The International Journal's
Research Journal of Economics & Business Studies
ISSN:2251-1555

An Empirical Study of Relationship of Good Governance and Economic Performance

DR Namita Rajput,
Commerce Department, Shri Aurobindo College(M), University of Delhi,India
&
MS Shevata Sehgal Marwah,
Commerce Department, Shri Ram College Of Commerce, University of Delhi,India
&
Ms Simple Arora,
Commerce Department, Shyam Lal College, University of Delhi,India

ABSTRACT:
Corporate governance provides the structure for defining, implementing and monitoring a company's goals and objectives and ensuring accountability to its shareholders and investors. The objective of the present study is to examine a relationship of corporate practices and its impact on financial performance. This is a unique study in the sense that it takes medium sized family business in purview and it also takes corporate governance practices including mandatory and non mandatory practices (SEBI clause 49) along with voluntary measures as suggested by Ministry of Corporate Affairs in their guidelines 2009 i.e. basically enveloping actions which are under compliance and which are beyond compliance for example activities like HR Development, Quality Improvement for benefit of customers, Environment Protection, Health and Safety for its employees and for the welfare of the Society at large which adds to the value of shareholder wealth. To establish the relationship between corporate governance and financial performance Regression and step wise regression is used.The empirical findings exhibit a strong relationship between some of the corporate governance parameters of sample firms and their financial performance even with the constraints of data availability and smaller size of the sample for the two reference years under study 2006-2007 and 2012-2013 for 50 companies.
Key words: Corporate Governance, Financial performance, medium size family managed firms, mandatory disclosures, compliance.

1 Introduction

Promotion of proficient and effectual corporate governance has become an imperative agenda for businesses in countries especially developing countries because it can improve managerial excellence and assist businesses with fragile governance structures to increase capital and is found to be very attractive feature for foreign investors. Corporate governance has always been in subject from the beginning of last decade. Corporate Governance lays down a complete framework for creating long-term trust between company and its stakeholders and it deciphers the problem of conflict of interest between the Agents and Principals. It is solved by rationalizing and monitoring risks of a company, limiting liability of top management by carefully articulating decision making process, ensuring integrity of financial reports, and finally providing a degree of confidence necessary for proper functioning of an organization. A series of debacles like Enron, WorldCom, and Tycon etc forced organizations all over the world to frame strict guidelines for corporate governance. The developments that have been taken place globally in terms of political, technical & social issues.

According to the Cadbury Report (U.K.), corporate governance is defined as the "system by which businesses are directed and controlled (Cadbury, 1992)." It is a general set of customs, regulations, habits, and laws that resolve how a firm should be run. It is all about transparency and lucidity and raising the confidence and self-belief of various stakeholders like employees, creditors, suppliers, intermediaries, government agencies etc. in the manner the company works. It is about managers and owners working as the trustees of each and every shareholder."

ISSN:2251-1555
The International Journal's
Research Journal of Economics & Business Studies

