td>Shareholder rights is negatively associated with cost of equity capital</td>
</tr>
<tr>
<td>Gompers et al., 2003</td>
<td>CG and equity prices; Study covering 1,500 large firms in S&amp;P list</td>
<td>Firms with stronger shareholder rights have higher firm values, higher profits and higher sales growth and lower cost of equity</td>
</tr>
<tr>
<td>Claessens, 2003</td>
<td>CG and equity prices; Study covering 1,198 Czech and Slovak firms (1992-93)</td>
<td>Outside controlling shareholding and domestic shareholding are positively related with firm value</td>
</tr>
<tr>
<td>Hail and Leuz, 2006</td>
<td>Differences in legal enforcement and cost of equity; study covering 40 countries</td>
<td>Better enforcement reduces cost of equity</td>
</tr>
<tr>
<td>Doidge, Karolyi and Stulz, 2007</td>
<td>Protection for minority investors and financial development; Study covering 495 firms spread across 25 countries</td>
<td>Better legal protection and financial development reduces the cost of equity</td>
</tr>
<tr>
<td>Chen et al., 2007</td>
<td>Cost of equity based on CLSA survey of emerging markets of Asia</td>
<td>Cost of equity is reduced by 1.26% points when the non-disclosure CG ranking is improved from 25th percentile to 75th percentile</td>
</tr>
<tr>
<td>Zhu, 2009</td>
<td>Corporate Governance, Equity and debt study spanning 22 countries</td>
<td>Good CG practices reduce the cost of equity</td>
</tr>
<tr>
<td>Gupta, Krishnamurti and Rad, 2010</td>
<td>Corporate Governance and cost of equity; 7380 firm years spanning across 22 developed countries</td>
<td>Better firm level governance attributes reduces the cost of equity</td>
</tr>
</tbody>
</table>
2.5 Research studies about Corporate Governance in India

This section deals with research studies on Corporate Governance in India. The literature review covers studies on ownership structures, board structures and other mechanisms. It also covers studies on Corporate Governance index and financial performance.

Indian Corporate Governance system is considered as 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 (Sarkar and Sarkar, 1999). Regarding the legal system, India has one of the best Corporate Governance laws but implementation of the same has been poor (Chakrabarti, 2005). In India the Corporate Governance systems are enunciated in the companies Act of 1956 and SEBI’s Clause 49 of the listing agreements. There have been quite a few studies about the adoption of clause 49 of the listing agreements which came into force from 1st January, 2006. Bhattacharyya and Rao (2005) examined whether adoption of Clause 49 predicts lower volatility and returns for large Indian firms and find no difference in volatility in firm’s returns and mixed results for share price returns. Black and Khanna (2007) conducted an ‘event study’ of the adoption of Clause 49. The regulatory requirement compliance was phased in such a way that ‘large’ firms were required to comply before ‘small’ firms. The event study report showed higher positive returns to a treatment group of large firms when compared to a control group of small firms. Allen, Chakrabarti and De (2007) find significant improvements in the current Corporate Governance norms and practices and find that investor protection still needs improvement and social governance has improved due to improvements in institutions’ providing microfinance.

Another interesting feature of research study in India has been about the governance aspect of Indian software companies. Software companies are new type of business structures which emerged in the Indian corporate scene with an average age of firms being less than two decades. They are deemed to adopt good governance practices, perhaps because of their business affiliations with Europe and US where SOX Act is being followed.
Arora and Athreye (2002) find that Indian software companies have good Corporate Governance practices when compared to the rest of companies. Their study approach is an interview based survey of 60 Indian software companies. They find that the trend to be growing. Similar observations have been made by Khanna and Palepu (2006) in their study about Indian software firms.

Kumar, Pedersen and Zattoni (2008) studied 547 Indian firms over a 17 year period from 1990 to 2006. The premise of their study is based on institutional theory and transaction cost based theory. Their research findings are that when governance of the state improves and institutional factors are more democratic, then the performance benefits of group affiliation wears away. Further, in case of asset intensive manufacturing firms, older affiliated Indian firms are able to manage transition better than newer affiliated firms.

Afsharipour (2009) opines that Indian Corporate Governance systems are still shaped by political, social forces and closed ownership structures and much needs to be done to improve the CG practices.

