Impact on Corporate Governance on Value creation of Companies:
– An Indian Experience

Synopsis of the Thesis to be submitted in partial fulfillment of the requirement for the award of the degree of

DOCTOR OF PHILOSOPHY
IN
ACCOUNTING AND FINANCIAL MANAGEMENT

By

HEMANTKUMAR K. VALAND

Under the Guidance of

PROFESSOR (DR.) PRAGNESH B. SHAH
Professor, Department of Accounting & Financial Management
Faculty of Commerce,
The M. S. University of Baroda, Vadodara

THE DEPARTMENT OF ACCOUNTING AND FINANCIAL MANAGEMENT
FACULTY OF COMMERCE
THE MAHARAJA SAYAJIRAO UNIVERSITY OF BARODA
VADODARA – 390 002
AUGUST, 2015

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1. INTRODUCTION AND REVIEW OF RELETED LITERATURE

Corporate governance is most often viewed as both the structure and the relationships which determine corporate direction and performance. The board of directors is typically central to corporate governance. Its relationship to the other primary participants, typically shareholders and management, is critical. Additional participants include employees, customers, suppliers, and creditors. The corporate governance framework also depends on the legal, regulatory, institutional and ethical environment of the community. Whereas the 20th century might be viewed as the age of management, the early 21st century is predicted to be more focused on governance. Both terms address control of corporations but governance has always required an examination of underlying purpose and legitimacy. – James McRitchie, 8/1999.

The Indian ethos of corporate governance as articulated by Mahatma Gandhi in his writing. He believed that management is a trustee of shareholders capital and business is a trustee of all resources, including the environment. In India, the initiative on corporate governance was not a result of any major corporate scandal, like Enron, World Com, etc. The need for Corporate Governance has highlighted by the scams that has taken place after liberalization of the economy in 1991, like Harshad Metha, Ketan Parekh scam, UTI scam, the vanishing company scam, the Bhansali scam and so on The first step towards the corporate governance was the confederation of Indian Industry (CII) code for Desirable Corporate Governance, developed by a committee chaired by Rahul Bajaj. Later the Securities and Exchange Board of India (SEBI) constituted two committees to look into the issue. These two committees have been Instrumental in bringing about for reaching changes in Corporate Governance in India through the formulation of clause 49 of listing Agreements. The Scams like satayam have give rise to amended clause 49 and incorporation of Corporate Governance provisions in newly enacted Companies Act, 2013.

In India Corporate Governance practices are regulated and get complied from the Companies by the Securities exchange board of India by complying the clause - 49 of the listing Agreement there

are many provisions relating to corporate Governance are get complied by the ministry of Corporate affairs from the companies by complying the provisions of the Companies Act,2013.
Creating Wealth is the main objective of any business. The company the one which is attaining the successful value creation never meets capital shortage, because, the company can make enough capital internally and attract more capital from the markets. The company needs an executive with leadership skills for consistent value creation. In most companies today, the search for value is being challenged by a seriously out of date financial management system. Often, the incorrect financial focus, cash strategies, operating goals, and valuation processes are emphasized. Balance sheets often provide the results of accounting rules rather than the focus of value creation. These problems need different approaches for analyzing the financial performance of the company. The financial decision should be helpful to maximize shareholder's value and it becomes crucial to the achievement of the overall goal, that is, shareholder value maximization. Shareholder's wealth is measured by the returns they receive on their investment. Value creation helps profitable and sustainable growth of the company.

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

Numerous researches have been undertaken in developed and developing markets to comprehend the relationship between corporate governance and firm performance. A study which combined all the corporate governance parameters into a combined index has concluded that better governed firms are relatively more profitable, more valuable and pay out more cash to their shareholders. Few of the foremost sub indicators of corporate governance which have been proved as significant influence for financial performance are Board procedures, Disclosures of Transactions with Related Parties, Executive and Director Compensation, Ownership Pattern, Shareholders' Rights.

The large amount of research works in developing countries have contemplated on a few selected parameters of corporate governance relating to ownership such as board independence (number of independent directors on the board),board size, CEO and board autonomy, insider ownership and ownership concentration, promoters' control on board, to assess their impact on financial performance of firms and its' value.

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

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

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

Literature review confirms the relationship between different Corporate Governance components and firm performance by examining the relationship through Cross Sectional Correlation, Regression, and Simultaneous Equations Approach between few components of the corporate governance and value of Firm.

Whereas the present study contributes to the literature on association between Corporate Governance and Value creation of the Companies by using the market base approaches like Market Value Added (MVA), Economic value added (EVA)by using penal data analysis.

All Indian studies determining the impact of Corporate Governance on firm valuation have taken the components of the corporate governance as described in clause 49 of the listing agreement

Whereas the present study have considered all the Components of the corporate governance as per amended clause 49 of the listing agreement and components of corporate governance as described in Companies Act, 2013.

2. RESEARCH METHODOLOGY

2.1 RATIONALE OF THE STUDY

Corporate governance is an important managerial tool for extremely large or publicly held companies. Corporate Governance protects the financial interests of individuals in a company, whether they are owners, managers, employees or outside stakeholders. In India SEBI regulates the listed companies to comply with Corporate Governance guidelines for investors' protection. This study is important and useful for understanding the level of Corporate Governance compliance by Indian listed companies and how this compliance can impact the financial performance of the company and make or break the investors' confidence in the company. This study is to measure the impact of corporate governance compliance on value creation of Companies.

2.2 RESEARCH OBJECTIVES

The main objective of this research endeavour is to carry out a systematic study of to gauge the impact of Corporate Governance on value creation of companies from the view point of share holders of the Companies.