The prerequisite for a company to engage with society is compliance and effective governance. National Foundation for Corporate Governance (NFCG) which was set up by the Government of India's Ministry of Corporate Affairs, in collaboration with Institute of Company Secretaries of India (ICSI), Confederation of Indian Industry (CII), and Institute of Chartered Accountants of India (ICAI) aims to promote better Corporate Governance practices in India by fostering a culture for encouraging voluntary self compliance , good corporate governance and efficient involvement of different stakeholders and create a structure for ethics, best practices, structure and processes in business thereby raising the standards of Corporate Governance in India. In most of the emerging economies like East Asia, there is a significant contribution of medium sized family owned firms, which account for significant share in market capitalization. In most of the Asian economies there is predominance of concentrated stock ownership and family controlled business. The issues and concerns relating to corporate governance have gained critical importance owing to Asian crises, the reasons for which are poor disclosures and lack of transparency. The problem was magnified when these firms confiscate the interest of minority shareholders. There are many other issues relating to governance practices which have impacted their performance negatively like poor management, less professional competence, less social capital and more conflicts. There is also one strong reason , that higher the magnitude of discretional powers with promoters decreases the earning quality of firms and non family CEOs have a strong tendency to manipulate the earnings. Hence corporate governance mechanism of family home managed firms have to be strengthened to increase the level of trust of outside investors especially foreign investors and cross border acquisitions ,decreases the cost and increases the overall value of the firm. If we see the comparative figure the quality of corporate governance in the developed countries is much better than that in the developing countries. This gulch between the standards of corporate governance in the developed countries and emerging markets is now being progressively recognized. Emerging markets in their efforts to expand and modernize their financial sector have begun to appreciate the fact that good corporate governance systems promotes the development of a strong financial system which in turn will have a positive bang on their economic and financial growth. This is a unique study in the sense that it takes medium sized family business in purview and it also takes corporate governance practices including mandatory and non mandatory practices (SEBI clause 49) along with voluntary measures as suggested by Ministry of Corporate Affairs in their guidelines 2009 i.e. basically enveloping actions which are under compliance and which are beyond compliance for example activities like HR Development, Quality Improvement for benefit of customers, Environment Protection, Health and Safety for its employees and for the welfare of the Society at large which adds to the value of shareholder wealth. In developing economies including India, where ownership is concentrated and large shareholders dominate and influence management, the role of the board becomes all the more important to avoid conflict of interest and protect the interests of minority shareholders. Though an elaborate regulatory framework for corporate governance has been put in place by SEBI and the Ministry of Corporate Affairs, in India, compliance to even the mandatory norms has been slow and limited to the barest minimum, especially by the medium sized family managed companies, where the promoters' equity holding is high at times exceeding even 50 percent of the total. This gives the promoters greater control over their company's operations and may lead to conflicts of interest between the management and other minority shareholders. Conflicts generally arise if promoter directors pursue their own financial interests which result in diminished financial returns to other investors and increased agency costs. In India family businesses contribute significantly to the GDP. Despite their concentrated family ownership and control, their presence is critical to the growth and development of our economy. Our study has therefore proposed to explore the corporate governance practices of this crucial segment of public limited companies and assess their impact on financial performance of these firms. The objective of our study on 'Corporate Governance and Financial Performance of Medium sized Family Managed Companies' is to explore the relationship between corporate governance practices and financial performance of these medium sized family managed companies. Medium sized Family Managed firms were defined for the purpose of study as those having promoters' shareholding at 25 percent or more of the total shareholding and total assets ranging from Rs. 200 crore to Rs. 2,000 crore.

To achieve the objectives of the study the paper is divided into following sections. Section 1 i.e. the present section gives the detailed insights of corporate governance and special issues of governance in family managed business. Section 2 gives detailed review of literature, followed by data and methodology section3. Section 4 gives analysis and interpretations of results, recommendations form the part of Section 5. References are contained in the last section.

2. Review of Literature

The following section gives the extensive review of existing literature in Medium sized Family Managed Companies.

