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Impact of Corporate Governance on Financial Performance of Indian Electronic Consumer Goods Firms

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Abstract

Corporate governance refers to the set of systems, principles and processes by which a company's governed. It provides the guidelines to the companies how the company can be directed and controlled. In this context, an attempt has been made in this paper to explore the possible impact of corporate governance on financial performance in Indian Electronic consumer goods firms. A sample of seven Electronic consumer goods companies from India is studied based on the Corporate Governance practices that are being followed by them which have been selected by their market capitalization. The focus was on some corporate governance mechanisms such as board size (BS), audit committee meeting (ACM), and audit committee independence (ACI). The dependent variables are return of assets (ROA), return on capital employed (ROCE). While the control variable is firm-size. The analysis results revealed a significant relationship between corporate governance variables (board size, audit committee meeting, firm size) and performance of the company as measured by return on assets and return on capital employ. However, the findings revealed that only audit committee independent had significant relationship with performance when using accounting measure (return on assets and return on capital employ). This study contributes to the literature by providing an analysis of the impact of corporate governance on financial performance in Indian Electronic consumer goods firms.

Key words: Corporate Governance, Financial Performance, Electronic Firms, India

1. Introduction

Corporate advisory services are offered by the advisory firms. It is done to maintain the efficiently activities of

companies to ensure stability and growth of the business, most importantly the reputation and reliability for customers and clients. The top management of a firm consists of the board of directors is responsible for governance along with its financial performance. They must have effective control over its affairs of the company to maintain the interest of the company and minority of shareholders. Corporate governance ensures strict and efficient application of management practices along with changing business scenario in India. As these checks proved inadequate, SEBI constituted a series of committees — Kumar Mangalam Birla Committee in 2000, Narayana Murthy Committee in 2003 and Adi Godrej Committee in 2012 — to come up with more elaborate governance norms for India Inc Alahdal & Prusty (2016). Corporate governance followed Clause 49 of the Listing Agreement before introduction of the Companies Act of 2013. As per the new provision, SEBI has also approved certain amendments in the Listing Agreement to improve the transparency in transactions of listed companies and it also helps minority stakeholders in influencing the decisions making of the management. These amendments have become effective from 1st October 2014. The Indian Companies Act of 2013 introduced some progressive and transparent processes which benefit stakeholders, directors as well as the management of companies. Investment advisory services and proxy firms provide concise information to the shareholders about these newly introduced processes and regulations, which aim to improve the corporate governance in India.

Financial performance used to know firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. (Dhaliwal et al., 2007)mentioned that quality of financial reporting and the effectiveness of the audit committee are correlated to each other. Their analysis give us the idea that the level of independent audit committee will enhance the quality of accounting. These is important because shareholders require good quality of financial statements to make correct judgments and decisions. So, Audit committee should prepare good quality of financial statements and to keep along with the changes in accounting standard. Financial performance analysis is the process of

identifying the financial strengths and weaknesses of the firm. There must be good relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long-term forecasting and growth of the organization. It can be derived with the help of financial performance analysis Al-ahdal et al., (2018). The analysis of financial statement is a process of evaluating the relationship between the component parts of financial statement and it's done to get better understanding of the firm's position and performance respectively. This analysis should be undertaken by the management of a firm or by parties outside the namely, the owners, the creditors and the investors Tabash et al., (2017).

1.1 Problem of the statement

There is no system of governance can fully protect a company. Company has their own distinctive structure and characteristics with the globally complex business environment. It is almost impossible to confirm a standard set of guidelines for the company. A company required to perform strict review of its corporate governance practice from time to time to minimize the risk its financial performance too. A good corporate governance framework will reduce the agency problem and attract many investors to invest into the company and company's financial performance is important because it will be used for decision making purposes by the investors, shareholders, suppliers, customers and the company itself.

1.2 Objective of the Study

To examine the impact of Corporate Governance on financial performance in Indian electronic consumer goods firms.

1.3 Significance of the study

The significance of the corporate governance has arisen because of the increasing concern of the non-compliance of standards of financial reporting and accountability by board of directors and management of corporate inflicting heavy losses to the investors. Financial Performance in a broader sense refers to the degree of the financial objectives being or has been accomplished in the case of finance risk management. So, it is measure the results of a firm's policies and operations in monetary terms. Most importantly good corporate governance will attract more investors to invest in a company because it helps to protect their investments. This study will provide an additional view to

the current literature based on the impact of corporate governance on financial performance in Indian electronic consumer goods firms.