Specifically, the study seeks to:

- To study the corporate governance disclosure practices as per clause 49 of the listing agreement
- To study various indicators of Value creation of the Company
- To measure the financial performance as per each indicators of Value creation for the companies under study
- To examine the impact of corporate governance on Value creation of the Companies under the Study.
- To recommend new components of the corporate governance through which value of the Companies from share holder angle can be maximized.

2.3 RESEARCH DESIGN

2.3.1. RESEARCH HYPOTHESIS

- ***Hypothesis 1(Ho):*** *There is no significant difference between the select financial characteristics of top CG scoring companies and least CG scoring companies.*

- ***Hypothesis 2(Ho):*** *There is no impact of governance practices on Companies' Value creation (proxied by four measures i.e. market capitalization, Tobin's q i.e MV/BV ratio, Market Value Added (MVA), Economic Value Added (EVA).*

2.3.2. SAMPLE SELECTION

- **Population :**

  Companies listed on Recognized stock exchanges in India
- **Sample** :

  75 Listed companies from private sector as well as public sector have been selected form the companies listed on Bombay Stock Exchange, representing various Industries.

2.3.3. PERIOD OF THE STUDY:

The present study has been carried out by analyzing a data for a period of 5 years that is from 2009-10 to 2013-14.

2.3.4. LIST FEW COMPANIES REPRESENTING SAMPLE OF THE STUDY

Sr. No	Script Code	Name of the Company	Industry
1	500440	Hindalco Industries Ltd	Aluminum
2	500008	Amara Raja Batteries Ltd	Auto Ancillaries – Batteries
3	532538	UltraTech Cement Ltd	Cement
4	500164	Godrej Industries Ltd	Chemicals - Organic - Large
5	500875	ITC Ltd	Cigarettes -& Diversified
6	532532	Jaiprakash Associates Ltd	Construction - Civil / Turnkey – Large
7	500114	Titan Industries Ltd	Diamond Cutting / Jewellery – Large
8	532432	United Spirits Ltd	Distilleries

9	500575	Voltas Ltd	Diversified – Mega
10	500002	ABB India Ltd	Electric Equipment - Switchgears/Relays/Circuits
11	517354	Havells India Ltd	Electric Equipment - Switchgears/Relays/Circuits
12	500049	Bharat Electronics Ltd	Electronics - Others
13	500770	Tata Chemicals Ltd	Fertilizers - Phosphatic - Single Super Phosphate
14	500790	Nestle India Ltd	Food And Dairy Products – Multinational
15	500825	Britannia Industries Ltd.	Food And Dairy Products – Multinational
16	522150	Aditya Forge Limited	Forgings – Large
17	500043	Bata India Limited	Leather / Synthetic Footwear - Large
18	513599	Hindustan Copper Ltd	Metal - Copper / Copper
19	500820	Asian Paints Ltd	Paints / Varnishes
20	532872	Sun Pharma Advanced Research Company Ltd	Pharmaceuticals - Indian - Bulk Drugs
21	500219	Jain Irrigation Systems Ltd	Plastics - Sheets
22	532555	NTPC Ltd	Power Generation And Supply
23	500325	Reliance Industries Ltd	Refineries
24	500470	Tata Steel Ltd	Steel – Large
25	532174	ICICI Bank Ltd	Banks - Private Sector

2.3.5. DATA COLLECTION

Primary as well as secondary have been collected for this study . In order to achieve objective of the study, the data with respect to corporate governance disclosure have been collected from the annual reports of the companies downloaded from BSE web site and MCA21 portal. A few annual reports have been downloaded from the websites of the individual companies.

Moreover primary data also collected have been by circulating questioner to independent Directors , promoters , chartered accountants , Company secretaries, Cost Accountants, Registered share transfer Agents , Merchant bankers and Stock brokers.

2.3.6. DATA ANALYSIS

Detail analysis has been carried out to establish the relationship of corporate governance practices (components of Corporate Governance) and various measures of Value creation of by using following Statistical techniques:

- Descriptive Analysis
- Simple Correlation
- Regression Analysis
- Multiple Data Analysis
- Partial Correlation Analysis
- Multiple Regression Analysis
- Principal Component Analysis
- Penal Data Analysis

For data analysis, Statistical Package for the Social Sciences i.e. SPSS (20 version) software have been used.

3. GENERAL CONCLUSION:

The present study examines the impact of Corporate Governance (CG) practices on value creation of the Listed Companies. It is evident from the analysis that overall Corporate Governance framework is sub-grouped into various components like Board Composition, audit committee, ownership component and compliances, whistle blowing polices and some other penal provisions of the Companies Act,2013 and penalties for non- Compliances imposed by the SEBI .
The results proved that generally over all CG practices in India have positive relationship with value creation of the Companies and its Subsidiary companies.

This study provides evidence to support the relationship between CG and value creation of Companies. Thus suggests that properly designed quality Corporate Governance can create the value of the Companies from shares holders point of view in an emerging market like India.

4. Research Outline:

Chapter 1:

Deals with the introductory part of the research work. This chapter deals with rationale of the study, objectives of the study, the methodology used for the research. And also spells out the plan of the study.

Chapter 2:

Explain the rationale and theoretical foundation of corporate governance and value creation of Companies. To signify this, the chapter is divided into two parts. *Part one* discusses the conceptual paradigm of Corporate Governance and *Part two* narrates the different models developed for the measurement of Value creation of Companies

Chapter3:

Deals to analyze and interpret the data collected to achieve the objective of the Study

Chapter 4:

Deals with to gain insight from the executives, professionals and academicians on the valuation and disclosure practises of corporate governance

Chapter 5:

Summarises the findings of this research study and suggests certain policy recommendations

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