Corporate governance is an important field for research. It has been observed from a list of studies carried out in developed and developing markets that effective corporate governance systems encourage strong financial market which invites more private investment which in turn leads to increased growth and employment .A great deal of research has been done on corporate governance practices and its relationship with various financial parameters for predicting firms performance. It has been found that mostly studies have worked out the relationship between one or two aspects of corporate governance like board size and board independence or presence of institutional investors on the board or duality of CEOs with financial parameters .However studies which have taken large sample base have examined combined effects of all corporate governance parameters as well as each individual parameters separately on different indicators of financial performance. The present study done by us has reviewed a number of studies conducted in India as well as abroad ,and has observed that there is a definite link between good governance and firm performance .It has been found that financial parameters could not be taken as the sole indicators of firm performance .The current and future success of the company depends on customer satisfaction and employee loyalties .Our paper highlights the studies in developed countries and then follow up with some of the studies in developing economies like korea and India. A study conducted in USA by Lawrence D Brown and Marcus L. Caylor of Goergia State University published in 2003, titled, 'Corporate Governance and Firm Performance' is based on data for corporate governance practices of 2372 firms which are related to their financial performance in 2002 .The study depicts that better governed firms are relatively more profitable ,have higher valuation and pays out more dividend to shareholders .If more compensation is paid to directors and executives ,they show good performance . A study 'Does One Size Fit All in Corporate Governance? Evidence from Brazil and other BRIC Countries' conducted by Bernard S. Black, University of Texas at Austin, Law School and McCombs Business School, Antonio Gledson de Carvalhoof Fundacao Getulio Vargas School of Business at Sao Paulo and Erica Gorga of Fundacao Getulio Vargas Law School at Sao Paulo (draft September 2010) has tried to explain that one set of rules – One size- does not fit all .The study shows that a common set of governance practices cannot be beneficial for most firms in most countries .The study has worked out a relationship between corporate governance and market value of a firm in Brazil, which is a large developing economy. The study has further extended its research in three other countries in BRIC but have excluded China and considered Korea. These four country studies have been used to find which governance practices predict high market value of which type of firms and in which countries .The study finds a positive relationship between Brazil corporate governance Index (BCGI measured at year end 2004)and firm market value (measured at year end 2005 and 2006). Review has been done relating to the research work done in developing Asian markets _Taiwan and korea .A study carried out for Taiwan , 'Family Involvement and Family Firm Performance in Taiwan' by En- Te- Chen, Queensland University of Technology, Stephen Gray University of Queensland and John Nowland City University of Hong Kong, has tried to establish a relationship between family involvement and firm performance .Unlike other U.S. based studies ,this study makes a distinction between family members and family representatives .''The impact of Controlling Families and Family CEOs on Earnings Management in Taiwan' is another Study reviewed by us for Taiwan. This study carried out by Mei- Ling Yang Published in the Family Business Review, June 2010, is also based on data obtained from firms in Taiwan. Another interesting Study reviewed by us for Korea, has also tried to establish a relationship between corporate governance and financial performance of firms. 'How Corporate Governance

Affects Firm Value- Evidence on Channels from Korea' – October 2010 carried out by Bernard Black, Northwestern University, School and Kellogg School of Management, Woochan Kim, KDI School of Public Policy and Management, Hasung Jang of Korea University Business School and Kyung Suh Park of Korea University Business School, is a study in which the researchers have developed a broad Korean corporate governance index (KCGI) index, and extended it to the cross- sectional results in an earlier study by Black, Jang and Kim (2006), to a multiyear, firm fixed effects framework: By carrying out the research, the analysts have confirmed that Higher KCGI predicts higher firm market value.- Tobin's Q.