2. Literature Review

In India Corporate governance concept emerged after the second half of 1996 due to economic liberalization and deregulation of industries and businesses. As a regulator of securities market The Securities and Exchange Board of India had begun to seek equity capital in financial expansion. That helps to reform the corporate governance and based on it many initiatives have been launched in India. Corporate governance need arises due to separation of management from the ownership and its financial performance. A firm need to concentrate on their economic and social aspect. So, it must be fair with producers, shareholders, customers etc. It has various responsibilities towards employees, customers, communities and at last towards governance Al-ahdal et al., (2016). Firm's financial performance referred to measure the effectiveness of organization of its internal as well external actions or operations. Now-a-days, the performance of the organization is considered as the body of the organization because if the performance of a firm is well enough only than its growth would be enhanced.

The performance of the firm can be seen from its financial statements which are reported by the company. Basically the success of the firm is measured through its financial performance which is analyzed through different tools and techniques. These indicators brings out the internal performance of the company and shows the earning aspect of the company. Many studies have been done on various aspects of corporate governance and its impact on the financial performance for example, Abdullah & Ismail (2017), explored the relationship between corporate governance and performance by different levels of concentrated ownership and also by different types of ownership. The sample consists of all firms listed in the GCC region (581 Companies) from 2008–2012. They found that the positive relationship between governance quality and firm performance is maintained and is stronger at low levels of concentrated ownership. Also, Mohamed et al., (2016) focused on corporate governance practices among top 100 public listed companies in Bursa Malaysia from 2008 to 2012, and the relationship between

corporate governance practices with firm performance. The result showed that board size has significantly weak negative relationship with ROA but it was found to be insignificant to ROE. The other finding indicated that there was no relationship between board independence and firm performance. In addition, Zabri et al., (2016) have focused on corporate governance practices among top 100 public listed companies in Bursa Malaysia and the relationship between corporate governance practices with firm performance. Two corporate governance's indicators (Board size and Board Independence) were chosen in testing the hypothesized relationship between corporate governance practices with firm performance, which was measured by return on asset (ROA) and return on equity (ROE). The result showed that board size has significantly weak negative relationship with ROA but it was found to be insignificant to ROE. The other finding indicated that there was no relationship between board independence and firm performance. Furthermore,Bhardwaj and Rao (2014) they have found that majority of companies studied are merely complying to mandatory requirements and disclose information required by the revised clause 49 while few companies such as Bajaj auto, Infosys, Dr. Reddy, etc. are disclosing information beyond the mandatory levels as required by clause 49.Moreover, Aggarwal (2013) has investigated the impact of corporate governance on corporate financial performance in Indian context, using a sample of 20 companies listed on S&P CNX Nifty 50 Index. Various tests like – regression, correlation, t-test and F-test have been performed using secondary data over a period of two years from FY 2010-11 to FY 2011-12 to study this linkage. They have also controlled for size of firm. They found that governance ratings have positive and significant impact on corporate financial performance.

In another context, Gupta & Sharma (2014) has studied various Corporate Governance practices followed by companies in India and South Korea. A sample of five multinational companies from each country is studied based on the Corporate Governance practices that are being followed by them. The study has checked whether higher and better corporate governance scores lead to better performance of the companies. It is found in the study that corporate governance practices have limited

impact on both the share prices of the companies as well as on their financial performance. Likewise, Sayilir (2012) has explored the relationship between firm value and corporate governance (CG) of Turkish companies. The findings of the study do not support the hypothesis that better corporate governance is associated with higher firm values and better performance. Alali et al., (2012) explained the impact of corporate governance on the performance of listed companies in India. The major findings of the present study were that all the dependent variables i.e. firm value/Tobin Q, Market Value/Book Value and Market capitalization were positively correlated with corporate governance score of nifty 50 companies.

