

Can the financial performance of the companies improve the corporate governance disclosure practices: An Empirical Evidence From CNX NIFTY Junior.

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Abstract:

Nowadays corporate governance essence is realized by all the corporate governance and they started giving priority to the governance disclosure. the main objective of the study to initiate this to know whether there is any relationship between financial performance of the companies and corporate governance disclosure practices . for the study we have taken CNX NIFTY junior as sample size and for measuring the corporate governance disclosure practices an corporate governance disclosure index is computed based on clause 49 checklist items, for measuring the financial performance proxies like Return on assets, net profit, total sales, total assets considered and tested the relationship between both by using the multiple regression techniques. The study found that there is a positive relationship between financial performance and corporate governance disclosure practices. The study suggests that to gain the shareholders and investors confidence and faith all corporate companies should follow or implement the better governance practices that will create a positive image to the company

Keywords: *Corporate governance, Corporate governance disclosure practices, financial performance, Return on assets, total sales, total assets, net profit.*

Introduction :

The momentum of Corporate governance attained after taking place of several scandals like Enron, Worldcom, Xerox, Lehman brothers, and Satyam. lack of transparency and poor disclosures in annual reports are blocking the shareholders from ascertaining the well being of the corporate companies. As a consequence investors are urged for improvements in governance practices which leads to the implementation of corporate governance codes. Due to Globalization To attract foreign investors and to meet the various countries' regulatory requirements nowadays corporate companies have realized the importance of governance practices.

The concept of corporate governance has defined in different ways organization for Economic co-operation and development(OECD) has defined corporate governance as,” procedures and processes according to which an organization is directed and controlled . the corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization – such as the board, managers, shareholders and other stakeholders and lays down the rules for decision making.”

The concept of corporate governance has gained public attention in the early '90s in India. In 2000 SEBI introduced mandatory corporate governance code in the place of voluntary one through the clause of 49 of listing agreement .the term clause 49 refers to clause number 49 of the listing agreement between a company and the stock exchanges on which it is listed. Many of the studies have done on corporate governance in India but all studies were considered only blue-chip companies, in this we considered CNX NIFTY junior.

Objectives of the study :

1. To measure the corporate governance disclosure practices
2. To examine the relationship between corporate governance disclosure practices and financial performance of the companies.

Literature Review

(Sachdeva, Batra, & Walia, 2015) Examined the corporate governance disclosure practices of BSE Sensex thirty companies, for measuring the corporate governance disclosure an corporate governance index has been computed. The study found that corporate governance disclosure practices were gradually increased in the study period

(Hossain*, 2008) Analyzed the thirty-eight Banks corporate governance disclosure practices, for measuring the corporate governance disclosure practices, corporate governance disclosure index computed based on 46 items and also tested whether there is any relationship between corporate governance disclosure and corporate attributes by using regression analysis technique. the study found

that size, board composition, and profitability significantly influenced the corporate governance disclosure practices.

(Sharma & Singh, 2018) Conducted a study on corporate governance and the relationship between firm performance by using 121 companies as a sample from the Bombay stock exchange. to test the relationship between corporate governance and firm performance multiple regression techniques has applied, the study found that a higher level of board activism, higher disclosure standards, effective audit committee strongly influenced the firm performance.

(Bhardwaj & Rao, 2014) Analyzed corporate governance disclosure practices of Nifty companies .for analyzing corporate governance disclosure practices Revised clause 49 of the SEBI guidelines used. the study found that most of the companies were following mandatory provisions of revised clause 49 guidelines.

(Beevi & Muraleedharan, 2018) Analyzed the corporate governance disclosure practices of TCS company . for measuring corporate governance disclosure practices an corporate governance disclosure index has computed based on 65 governance-related items. The study found that company overall governance disclosure was good and complying with corporate governance according to regulatory framework guidelines.

(Kalashree & Rajashekar, 2018) conducted a comparative study for large and mid companies for analyzing the corporate governance disclosure practices of fifty-three pharmaceutical companies. For measuring the corporate governance disclosure practices a corporate governance disclosure index has computed based on clause 49 listing agreement prescribed by SEBI. The study found that there was a difference between large and mid companies in terms of corporate governance disclosure practices.

(Rajput, Kaur, & Arora, 2012) examined the corporate governance disclosure practices of NIFTY companies. for measuring the corporate governance disclosure practices, clause 49 of listing agreement prescribed by SEBI has taken into consideration. The study found that ten companies were complied as per the guidelines of clause 49 listing agreement and remaining companies were not complied up to the mark.

(Rouf, 2012)Analyzed the corporate governance disclosure practices of ninety companies in Bangladesh. Corporate governance disclosure practices were measured by computing a corporate governance disclosure index based on 40 items and also tested the relationship between financial performance and corporate governance disclosure practices by using an OLS technique. The study revealed that the profitability of the firms influences positively corporate governance disclosure practices of the firms.