A study has been reviewed relating to the firms in Spain- 'Family Ownership and Control, Presence of other Large Shareholders and Firm Performance M–Spain' by aria Sacristan- Navarro, Silvia Gomez- Anson and Laura Cobeza Garcia.It is based on the data relating to ownership and firm performance of 118 non- financial firms in Spain between 2002 and 2008. Family firms are defined as those which have more than 10 percent of voting rights. Reviewing past research work on the relationship between family ownership and firm performance, the study has quoted several cases where family firms have beaten non- family companies. In fact instead of large category of shareholders, family owners are thought to be more interested in company survival. In another study (Habbershon & Williams, 2000) the same view has been proved. Opposing to the above, there are other opinions that show that families as owners may protect their welfares with governance systems proposed to maximize value. They demand market returns and may prefer to sacrifice efficiency for equity, thus damaging other investors' interests (Lee, 2006). Moreover, families may be concerned with having control of the companies they found or acquire, holding executive positions in the firm as a means of providing high- paying jobs to the children instead of selecting the best managers that the market could provide that is families may extract private benefits from control. However studies in Western European countries have described that family ownership improves performance, especially in well- structured economies. For the United States, McConaughy and Phillips (1999) also report that family ownership has a positive effect on performance, and Anderson and Reeb (2003) find a nonlinear relationship between family holdings and performance. A Study carried out by Pitabas Mohanty at National Stock Exchange, 'Institutional Investors and Corporate Governance Practices in India' attempts to understand the role of institutional investors in the corporate governance system of a company in India. It is generally understood that Institutional investors play a submissive role in the corporate governance practices in India though they are actually nominated by the financial institutions to supervise the accounting and governance practices and also to see that their investments earn expected returns) .'Corporate Governance and Firm Performance: Evidence from India' conducted by Lal C Chugh, University of Massachusetts, Boston Joseph W Meador, Northeastern University and Ashwini Shanth Kumar, University of Massachusetts, Boston, is another study reviewed by us for India. The study has concluded that a company with better governance structure incorporating a larger board size creates better opportunities and can acquire larger resources thus enhancing financial performance. On the other hand an excessively autonomous board with a high proportion of independent directors lowers performance. It also concludes that CEO- duality or one director holding the post of Chairman and MD does not have any measurable synergies with financial performance. 'Insider Ownership and Firm Value – Evidence from Indian Corporate Sector' is a paper prepared by Manoj Pant and Manoranjan Pattanayak, for Indian listed firms. The Paper has examined the effects of insider ownership on corporate value in India. To investigate the relation between equity and firm value, data for 1833 BSE and NSE listed companies for the period 2000- 01 to 2003- 04 have been used. Several studies conducted for the Indian CG system have been reviewed and the results scrutinized. For instance a study by Khanna and Palepu(1999) has suggested that insider ownership has a positive and significant effect on firm value while directors' holding has no perceptible impact. Later in 2005 Sarkar and Sarkar have provided evidence that promoter shareholding has no impact on firm value in case of low growth firms but it has a positive impact on firms with high growth.) 'Firm Level Corporate Governance in Emerging Markets : A Case Study for India, is a more recent Study carried out by N. Balasubramanian, IIM, Bangalore, Bernard Black, University of Texas at Austin and Vikramaditya Khanna, University of Michigan , Law School. The study is based on a survey of 370 public ltd. companies in India carried out in 2006 to assess their compliance with legal norms relating to corporate governance. It has identified areas in which Indian corporate governance is relatively strong and those in which it is weak. On the whole it has concluded that Indian corporate governance rules are more appropriate for larger companies but the regulation regarding related party transactions needs to be strengthened. Besides, the study concludes that there needs to be some relaxation in the regulations regarding smaller companies. It is with the help of the above studies we are able to devise appropriate methodology for our study besides formulating and testing hypotheses which are more applicable in the light of the type of ownership and control of companies in India. From the above review it is clear that overall corporate governance Index has a positive relationship with financial performance of companies across all countries both developed and developing markets, variation occurs in the relationship when different parameters of corporate governance are taken. Again the positive relationship is mostly observed in larger sized manufacturing firms rather than medium or small sized firms where size is measured by value of total assets. The commonly used measures of financial performance are Tobin's Q, Return on Assets, Return on Equity, Profitability, Sales Growth, Share Turnover and Firm Valuation.

3. Data and Methodology

The study is based on secondary data and econometric techniques are used to analyze the data relating to corporate governance and Financial Performance. In this study those parameters are taken which are laid in SEBI Clause 49 of the Listing Agreement of Stock Exchanges with the companies i.e. parameters of corporate governance which included mandatory and non mandatory parameters, voluntary guidelines issued by Ministry of Corporate Affairs in 2009 and some parameters which are beyond the compliance and covered those issues which aimed at creating value for its stakeholders like suppliers, customers and society at large and it also covered some important initiatives like HR development, training ,heath and sanitation initiatives and most importantly initiatives relating to environmental protection. Parameters which had direct or indirect influence on financial performance were selected and were sub divided into sub parameters as per the corporate governance norms. In order to find out the deep impact of corporate governance on financial performance of companies some key financial parameters were selected .These parameters are Profit after Tax, PAT, Price to Book Value Ratio, P/B Ratio, Average Annualized Earnings per share, EPS, Total Sales, Book Value, Total Assets, Total Debt, Return on Capital Employed – ROCE, Return on Net worth – RONW, Interest Coverage Ratio, Debt Equity Ratio, Market Capitalization and Tobin's Q. To empirically establish the relationship sample companies were selected from the database of Mumbai based companies listed on BSE and NSE. All flourishing and leading companies were eliminated and by this group from which the sample was taken taking twin criterion i.e. medium size and family managed business were narrowed and finally about 200 companies were selected in the sample, which were fulfilling this criterion. The data relating to selected parameters of corporate governance and financial performance were taken from capital line data base of annual reports of listed companies for two reference periods 2007 and 2013. Out of total number of companies taken under sample there was a problem in fetching the data hence only 50 companies data entry could be managed on both the parameters .i.e. corporate governance and financial performance.