3. Methodology: Population and Sampling

3.1 Research Methodology

This study focused on impact of corporate governance on financial performance in Indian electronic consumer goods firms. Data were collected from the period 2010 to 2017 on dependent and independent variables of the research model i.e., return on assets, return on capital employed, compared with the Board Size, Audit Committee Meetings and Audit Committee Independence. The consumer electronics industry in India recorded another stagnant in 2017, and this was mainly due to a slowdown in demand from institutions for products such as laptops and computers. According to Euromonitor International's Economies and Consumers data, real GDP growth of the country slowed down to 7.1% in 2017, compared to 8.0% in the previous year. This slowdown forced many businesses in India to increase the lifecycles of computers and peripherals, thus slowing down replacement demand. So it is required to know more about the corporate governance of the companies in this sector. The sample comprises of all companies from electronic consumer good which are listed on the Market of Indian stock exchanges and they are Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) and these companies have been selected based on market capitalization. If there is incomplete or unavailability data due to new listing status, it will be excluded from the sample. Thus, the paper is based on pure secondary data which has been taken out from Prowess IQ a database of Indian companies, Money

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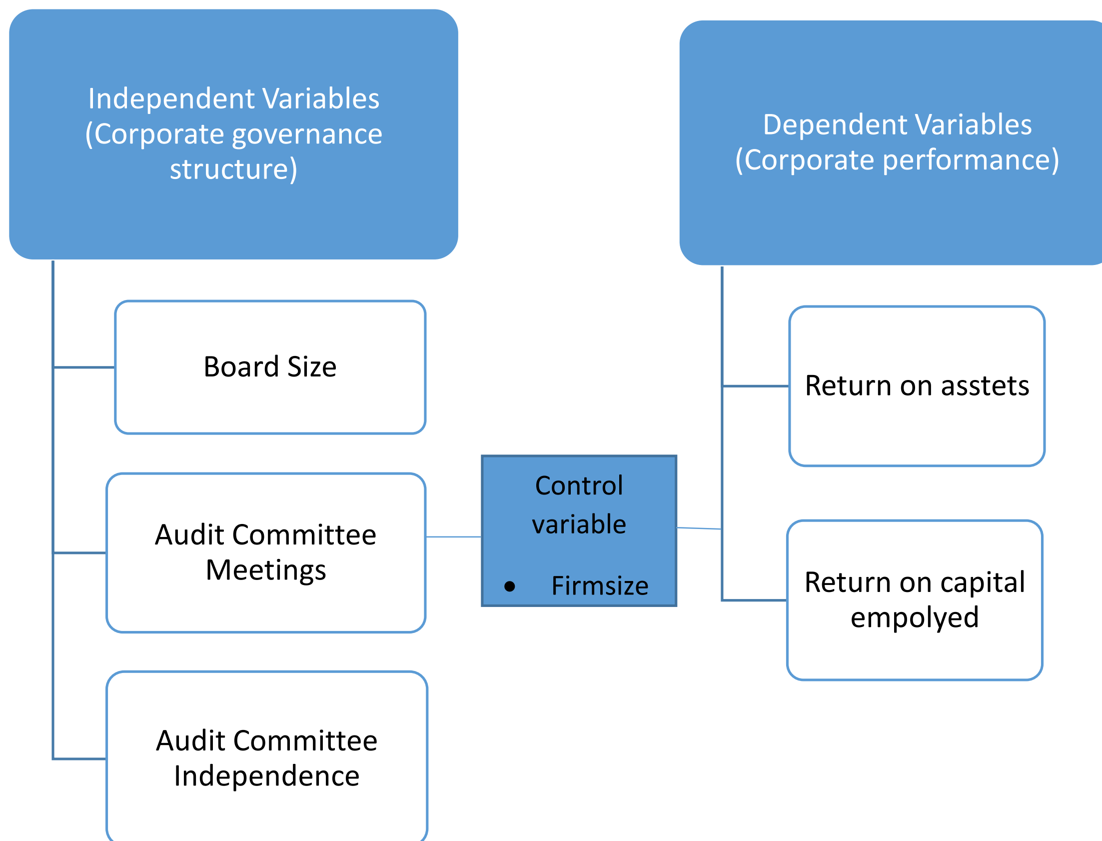
control website[4], books and journal. Data relating to the sample companies has been gathered from annual reports which are available at those respective companies. This study had performed statistical analysis by using Statistical Package for the Social Sciences (SPSS) to test the hypotheses. The SPSS had performed descriptive statistical analysis, correlation test and regression analysis.

3.2 Study Model

The figure below is the study model used to examine the effect of corporate governance on the firm's performance.



[4] Money control is India's leading financial information source. See https://www.moneyworks4me.com

3.3 Hypotheses of the study

H01: There is no significant relationship between Board Size and return on assets.