Commercial agencies have also studied the Corporate Governance systems in India. Credit Lyonnais Securities Asia (CLSA) conducted governance survey in 2001 covering 68 Indian companies. S&P had conducted ‘transparency and disclosure survey’ in the year 2002, covering 42 Indian companies. Commercial Rating agencies in India, Moody’s, ICRA, and CARE rate companies on Corporate Governance criteria adopting methods unique to each agency. However such a system is at the preliminary stage and only few companies have been rated so far. Rating companies primarily focus on rating of debt instruments. Lenders of finance and investors in the capital markets view basically the debt ratings issued by these firms as a proxy for due diligence.

Aggarwal and Klapper’s (2003) study is based on 152 IPO’s issued during the period 1999-2001 and they find that there is a positive relationship between institutional investment and size of the firm and that foreign investors invest more in larger firms because of transparency.

As a part of case study about TATA group of companies, Kakani and Joshi (2008) find stronger ownership ties and cohesiveness among group affiliates and business
groups which affect the interests of the minority shareholders in the individual operating companies (i.e., its own affiliates).

2.5.1 Studies on ownership structures

Chibber and Majumdar (1999) studied the impact of Foreign and Domestic shareholding on firm’s profitability. Their study, covering years 1992 and 1993, is about 800 Indian firms. Their findings are that foreign ownership holdings during the pre-reform era had no effect on firm’s profitability. However, during the post reform era, ownerships beyond 51 % show a positive relationship between the holdings and firm performance proxied by return on assets (ROA) and return on sales (ROS). Besides, their studies show that equitable ownership (between Indian and foreign ownership) is the key factor among Indian companies to increase their exports on a sustainable basis and become global.

Phani et al., 2005, based on their research, attribute Corporate Governance problems in India due to disproportionate differences between cash flow rights and control rights in different ownership structures.

Chakrabarti, Megginson and Yadav (2007) find that Indian corporates are still dominated by the family groups and there is significant amount of pyramiding and tunneling among them. Their study has current relevance and pertains to the 500 largest companies listed in BSE.

Chakrabarti (2005) finds that in many Indian firms, ownership remains concentrated within the family business groups and despite India having finest legal systems, its implementation has been very poor regarding investor protection. Besides earnings management is a common feature among Indian corporates.

Bertrand, Mehta and Mullainathan (2002) provide evidence on tunneling within Indian business groups. Their study is focused on firms belonging to large groups but controlled by an ultimate owner through a pyramidal ownership structure resulting in disproportionately higher cash flow rights than control rights. They contend that transfer pricing, which affects the operating profits of the firm, is not an important source of tunneling in India. Khanna, Kogan and Palepu (2006) studied instances of minority shareholder expropriation by Indian firms and affirm these views.
Contradictory views are held by Seigel and Choudary (2010) in their studies about the ‘tunneling” effects of “owner managers”.

During their study about the association between insider ownership and firm performance, Phani et al. (2005) find asset utilization and employee productivity higher at higher levels of insider shareholding.

Study by Marisetty and Vedpuriswar (2005) is about two types of insider ownership-first termed as ‘Manager-Owner’ where managers are assigned ownership rights as a post facto incentive mechanism by the owners; the second being ‘Owner-Manager’ who is a promoter as well as a manager having de-facto ownership. As per the researchers, the pattern of Indian governance mechanisms is that of the Owner-Manager type and that insider ownership has no influence on the performance of the firm in majority of industries, in the Indian context. Their findings are that shares of good governance companies are less mispriced compared to badly governed companies.

Following studies are on the relationship between promoter’s holding and firm performance:

Khanna and Palepu (1999) studied the problem of insider ownership and its linkage to performance. Their research study, covering 567 groups affiliated and 437 unaffiliated firms, found that there is a positive relationship between insider ownership and performance of the firm using Tobin’s Q as a proxy for firm performance. They also found that group affiliated firms are difficult to monitor and director’s holding has no perceptible impact on the firm values. Based on the data of 1613 firms for the year 1995-96, Sarkar and Sarkar’s (1999) study shows a non-linear relation between promoters’ holding and firm values i.e., it first decreases up to 25 percent and increases thereafter. In case of corporate bodies’ shareholding, beyond 15 percent, Tobin’s Q shows a positive association with firm value. In another study, Sarkar and Sarkar (2005) find that promoter shareholding has no impact on firm value in case of low growth firms while it has positive impact on firm value for high growth firms. Kumar’s study (2004) is also about ownership structures of Indian companies and dividend policies. His findings are that there exists a positive association between
dividends and earning trends. Kumar’s (2005) study examines, 2000 Indian firms over the years 1994 to 2000. The empirical study is about the effects of Corporate Governance (based on ownership structure) on the firm performance from an ‘agency perspective’. His research evidence, suggests that firm size, measured by sales, is positively related to the firm performance. He does not find any evidence about differences in ownership structure affecting firm performance.