To establish the relationship between corporate governance and financial performance Regression and step wise regression is used and no control variables i.e. size etc is taken because of small sample size. In order to establish initial interaction between the variables regression is used but mainly the relationship depended upon results emerging from the step- wise regression analysis. The independent variables which have very high influence on the dependent variable were considered and in the second step the variable which has the next highest influence is considered and the process continued till a stage is reached when the independent variables have no significant influence on the dependent variable, by acceptable levels of p- values and t- values. This helped avoiding multicollinearity problems among the independent variables.

4 Analysis and Interpretations of the Results

Corporate governance has been an important area for research these days owing to its importance since 1990s.The debate is not only on type of model i.e. Anglo-Saxon Market Model or Bank based model of Germany and Japan but also extent of regulations required for making effective corporate governance practices. No matter whatever model is adopted by developed country, its practices and implementation is surely better than developing countries. The Government of India and the Indian Capital Market has tried its level best to put in place a robust regulatory framework based on UK-USA model of governance, a number of issues are still not solved and India corporate governance mechanism is still in its evolving stage. These are intrinsic to the nature and type of ownership of firms in India. There are many matters which need further attention and improvement and can put organization on the path of good governance like role of independent directors, duality of CEO and Chairman and level of transparency and accountability maintained by the company in their balance sheets.

The scrutiny of annual reports of sample companies reveal that companies are not adhering to provisions contained in clause 49, which is a listing agreement of companies with the stock exchanges took effect in phases between 2000 and 2003 and few amendments in clause 49 in January 2006. This is a very unwelcome trend in the sample companies as it is proved in many empirical studies that irrespective of the pattern of ownership, there is a positive and statistical significant correlation between financial performance and Tobin’s Q and overall corporate governance index as was done in a study on 296 companies for a reference period 2005 by Barnard Black, N. Balasubranian and Vikramaditya Khanna (2005),this study has also shown that indices of disclosure (to shareholders and analyst) and shareholder rights have a significant positive relationship with firm market value. The objective of this study is to explore the relationship between corporate governance practices and financial performance of a sample of medium sized family managed companies listed on NSE AND BSE excluding the giant companies. Our main focus on corporate governance and its relationship with financial performance attempts to scrutinize this issue of family ownership and control and its impact and bang on financial performance of the company including examining the returns of the minority shareholders. Effective implementation of corporate governance practices in the long term sustainable manner is expected to benefit the shareholders including the controlling shareholders and will result in higher firm valuations in the long run.

A) Regression analysis on data of 2007

To achieve the objective of the study regression analysis is used, to study the impact of corporate governance practices on financial performance of companies. The results are exhibited in Table 1.The empirical findings exhibit a strong relationship between some of the corporate governance parameters of sample firms and their financial performance even with the constraints of data availability and smaller size of the sample.

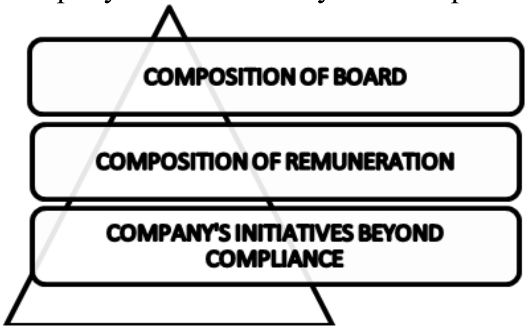
Table 1: Step-wise Regression output for data of the reference year 2007

Dependent variable	R-Square	Independent variable	t-value	p-value
1) Total Assets	0.3214	CBC CRC CIBC	2.13 2.30 2.45	0.001 0.003 0.004
2) Sales	0.2801	DNED CIBC	2.61 2.81	0.00 0.005
3) Interest Coverage Ratio	0.331	MMD DRD WBP	-4.22 2.81 3.11	0.032 0.001 0.004
4) Profit after tax (PAT)	0.1699	CRC MDSHRI	-2.11 3.16	0.002 0.005
5) Average annualized EPS	0.1912	DRPT CB	-4.20 2.51	0.001 0.002