H02: There is no significant relationship between audit committee meeting and return on assets.

H03: There is no significant relationship between audit committee Independence and return on assets.

H04: There is no significant relationship between firm Size and return on assets.

H05: There is no significant relationship between Board Size and return on capital employ.

H06: There is no significant relationship between audit committee meeting and return on capital employ.

H07: There is no significant relationship between audit committee Independence and return on capital employ.

H08: There is no significant relationship between firm Size and return on capital employ.

3.4 Model Specification

This economic model is used to examine the relationship between corporate governance and firm's $ROA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 ACM_{it} + \beta_3 ACI_{it} + \beta_4 FSIZE_{it} + \varepsilon_{it}$

$$ROCE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 ACM_{it} + \beta_3 ACI_{it} + \beta_4 FSIZE_{it} + \varepsilon_{it}$$

3.5 Variables Definition

A. Dependent variables:

1. Return of Assets = net income over total assets at the end of the year.
2. Return on Capital Employed = it can analyze by the profit before tax / total issued capital.

B. Independent variables:

1. Board Size = Total number of directors sits in the board.
2. Audit Committee Meeting = Number of meetings held in a fiscal year.
3. Audit Committee Independence = Number of independent directors in the committee.

C. Control variable

1. Firm size = Natural logarithm of total assets.

4. Findings

4.1 Descriptive Statistics

Descriptive statistics of the variables used to estimate the regression models are summarized in Table 1. It is obvious from the table that the mean of performance measures

(accounting-based measures) for electronic consumer goods firms. The mean of corporate performance measured by ROA for the sample as a whole during 2010–2017 was 14.8966; ranging from –122.08 to 523.13. Similarly, the mean of corporate performance measured by ROCE was -61.0357. These are the dependent variables.

Table 1: Descriptive statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on assets	56	-122.08	523.13	14.8966	85.80240
Return on capital employed	56	-2784.70	84.22	-61.0357	378.90637
Board Size	56	3.00	9.00	6.2266	1.62527
Audit committee meeting	56	4.00	6.00	4.2938	.51502
Audit committee independence	56	3.00	6.00	3.6157	.74233
Firm Size	56	-.33	8.95	4.4154	2.37312

The independent variables consist of corporate governance variables, i.e. board size, and audit committee meeting and audit committee independence. On the other hand here firm size is the control variables. Board size mean value is 6.2266 for the period between 2010 and 2017. The optimal board size is 5 to 6 directors in order to form an effective board. For the period from 2010 to 2017, the minimum board size is 3 members and maximum board size is 9 members. Board size is important as directors sitting in the board to take decisions regarding the effective running of the firm. In audit committee meeting the mean value is 4.2938 and here the minimum number of meeting held during 2010 to 2017 were 4 and the maximum number of meetings were 6. In the case of audit committee independence the minimum number of members were 3 and the maximum numbers were 6. This actually shows the strength of the firms and its performance. As a control variables firm-size its mean value is 4.4154 and its range between -.33 to 8.95.

4.2 Correlation analysis

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Table 2 presents the correlation matrix for the dependent and independent variables. Although the table reveals a number of significant correlations among the explanatory variables, the correlation coefficients are fairly small and hence multicollinearity does not seem to pose any problem. It is worth mentioning that based on the observed high correlation between ROA and ROCE, The correlation coefficient for many pair of variables is weak. However, there are three pairs that show a moderate correlation.

The first pair is Firm-size and audit committee independence with a negative correlation coefficient of -0.060. The second pair is Board-size and audit committee independence with a positive correlation coefficient of 0.316*. The third pair is audit committee meeting and audit committee independence with a negative correlation coefficient of -0.006.In the fourth, pair is ROA and audit committee independence with a positive correlation coefficient of 0.336*. Fifth pair is ROCE and audit committee independence with a negative correlation coefficient of -0.274*.

At last, pair is Board-size and audit committee independence with a positive correlation coefficient of 0.316*. Since the correlations are relatively low, it indicates there is no multicollinearity problem and thus all the variables in the equal can be taken into the subsequent regression analysis. A rule of thumb is correlation coefficients should not exceed 0.80 where multicollinearity could be a problem Gujarati (1999).