Pattanayak (2008) examines the effect of insider ownership on firm performance in India for the period of 2000-04, covering 1833 listed firms. He finds that the relation between insider shareholding and firm performance is non-linear, which implicitly means the presence of monitoring and entrenchment roles of insiders at different levels of ownership.

Saravanan (2009) has studied the Corporate Governance characteristics of Family Owned and Non-Family Owned Businesses of India. The number of firms was 771, covering a period 2001 to 2005. His study found that the firm values measured by Tobin’s Q, are not significantly affected by the ownership type of the firm.

From the above the studies it is evident that the results about the relationship between ownership structure and firm values are mixed and there is still difference of opinion among researchers. The purpose of this research study is to reexamine the relationship between promoters’ holding and firm performance in the case of firms in the BSE 100 index.

2.5.2 Board structures and firm performance

Sarkar and Sarkar (2005) examine the relationship between multiple directorships, ‘busy’ directors and firm performance. Their findings are that multiple directorships by independent directors correlate positively with firm values. This finding supports the “quality hypothesis” which posits that busy directors are likely to be better directors depending on the institutional context and the type of director. Parthasarathy, Menon and Bhattacherjee (2006) investigated the determinants of executive compensation systems among Indian firms. Their findings are that CEO
compensation and incentives are related to the firm size. Besides CEO’s who are promoters earn disproportionately higher than CEO’s who are not. Varottil’s (2010) study is about the evolution of independent directors in the Indian context. In India the concept of independent directors is different from other countries. For example financial institutions like LIC, IDBI have nominee directors who are considered to be independent, which is not so in other countries. His finding suggests the need for revamping of the regulatory and other support systems for their effective functioning. However, using a sample of 500 firms, Sarkar, Sarkar and Sen (2006) investigate the impact of board characteristics on opportunistic earnings management and find that the quality rather than independence of the board is an important factor in earnings management.

There have been also studies regarding board size, board independence and CEO duality. Dwivedi and Jain’s (2005) study is about 340 Indian companies having sales above Rs 2.5b covering a period from 1997 to 2001. They find that bigger boards have a positive association with firm value. Kaur and Gill (2008) found that Indian firms prefer smaller board size and increases in the proportion of independent directors does not have significant improvement on performance of Companies. Lange and Sahu’s (2008) research, covering 3 years from 2005 to 2007, is about the impact of regulatory changes (implementation of clause 49) in India, particularly the size and composition of boards. Their findings are that Indian firms prefer larger boards. Jackling and Johl’s (2009) study of top Indian companies provides partial support to the two theories of Corporate Governance, namely agency and resource dependence theory. Their findings are that larger board size and a greater proportion of outside directors on boards are associated with improved firm performance and CEO duality does not affect firm performance. A joint study by Mayur and Saravanan (2008) examined the board structures (Board size) and financial performance measured by Tobin’s Q and Market to Book ratio. The study relates to 37 banks for the period-2001 to 2005. Their findings are that board sizes do not really matter in the performance of these banks.
Indian studies on board size

<table>
<thead>
<tr>
<th>Authors</th>
<th>Focus of study</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dwivedi and Jain, 2005</td>
<td>Board size of firms and firm valuations</td>
<td>Positive and Significant relationship between board size and firm values.</td>
</tr>
<tr>
<td>Mayur and Saravanan, 2008</td>
<td>Board size and firm valuations of Banks</td>
<td>No significant relationship is found between Board size and performance of Banks</td>
</tr>
<tr>
<td>Kaur and Gill, 2008</td>
<td>The Effects of Ownership Structure on Corporate Governance and performance: An Empirical Assessment in India 117 companies listed in BSE 200 index, 2003-06</td>
<td>Firms having smaller board sizes have better firm valuations. Board independence does not matter</td>
</tr>
<tr>
<td>Lange and Sahu, 2008</td>
<td>The impact of changes to Clause 49 in India regarding Board structure and size: 43 Firms listed in NIFTY50</td>
<td>Firm values are positively related to board size. Board independence has no significant impact on firm values</td>
</tr>
<tr>
<td>Jackling and Johl, 2009</td>
<td>Board structure and firm performance: Study about Top Indian companies having 65% of market capitalization Year of study, 2005-06</td>
<td>Larger board size is suggested. Independent directors are positively correlated with firm performance: supporting resource dependency theory. CEO duality is not detrimental: does not support agency theory.</td>
</tr>
</tbody>
</table>