6) Book Value	0.19	DRPT CB	-4.20 2.51	0.001 0.002
7) Return on net worth	0.195	RMI WBP	2.18 2.12	0.001 0.001
8) P/B Ratio	0.171	MMD RNED	-2.01 3.00	0.001 0.002
9) Total debt	0.241	NID CRC	3.11 2.81	0.004 0.002
10)Market Capitalization	0.132	RNEDID	2.81	0.001
11) Tobin's Q	0.120	RNEDID	3.21	0.0023

The analysis exhibits those most important financial indicators which are impacted by corporate governance practices are Total Assets, Total Sales and Interest Coverage Ratio with good R-Square value.

i) **Total Assets**: Total Assets are positively related with Board Composition, Composition of Remuneration Committee and Company's Initiatives beyond Compliance (R- Squared = 0.3214)



i) Figure 1: Total Assets

Total Assets have a significant relationship with Company's Board Composition (CBC). Total assets include current assets like inventories, debtors, loans and advances, investments, fixed assets and other miscellaneous expenditure. A high value of total assets is an indicator of the strong size of the firm in terms of fixed investment like plant and machinery, safe and large financial investments and loans and an excellent current assets situation which is a sign of strong financial potency of the company. In this paper this is a proxy of the company's financial performance which is significantly influenced by composition of board and its other related parameters like separation of the roles of Chairman and CEO, Total number of directors and proportion of promoters and independent directors on board and attendance of directors at the board meetings. It is considered to a good indicator and practices that there is larger number of independent directors, adequate number of promoters who take strategic decisions and regular attendance of board meetings. Hence this index has a high and positive correlation with total assets of the company indicating superior financial strength of the company, with T-Value (2.13) and P-value (0.001).

Total Assets influenced by Composition of the Remuneration Committee (CRC).The composition of this committee is non mandatory, but formation of this is a strong and right step as it is a deterrent to mismanagement of funds as in this committee stipulated numbers of directors are there. This therefore results in a robust asset position as is shown in Table 1, with T value 2.30 and P-value 0.003.

Companies total assets is also strongly influenced by activities which is beyond compliance of mandatory aspects (CIBC) like HR development activities, Performance and quality improvement activities, employees safety related activities etc which are mainly directed towards welfare of all its stakeholders .As a matter of fact the disclosure of all these welfare activities are to be done to all stakeholders including environmental initiatives, but there is a complete paucity in this regard as regards Indian family managed companies. All these activities have made the asset position stronger as is reflected in the higher t- value of Beyond Compliance at 2.451 in relation to total assets and P value (0.004)

ii) Total Sales

Total Sales significantly impacted by Voluntary Disclosures of Remuneration Packages of Non- Executive and Independent Directors and also Measures Beyond Compliance for all Stakeholders , i.e. mandatory, non-mandatory and initiatives beyond compliance(R- Squared = 0.2801).Another important parameter of financial performance is total sales which is a measure of income of the firm from its action along with total assets which designate the operational efficiency of the firm. This position of total sales is significantly influenced by disclosures mainly relating to remuneration of non- executive directors. This is a mandatory disclosure under sub clause IV E of SEBI Clause 49 and also further convoluted and highlighted under Voluntary Guidelines of 2009 which requires more such detailed disclosures, this trend showed positive association with financial parameters way back in 2007 also i.e. disclosure of remuneration relating to Executive Director and Non-executive director. Total Sales which is influenced by Beyond Compliance parameters (non mandatory) i.e. welfare activities and environmental activities affecting all Stakeholders have a positive bearing on total sales of the company owing to evoking of Investor confidence. Higher sales also indicate higher earnings which are generated through better utilization of assets. A higher ratio of sales to total assets shows a more efficient employment of assets and hence better earnings. Thus corporate governance practices impacts financial performance of the companies in a positively as is exhibited in table 1.The results are significant for disclosures of nonexecutive directors (DNED) with T-Value 2.6 and P- value (0.0010) and for company initiatives beyond compliance (CIBC) with T-Value 2.6 and P-Value (0.005).