(Bhasin, 2010)analyzed the corporate governance disclosure practices of Reliance industries limited. for measuring the corporate governance and disclosure practices an corporate governance disclosure index is computed based on 85 items. the study found that RIL overall governance disclosure practices very well and complying governance practices in all aspects.

(SAWALQA, 2014)examined the 13 banks to analyze the corporate governance and disclosure practices in Jordan . for measuring the corporate governance and disclosure practices a voluntary disclosure index

is computed based on 35 items. The study revealed that the overall bank's governance disclosure practices were 90.2% and on the other hand study observed that lower compliance by the banks related to the audit committee.

The methodology of the study :

The study is based on secondary data. For study CNX fifty junior companies chosen as sample size and the annual reports of the companies 2020 year collected from the company websites . for measuring the corporate governance disclosure practices, a checklist of clause 49 mandatory items from ten different classified items considered for the study (Appendix -1). The score one is assigned if the company discloses a particular item and score zero is assigned if the company does not disclose a particular item.

Multiple regression analysis techniques have been used To test the relationship between corporate governance disclosure practices and financial performance of the company .for measuring the corporate governance disclosure an corporate governance disclosure score considered and for measuring the financial performance various proxies considered like Return on assets, net profit, total sales, total assets.

Model construction

$$CGD = a + \beta_1 ROA + \beta_2 NP + \beta_3 TS + \beta_4 TA + \epsilon$$

Dependent variable

CGD= Corporate governance Disclosure

Independent variables

ROA= return on Assets

NP= Net profit

TS= Total sales

TA= Total Assets

ϵ a = total constant, and

ϵ = the error term

Hypotheses

The following are the hypotheses have been tested in the study

H₁: The level of corporate governance disclosure practices positively associated with the high Return on assets

H₂: The level of corporate governance disclosure practices positively associate with the higher net profit

H₃: The level of corporate governance disclosure practices positively associated with the huge total sales

H₄: The level of corporate governance disclosure practices positively associated with higher total assets.

Results & Discussions

Table 1: shows company wise corporate governance disclosure score

S.no	Company Name	Corporate Governance Disclosure score	Percentage of disclosure
1	Adani Enterprises Ltd	70	87.5
2	Aditya Birla Nuvo Ltd	65	81.25
3	Andhra Bank	71	88.75
4	Ashok Leyland Ltd	68	85
5	Asian Paints Ltd	72	90
6	Bank of Baroda	68	85
7	Bank of India	69	86.25
8	Bharat Electronics Ltd	73	91.25
9	Bharat Forge Ltd	60	75
10	Biocon Ltd	70	87.5
11	Canara Bank	67	83.75
12	Colgate Palmolive (India) Ltd	60	75
13	Container Corporation of India Ltd	64	80
14	Corporation Bank	68	85
15	Crompton Greaves Ltd	68	85
16	Cummins India Ltd	67	83.75
17	Exide Industries Ltd	66	82.5
18	Federal Bank Ltd	68	85
19	GMR Infrastructure Ltd	73	91.25
20	Glaxosmithkline Pharmaceuticals Ltd	67	83.75
21	Glenmark Pharmaceuticals Ltd	67	83.75
22	Grasim Industries Ltd	73	91.25
23	Hindustan Petroleum Corporation Ltd	75	93.75
24	Housing Development and Infrastructure Ltd	71	88.75
25	IDBI Bank Ltd	69	86.25
26	IFCI Ltd	68	85
27	Indiabulls Real Estate Ltd	67	83.75
28	Indian Hotels Co. Ltd	67	83.75
29	Indian Overseas Bank	68	85
30	JSW Steel Ltd	70	87.5
31	LIC Housing Finance Ltd	71	88.75
32	Lupin Ltd	70	87.5
33	Mangalore Refinery & Petrochemicals Ltd	64	80
34	Mphasis Ltd	65	81.25
35	Mundra Port and Special Economic Zone Ltd	66	82.5
36	Oracle Financial Services Software Ltd	64	80

37	Patni Computer Systems Ltd	65	81.25
38	Power Finance Corporation Ltd	66	82.5
39	Punj Lloyd Ltd	68	85
40	Rural Electrification Corporation Ltd	69	86.25
41	Shriram Transport Finance Co. Ltd	68	85
42	Syndicate Bank	65	81.25
43	Tata Chemicals Ltd	68	85
44	Tech Mahindra Ltd	69	86.25
45	Torrent Power Ltd	67	83.75
46	UltraTech Cement Ltd	70	87.5
47	Union Bank of India	70	87.5
48	United Phosphorus Ltd	70	87.5
49	United Spirits Ltd	68	85
50	Yes Bank Ltd	67	83.75

From the above table, it can be observed that the top five companies disclosing corporate governance practices are HPLC(93.75%), Bharat Electronics Ltd (91.25 %) Grasim industries limited (91.25 %), GMR infrastructure limited (91.25 %) Andhra bank (88.75 %). the lowest disclosure by the following companies Bharat forge Pvt ltd (75%), Colgate (75%).