It can be seen that there are inconsistencies in the research outcomes to date with respect to all the three aspects of board structures. With respect to CEO duality, perhaps the divergence can be explained from the fact that there is a potential tradeoff regarding the benefits to a firm due to either duality or non-duality. With respect to board independence, Balasubramanian et al., (2010) find that due to India’s stringent regulatory requirements of the proportion of independent directors, additional numbers may not have a significant impact on firm valuations.

2.5.3 Index based studies in India

From the point of Index based studies, there have been two studies so far (Mohanty, 2003 & Balasubramanian et al., 2010) and they are specific for one particular year only.

From the institutional point of view, governance study by Mohanty (2003) is a pioneering one in the Indian context. He developed CG index using a unique
weightage method to examine how firm-level governance influences the behavior of institutional investors, or vice-versa. Corporate Governance index developed by him is based on 19 parameters. These parameters are related to the governance practices affecting stake holders. The weights are assigned based on their impact, positive, neutral and negative on the stake holders. The weights range from (Positive +2 to 10), (neutral being 0 in all cases) and negative (-3 to -15). He finds that institutional investors accord priority to good governance before investment decisions are made and that the institutional investors own a higher percentage of the shares of better-governed Indian firms which is consistent with research in other countries (Aggarwal, Klapper & Wysocki, 2005; Ferreira & Matos, 2007).

The latest research study of the relationship between Corporate Governance and firm performance in India is by Balasubramanian et al., (2010). They have constructed a Corporate Governance Index (ICGI) of Indian companies based on the responses to the questionnaire mailed to the companies. The responses have been compiled by adopting binary method. Their findings are that Indian Corporate Governance rules appear appropriate for larger companies and the rules need some relaxation for smaller companies. They find evidence of a positive relationship between Corporate Governance and firm values measured by Tobin’s Q.

2.5.4 The need for country specific studies

There have been cross country and country specific studies both in developed and emerging markets on various aspects of Corporate Governance. In their study of Korean companies, Black et al., (2006) have emphasized the need for country specific studies. Sarkar and Sarkar (2005) also support country specific studies because the findings of the research in the developed markets may not be in consonance with the Indian context. This is because over a period of time due to the impact of socio economic factors, the Governance parameters do change along with other related issues. In India too, there have been changes in different aspects of Governance, some of which have been made mandatory as per the listing agreements of SEBI (revised clause 49) for companies listed or intending to list in the Indian bourses.
While fundamentally U.K. and USA have the same goals, with respect to strengthening Corporate Governance, perspectives and approaches differ. In the U.S. it is the responsibility of the States and the stock exchanges to determine their Corporate Governance requirements. In the U.K. it is the responsibility of the Security Exchange Commission to overlook adherence to Corporate Governance regulations whereas it is the duty of the Sarbanes Oxley act (state) to overlook the Corporate Governance rules and regulations in U.S.A. All such factors support the case for country specific studies in Corporate Governance.

There have been many changes in the Corporate Governance scenario in recent times in India. The Sub prime crisis, bankruptcy of Lehman brothers, Satyam scandal, etc have changed the Indian Corporate Governance landscape.

This study captures the essence and impact of the recent regulations, on the Indian companies, belonging to BSE 100 index group. While the objective of this study is to examine the relationship between Corporate Governance and firm values, the approach is different from Balasubramanian et al., (2010) in terms of time span and firm clusters. A governance index has been developed as a proxy for Corporate Governance. The Governance index measures the overall governance practices rather than a single attribute.