iii) Interest Coverage Ratio

Interest Coverage Ratio tells us the ease with which a company repays the interest component of its outstanding debt and liability and is used to assess a firm's debt raising capacity. It is given as the ratio of Earnings before Interest and Taxes (EBIT) and Interest Expenses, low ratio indicates high burden of debt. It is considered to a good indicator of financial health of the company. The results exhibit that the value of R- squared for the dependent variable Interest coverage Ratio is significantly higher at 0.331.Interest- Coverage Ratio highly influenced by Mandatory Disclosure of Remuneration of Directors and Presence of Whistle Blower Policy but inversely related to Disclosures in Management Discussion & Analysis (R- Squared = 0.331) Interest- Coverage Ratio highly influenced by Mandatory Disclosure of Remuneration of Directors.

In our Regression Analysis, Interest Coverage Ratio is influenced by three variables of corporate governance (R- squared = 0.331). Firstly and understandably it has a significant and positive relationship at 5 percent level of confidence with Mandatory Disclosure of Directors' Remuneration Including remuneration, shares held and service contracts, and all transactions of nonexecutive directors with the company. This high level of disclosure indicates a higher degree of transparency to the shareholders and analysts and increases revenue and improves the financial health of the company. Interest Coverage Ratio significantly impacted with Presence of Whistle Blower Policy. The sub- clause relating to the establishment of a whistle blower policy is a non- mandatory sub- clause of SEBI Clause 49, which is expected to establish a mechanism for employees to report to management concerns about violation of company's code of conduct, unethical behavior, or suspected fraud. This machinery provides safeguard to all against any unfair treatment and is a good step towards transparency and this also invokes greater investor confidence, better earnings a higher interest coverage ratio.

iv) Profit after Tax:

It is also impacted by corporate governance practices like disclosures on account of revenue composition committee and Disclosure (CRC): Shareholders' Rights to information (MDSHRI). The results exhibit a significant influence of these practices on financial performance of the company, see Table 1.Similar results are obtained in case of EPS, Book Value,, Return on Net worth/B Ratio, Total Debt, Market Capitalization, and Tobin's Q i.e. corporate governance Practices (mandatory, non mandatory and company's initiatives beyond compliance) have a deep influence on the financial

The International Journal's
Research Journal of Economics & Business Studies
ISSN:2251-1555

performance of the company at 5 % level of significance, and significant T -values and P-values respectively.

Regression output based on 2013 data:

In our study period (2007-13), the corporate governance practices have shown a significant rise in sample companies. All the parameters are examined again and have shown a significant rise in R – Square from .300 to .46.Tobin'sQ significantly influenced by Beyond Compliance Initiatives (CIBC), Voluntary Disclosure of Directors' Remuneration packages (RNEDID), Number of Subsidiaries and Associate companies (MNSAC) and Constitution of Remuneration Committee (CRC). All these parameters of corporate governance have revealed a positive and high influence on Tobin's Q. The significant ones being Beyond Compliance parameters which have resulted in value creation not only for shareholders but all other stakeholders especially employees and customers. These welfare and promotional measures being reported in the Annual Reports seem to have enhanced investor trust in these companies resulting in better performance of their equity shares in the market. These practices invoke shareholder's confidence, good reputation of company, transparency and better shareholder involvement. Tobin's Q has also been influenced by number of subsidiaries and associate companies of the company as shown in Regression results see Table 11

Dependent variable	R-Square	Independent variable	t-value	p-value
Tobin's Q	0.4554	CIBC	3.216	0.001
		MMD	-3.031	0.002
		MNSAC	2.89	0.001
		RNEDID	2.67	0.007
		CRC	2.81	0.004
Market capitalization	0.4712	CIBC MMD RNEDID	6.12 -3.81 1.981	0.00 0.02 0.00

Similar trends are seen in case of market capitalization also, with increased R-Square from 0.132 in 2007 to 0.4712 in 2013 (march 31) with significant relationship between corporate governance practices and its impact on financial performance vis –a- vis market capitalization. All other corporate governance parameters have also shown significant rise in Regression –Co-efficient like Profit after tax, Average annualized EPS, P/B ratio, Sales, Book Value Total debt, and Return on Net worth.