Table 2: **Correlations**

	Return on Assets	Return on Capital Employ	Firm size	Board Size	Audit Committee Meeting	Audit Committee Independence
Return on assets	1					
	-.501**	1				

Return on capital employ						
Firm size	-.330*	.294*	1			
Board Size	-.113	.136	.424**	1		
Audit committee meeting	-.079	.099	.250	.060	1	
Audit committee independence	.336*	-.274*	-.060	.316*	-.006	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

4.3 Regression analysis

4.3.1 Results based on ROA

Adjusted R Square	Change Statistics		
	R Square Change	F Change	Sig. F Change
.157	.218	3.562	.012

Table-3: ROA Model Summary

From the above table-3, it is found that the adjusted r-square model is 0.157 suggesting that this model (through its variables; Board-size, Firm-size, Audit committee and Audit Committee Independence) can aggregately determine Q-ratio by 15.7%. Moreover, this model has an F-value of 3.562 affirmed that this model is significant at α = 0.05 and Sin. F change is 0.012. Therefore, linking these two results together suggest that this model is

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Table- 4: Regression of ROA-Ratio on Corporate Governance Characteristics

Model- 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-50.640	105.700	---	-.479	.634	---	---
Board Size	-6.174	7.811	-.117	-.790	.433	.700	1.428
Audit committee meeting	-.995	21.340	-.006	-.047	.963	.934	1.071
Audit committee independence	41.289	15.493	.357	2.665	.010	.853	1.172
Firm Size	-9.294	5.239	-.257	-1.774	.082	.730	1.370

a. Dependent Variable: Return on assets

b. Represent the significance at the 5% level

both strong and sound model to be used for analysis.

Table 4 reports the results from the regression model 1. The significance of each variable is obtained at 0.05. Table 4 mainly shows the relationship among them. Those are Firm-size, Board-size, Audit committee meeting and Audit Committee independence. The result shows that the model 1 can predict the dependent variable using all independent variables. Since the significant is 0.012, it is suggested that model 1 has predictive value.

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Hypothesis 1 suggested that there is no significant relationship between Board Size and return on assets. The variable board size (BSIZE) has a significant positive relationship with market performance with p-value equal to 0.433 ($p<0.05$). Hence hypothesis 1 can be accepted. A larger board size can improve corporate performance. The higher the board size, the higher the Q-ratio. From the result, one can make a distinction that a bigger board size would produce better future performances. Logically, this is feasible, as a bigger number of board members would improve the diversity of perspective and ideas that are necessary in making sound decision. This in turn would produce better strategy for the company to follow.

Hypothesis 2 suggested that there is no significant relationship between audit committee meeting and return on assets. As illustrated in table 5, the variable number of audit committee meeting has a significant positive effect on market performance with p-value equal to 0.963 ($p<0.05$). Hence hypothesis 2 can be accepted. Audit committee is important to get the firms reports and accounts to be audited and to make all the financial activities in accurate figures. The best choice will ideally increase productivity and income as well as reduce asset costs, so it is helpful for audit committee meeting.

Hypothesis 3 suggested that there is no significant relationship between audit committee Independence and return on assets. The variable number of audit committee independence meeting has a significant positive effect on market performance with p-value equal to 0.010 ($p>0.05$). Hence, there is no significant relationship between audit committee Independence and return on assets. So, hypothesis 3 is rejected.

Hypothesis 4 there is no significant relationship between firm Size and return on assets. The variable number of audit committee meeting has a significant positive effect on market performance with p-value equal to 0.082 ($p<0.05$). Hence hypothesis 4 can be accepted. Here, return on assets cannot help significantly to increase or reduce the size of firm.

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By using the above regression results, a regression frame work is as follows:

$$ROAit = \alpha + \beta 1BSit + \beta 2ACMit + \beta 3ACIit + \beta 4FSIZEit + \varepsilon it$$

4.3.2 Results based on ROCE

Table- 5: ROCE Model summary

Adjusted R Square	Change Statistics		
	R Square Change	F Change	Sig. F Change
.102	.168	2.568	.049

From the above table 5, it is found that the adjusted r-square model is 0.102 suggesting that this model (through its variables; Board-size, Firm-size, Audit committee and Audit Committee Independence) can aggregately determine Q-ratio by 10.2%. Moreover, this model has an F-value of 2.568 affirmed that this model is significant at α = 0.05 and Sin. F change is 0.049.