Table 2: Pearson Correlation analysis results (N=50)

Variables	CGD	ROA	NP	TS	TA
CGD	1.00				
ROA	0.380	1.00			
NP	0.010	0.012	1.00		
TS	0.196	0.253(**)	0.216	1.00	
TA	0.481	0.016	0.253	0.101	1.00

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

The above table reveals that there is a positive relationship between corporate governance disclosure and financial performance variables.

Table 3: Multiple Regression Analysis (N=50)

Variables	Beta Coefficient	Standard Error	Beta t Values	Significance
ROA	.269	.074	3.696	.000
NP	.225	.049	-3.452	.002
TS	.113	.010	-1.402	.163
TA	.157	.010	1.605	.084

* $P < 0.1$, two-tailed, *** $P < 0.01$, two-tailed

R square = .515 ; Adjusted R square = .494 ; F Value = 22.171 ; F significance = .000
Durbin Watson test = 1.463

From the above multiple regression table, we can say that financial performance of the companies positively influencing the corporate governance disclosure practices means the financially strong companies they try to disclose more corporate governance disclosure. Also there were many previous studies which were supporting my study those are my El-Gazzar and Fornaro (2003); Wallace and Naser (1995); Meek et al. (1995); Haniffa and Cooke (2002).

Conclusion

Nowadays corporate governance essence is realized by all the corporate governance and they started giving priority to the governance disclosure. The main objective of the study to initiate this to know whether there is any relationship between financial performance of the companies and corporate governance disclosure practices. For the study we have taken CNX NIFTY junior as sample size and for measuring the corporate governance disclosure practices an corporate governance disclosure index is computed based on clause 49 checklist items, for measuring the financial performance proxies like Return on assets, net profit, total sales, total assets considered and tested the relationship between both by using the multiple regression techniques. The study found that there is a positive relationship between financial performance and corporate governance disclosure practices. The study suggests that to gain the shareholders' and investors' confidence and faith all corporate companies should follow or implement better governance practices that will create a positive image for the company.

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Appendix -1
Checklist of clause 49 Mandatory Disclosure items

Si. No	Broad classification	Items
1	Company philosophy on corporate governance	
2	Board of directors	Composition
		Role duality
		Attendance in meetings
		Attendance in AGM
		No. of directorship and membership
		No. of board meetings
		Dates of board meetings
		Periodical review of applicable laws
3	Code of conduct	CoC laid down by the board
		CoC posted on the website
		CEO declaration in CG report
		Affirmation of compliance by board members and senior management
4	Audit committee	Terms of reference
		Composition
		Names of members and chairman
		Financial knowledge and expertise of members
		No. of meetings
		Attendance and quorum
		Financial head invited for the meeting
		Internal auditor invited for the meeting
		Statutory auditor invited for the meeting
		Co. secretary acting as secretary of the committee
		Powers of the audit committee
		Role of the audit committee
		Information reviewed by the audit committee
5	Subsidiary companies	Independent director on board of subsidiary companies
		The audit committee reviews financial statements and material investments of subsidiary companies
		Minutes of subsidiary co.s meetings are placed in board meetings
6	Shareholders/ investors relations committee	Name of the non-executive chairman of the committee
		Name and designation of the compliance officer
		No. of complaints received
		No. of complaints not resolved to the satisfaction

		No. of pending cases
7	General body meetings	Location and time of last 3 AGMs
		The special resolution passed in last 3 AGMs
		The special resolution passed through postal ballot last year
		Details of voting pattern of postal ballot
		The person who conducted postal ballot
		A special resolution proposed to be conducted through a postal ballot in ensuing AGM
		Procedure for postal ballot
8	Disclosures	Material significant related party transactions
		Details of non- compliance with capital market matters (if any)
		Penalties or strictures imposed by exchanges, SEBI or any statutory authority
		Details of compliance with mandatory requirements
		Details of adoption of non- mandatory requirements
		Pecuniary relationship of NED with the co.
		All elements of the remuneration package to all directors
		Details of fixed pay and performance-linked pay along with performance criteria
		Service contracts, notice period and severance pay
		Stock option details
		Criteria of payment to NEDs
		No. of shares or convertible instruments held by NEDs
		Pre-appointment disclosure by NEDs
		Management discussion and analysis report
		Industry outlook with opportunities and threats
		Internal control system and their adequacy
		Discussion on financial performance
		Human resource or industry relations development
		Disclosure of conflict of interest
9	Means of communication	Communication of quarterly results
		Names of the newspapers publishing the results
		Website displaying the result
		Display of official news releases
		Presentation made to institutional investors and industry analysts
10	General shareholder information	Date, time and venue of upcoming AGM
		Financial year
		Date of book closure
		Dividend payment date
		Listing on a stock exchange

		Stock code
		Market price date of each month
		Comparative performance
		Details of a registrar and transfer agents
		Share transfer system
		Distribution of shareholding
		Dematerialization of shares and liquidity
		Outstanding GDR/ADR/ Warrants and convertible Instruments
		Conversion date
		Likely impact of the conversion on equity
		Address for communication