5 Conclusion and Recommendations

In conclusion the governance practices which have had the maximum influence on financial performance in 2013 are the initiatives which have created good worth for all stakeholders i.e. the measures taken beyond mere conformity with mandatory and non- mandatory norms and voluntary disclosures relating to remuneration of Non- executive Directors and Independent directors. Apart from their significant influence on Tobin's Q and Market Cap, these have impacted Total Sales, P/B Ratio, Interest coverage ratio and Return on Net worth. Overall results exhibit that in the year 2007 after the amendment in clause 49 and more good corporate practices in place, the corporate governance practices have shown a sturdy rise and in that year relationship of corporate governance and its impact on financial performance was verified and was found to be significant and the relationship was verified again in the year 2013 and during these years the companies had increased their corporate governance practices and the results exhibit better regression coefficients in the year 2013 and the companies were rewarded for their good corporate code of conduct which was clearly shown in market capitalization value and Tobin's Q. As a matter of fact family managed corporate must be very careful about this relationship and must put the corporate on the good governance path.

We recommend that investment in value creation measures for all their stakeholders must be made as this is bound to give in higher returns in the longer perspective.

- A more effective monitoring mechanism must be evolved to ensure better implementation of the norms of corporate governance owing its relationship with financial performance.
- Complying simply with the mandatory norms is not going to be sufficient to attract good quality investors. The procedures and processes adopted which is beyond the mandatory compliance are even more important to yield the desired results.
- Regulatory authorities should play the role of facilitators and advisors to the relatively smaller sized listed companies as with their limited resources they may not be able to adhere to all the requirements of governance, even though they may appreciate the ultimate results.

REFERENCE

➢ 'Corporate Governance and Firm Performance' Lawrence D. Brown & Marcus Caylor- Georgia State University, USA.
➢ Does One Size Fit All in Corporate Governance - Evidence from Brazil and other BRIK Countries' Bernard S. Black, University of Texas at Austin, Law School and McCombs Business School, Antonio de Carvalho , Fundacao Getulio Vargas School of Business at Sao Paulo and and Erica Gorga, Fundacao Getulio Vargas Law School at Sao Paulo.
➢ Family Involvement and amily Firm Performance – Taiwan' En- Te Chen Queensland University of Technology, Stephen Gray University of Queensland,John Nowland, City University of Hong Kong.
➢ The Impact of Controlling Families and Family CEOs on Earnings Management'. Mei- Ling Yang Family Business Review, June 18, 2010.
➢ 'Family Ownership and Control, the Presence of Other Large Shareholders and Firm Performance : Further Evidence' Spain, Maria Sacristan- Navarro, Silvia Gomez and Laura Cabeza- Garcia, Family Business Review, March 21, 2011.
➢ How Corporate Governance Affects Firm Value – Evidence on Channels from Korea'.
➢ Bernard S. Black Northwestern University, Law School and Kellogg School of Management, Woochan Kim, KDI School of Public Policy and Management, Hasung Jang, Korea University Business School Kyung- suh Park Korea University Business School.
➢ Family Ownership and Control, Presence of other Large Shareholders and Firm Performance – Spain', Maria Sacristan- Navarro, Silvia Gomez- Anson and Laura Cobeza Garcia.
➢ 'Institutional Investors and Corporate Governance Practices in India' – Pitabas Mohanty – National Stock Exchange.
➢ 'Corporate Governance and Firm Performance: Evidence from India', Lal C Chugh, University of Massachusetts, Boston, Joseph W Meador, Northeastern University, Ashwini Shanth Kumar, University of Massachusetts, Boston.
➢ 'Insider Ownership and Firm Value – Evidence from Indian Corporate Sector', Manoj Pant and Manoranjan Pattanayak.
➢ Firm Level Corporate Governance in Emerging markets : A Case Study for India' (February 2008), N. Balasubramanian, IIM, Bangalore, Bernard Black, University of Texas at Austin, Vikramaditya Khanna, University of Michigan , Law School.
➢ Database –Prowess by CMIE.
➢ Database - Capitaline