Hypothesis 5 There is no significant relationship between Board Size and return on capital employ. The variable number of audit committee meeting has a significant positive effect on market performance with p-value equal to 0.353 (p<0.05). Hence hypothesis 5 will be accepted. Board size depend on the number of members setting in the meeting of the board, here capital employ cannot affect board size of the firm.

Hypothesis 6 there is no significant relationship between audit committee meeting and return on capital employ. The variable number of audit committee meeting has a significant positive effect on market performance with p-value equal to 0.780 (p<0.05). Hence hypothesis 6 will be accepted. Audit committee meeting there it will depend on the number of audit member and how many times are they going to organize meeting it's depend on that. So there is no significant relationship with return of capital employ.

Table- 6: Regression of ROA-Ratio on Corporate Governance Characteristics

Coefficients [a]

Model- 2	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	35.137	481.681		.073	.942		
Board Size	33.382	35.597	.143	.938	.353	.700	1.428
Audit committee meeting	27.347	97.247	.037	.281	.780	.934	1.071
Audit committee independence	-156.641	70.604	-.307	-2.219	.031	.853	1.172
Firm size	32.822	23.876	.206	1.375	.175	.730	1.370

a. Dependent Variable: Return on capital employ

b. Represent the significance at the 5% level

Hypothesis 7 there is no significant relationship between audit committee Independence and return on capital employ. The variable number of audit committee meeting has a significant positive effect on market performance with p-value equal to 0.031 ($p>0.05$). Hence hypothesis 7 will be rejected. Audit committee independence is depend on the members of the committee not the capital employ.

Hypothesis 8 there is no significant relationship between audit committee meeting and return on capital employ. The variable number of audit committee meeting has a significant positive effect on market performance with p-value equal to 0.175 ($p<0.05$). Hence hypothesis 8 will be accepted.

By using the above regression results, a regression frame work is as follows:

$$ROCE_{it} = \alpha + \beta_1 BS_{it} + \beta_2 ACM_{it} + \beta_3 ACI_{it} + \beta_4 FSIZE_{it} + \varepsilon_{it}$$

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Table- 7: Summary of the research result

Hypothesis	Hypothesis statement	P	Results
H1	There is no significant relationship between Board Size and return on assets	.433	Accepted
H2	There is no significant relationship between audit committee meeting and return on assets	.963	Accepted
H3	There is no significant relationship between audit committee Independence and return on assets	.010	Rejected
H4	There is no significant relationship between firm Size and return on assets	.082	Accepted
H5	There is no significant relationship between Board Size and return on capital employ	.353	Accepted
H6	There is no significant relationship between audit committee meeting and return on capital employ	.780	Accepted
H7	There is no significant relationship between audit committee Independence and return on capital employ	.031	Rejected
H8	There is no significant relationship between firm Size and return on capital employ	.175	Accepted

5.1 Conclusion

The study provides the valuable results regarding the impact of corporate governance on financial performance in Indian electronic consumer goods firms. Corporate governance practices becoming most important aspect for the development of the firm. The analysis of corporate governance and its impact on financial performance is helpful to understand the actual performance of the firm also. This detailed analysis is based on the huge collection of data from various sources and provides reasonable logic for further study.

This study conducted using data of seven Indian electronic consumer goods firms listed on Indian stock exchanges and collected based on market capitalization for the period of 2010 to 2017. Here we have examined 3 corporate governance variables, which are- Board-size, Audit Committee Meeting and Audit Committee Independence. Including it 2 corporate governance performances are also examined and these are Return on Assets (ROA) and Return on Capital Employed (ROCE) and firm-size as control variable. Hypothesis analysis gives the idea of the study to know either that variables should be accepted or rejected, based on that we can take decision. The analysis shows a significant relationship between corporate governance variables like- board size, audit committee meeting, firm size and performance of the company as measured by return on assets and return on capital employ. However, the findings revealed that only audit committee independent has significant relationship with performance when using accounting measure, these are- return on assets and return on capital employ. The study match with (Al-Matari et al.2014; Bansal & Sharma, 2016)

5.2 Limitations and Future Research

This study work is very useful to understand the impact of corporate governance on financial performance in Indian electronic consumer goods. This study only taken the internal factors but the external factors are also required for the firms, like- rules and regulations, political influences, change in inflation rate and etc. Moreover ,This study only consist of top seven electronic consumer goods firms based on its market capitalization, but it can be extended to all the Indian electronic consumer goods firms. So, we can get the actual conditions of electronic consumer goods firms in India.

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