PREFACE

Corporate Governance is an area that has grown tremendously in the last decade all over the world. Concisely it can be considered as a system by which firms are managed and controlled. The main objective of Corporate Governance is to establish responsibility and accountability for board and expect that the board of directors exercise due diligence in their roles of setting strategies and ensuring that the management implements it. Due to globalization and growth in the economies of the world, the scope of Corporate Governance of firms has widened.

From an economic perspective, there is ample research evidence to show that good governance practices, reduces the cost of capital, improves financial performance, enhances firm values and thereby benefits all the stakeholders of the firm.

Opinions vary as to whether Corporate Governance systems are converging or are likely to converge. However there seems to be convergence all over the world on the core aspects of Corporate Governance which are; regulatory compliance, transparency in accounting and disclosures; contribution of Independent non-executive Directors; shift from narrow shareholder’s orientations towards broader stakeholder orientations; sustainability; corporate social responsibility etc. All these factors form the basis for framing of Corporate Governance laws of a country.

Corporate Governance is a global phenomenon. Hence regulatory enactments and amendments in one country, not only affects that particular country, but other countries as well. Post Cadbury committee’s report and Enron’s collapse, the regulatory enactments had far reaching consequences on the Corporate Governance framework across the world. While many practices of Corporate governance are becoming mandatory and standardized over a period across all countries of the world, some country specific variations are observed because countries also enact business laws reflecting the socio-economic factors prevailing in that particular country. This is reflected in the Indian context too.

In India regulatory aspects of governance was a part of Companies Act of 1956. Later regulatory bodies in India MCA (Ministry of Corporate Affairs) and SEBI (Securities...
Exchange Board of India) have setup committees to frame laws which converge with the Corporate Governance systems of the world. By adopting global governance practices, Indian firms can attract foreign investments to sustain economic growth. There is also a growing trend among Indian firms to list in foreign bourses and to resort to cross border M&As which makes it imperative for them to adopt good Corporate Governance practices.

Corporate Governance is multifaceted, covering areas of law, economy, politics, and sociology etc, prompting research in these areas. However from the economic aspect, research studies on the financial performance of firms are gaining importance and this study is primarily aimed at studying the effects of Corporate Governance on financial performance. Among different approaches to study such relationships, index method is becoming increasingly popular with researchers and commercial agencies all over the world because it facilitates easy assessment and measurement (Gompers et al., 2003).

This research study has constructed a Corporate Governance Index (CGI) for the companies listed in BSE 100 index for a period of 5 years from 2004–2008 and examines the relationship between the CGI and financial performance proxied by Tobin’s Q, MVBV and ROA. It also provides details about econometric tools adopted to test the relationship between CGI and financial performance. This research also includes study on other governance mechanisms like Board size; CEO duality; board independence; promoters’ holding etc.

This study is organized as follows.

Chapter 1 describes the evolution of Corporate Governance, its theoretical cum regulatory framework and development of indices.

Chapter 2 provides a detailed discussion on the relationship between Corporate Governance and financial performance with a focus on index based studies. It also details studies on Board structures and other mechanisms of Governance. Research Studies on Indian Corporate Governance are also included in this section. Apart from covering the studies in developed markets, the literature review specially focuses on emerging markets, including India.
Chapter 3 details the methodology used in the construction of governance index and sub indices. It provides details of data and usage of statistical and econometric techniques with Tobin’s Q, MVBV and ROA as proxies for financial performance. It also gives details about different econometric tools adopted to test the relationship between CGI and financial performance.

Chapter 4 discusses the results of the study and compares it with the findings of other researchers. The data analyses contain each individual year wise and combined analyses of five years. The regressions include multiple, pooled, fixed effects, random effects and dynamic panel models with different control variables.

Chapter 5 provides the conclusions and points out the implications of the study with directions for further research.