This research study is different from other studies on the same topic on three counts. First the index is based on the data available in the public domain which facilitates generalizability. Secondly the panel data of 5 years from 2004 – 2008 provides robustness to the results. Thirdly the companies listed in BSE 100 comprise of BSE 30, NSE 50 and represents 60-70% market capitalization. There have been no studies on BSE 100 companies covering this period.
### Studies on Corporate Governance in India

<table>
<thead>
<tr>
<th>Authors</th>
<th>Focus of study</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Khanna and Palepu (1999)</td>
<td>Governance and Investment decisions of Financial institutional Investors. 567 group affiliated and 437 un affiliated companies</td>
<td>Foreign institutional investors prefer un affiliated firms. Group firms are difficult to monitor</td>
</tr>
<tr>
<td>Chibber and Majumdar (1999)</td>
<td>Does Foreign ownership of Indian firms helps in globalization. 800 firms listed in BSE covering years 1992 and 1993</td>
<td>Equitable sharing of ownership between domestic and foreign shareholders helps in effective globalization and profitability.</td>
</tr>
<tr>
<td>Sarkar and Sarkar (2000)</td>
<td>Corporate governance and shareholder activism; 2000 Indian firms covering years 1992-1998</td>
<td>Block holders are benefited by disproportionate cash flows rights; Evidence of non-linearity in the relationship between ownership stakes and company value.</td>
</tr>
<tr>
<td>Aggarwal and Klapper (2003)</td>
<td>Ownership Structure and Initial Public Offerings. 152 Indian initial public offerings during the period 1999-2001</td>
<td>No significant relationship is found between investment decisions by institutions and under-pricing of IPO</td>
</tr>
<tr>
<td>Parthasarathy, Menon and Bhattacherjee (2006)</td>
<td>Determinants of executive compensation Study covering 1600 managers belonging to 250 firms</td>
<td>Promoters CEO’s receive disproportionately higher compensation than other CEO’s</td>
</tr>
<tr>
<td>Khanna and Palepu (2006)</td>
<td>Globalization &amp; Convergence of CG among software firms; Study period covering years 1995 to 2000</td>
<td>Efforts to improve CG had not much of effect on convergence expect in few firms such as Infosys</td>
</tr>
<tr>
<td>Black and Khanna (2007)</td>
<td>The impact of implementation of clause 49 on Firm values. Event study</td>
<td>Larger firms are benefited compared to smaller firms in the first phase of implementation</td>
</tr>
<tr>
<td>Chakrabarti, Megginson and Yadav (2007)</td>
<td>The impact of CG practices post clause 49 implementation 500 largest companies listed in BSE</td>
<td>Pyramiding and tunneling still exists in Indian firms</td>
</tr>
<tr>
<td>Reference</td>
<td>Title</td>
<td>Summary</td>
</tr>
<tr>
<td>-----------</td>
<td>-------</td>
<td>---------</td>
</tr>
<tr>
<td>Allen, Chakrabarti and De (2007)</td>
<td>Study of banking systems-A cross country study comprising 20 countries, including India</td>
<td>CG norms in India have improved, however, still family groups dominate the process</td>
</tr>
<tr>
<td>Mayur and Saravanan (2008)</td>
<td>Board size and firm values in Banking firms. 37 banks listed on BSE/ NSE</td>
<td>No significant relationship between Board size and firm values in Banking firms. Firm values are based on operating performance of the banks</td>
</tr>
<tr>
<td>Kumar, Pedersen and Zattoni (2008)</td>
<td>Influence of state and institutional Governance systems on Group affiliated and non-affiliated firms 547 firms : period of study:1990 to 2006</td>
<td>When the governance systems of state and its Institutions improves non-affiliate firms are more benefitted than group affiliates</td>
</tr>
<tr>
<td>Saravanan (2009)</td>
<td>CG Characteristics of family owned and non-family owned firms. Study covering 771 firms for the years from2001 to 2005</td>
<td>Corporate Governance and firm performance; Firm values are not significantly affected by the ownership type of the firms.</td>
</tr>
<tr>
<td>Jackling and Johl (2009)</td>
<td>Board structure comprising of CEO duality, Board size, independence Director’s busyness and firm performance.</td>
<td>CEO duality does not matter. Indian firms favour large board sizes and more number of independent directors improves firm performance</td>
</tr>
<tr>
<td>Balasubramanian et al., 2010</td>
<td>Corporate Governance Reforms and Firms’ Market Values: Study covering 297 Firms listed in BSE 500; year of study 2006 adopting survey method.</td>
<td>Positive relationship between ICGI and Tobin’s Q</td>
</tr>
</tbody>
</table>