“A SECTORAL STUDY OF CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF SELECTED LISTED COMPANIES ON NSE”

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DECLARATION

I hereby declare that the dissertation titled **"A SECTORAL STUDY OF CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF SELECTED LISTED COMPANIES ON NSE"** is an original and independent research work done by me during the period 2021-22 under the guidance of **Dr. P. Sri Ram**, Asst. Professor, Department of Commerce, Goa University, Goa and also that it has not formed the basis of award degree, diploma, associateship, fellowship or similar title to any candidate of any university.

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CERTIFICATE

This is to certify that the dissertation **"A SECTORAL STUDY OF CORPORATE GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE OF SELECTED LISTED COMPANIES ON NSE "** is a bonafide record of the research work done by **Ms. Edrea Picardo** during the period of study under my supervision and that this study has not formed the basis for the award of any degree, diploma, associateship, fellowship or similar title to the candidate and also that the dissertation represents independent work on the part of the candidate.

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CHAPTER 1

OVERVIEW OF COPRORATE GOVERNANCE

1.1 INTRODUCTION

The structure of an organization has evolved over the years. The providers of funds and the managers of these funds have become two separate entities with each having their own motives and goals. Therefore, it is necessary to bring uniformity in their objectives. The role of the Board of Directors has increasingly become complex as now they need to divert focus on a wider group of stakeholders including the providers of capital, employees, government and customers. In order to retain the confidence of these stakeholders and to maintain efficiency in the functioning of the business, it is necessary to adopt a fair and transparent system of management. Thus, to protect the interest of various stakeholders and to bring uniformity in motives among the providers and managers of capital, corporate Governance plays an important role.

Corporate Governance is defined as a set of rules and provisions that govern the Board of Directors and managers to better manage their business organization. The shareholders elect the board of Directors, auditors and other managers and in order to ensure fairness and transparency in all these functions, Corporate Governance lays down the compliance provisions right from the structure of board of directors, appointment of various committees and disclosure of information to various stakeholders.

1.2 HISTORY OF CORPORATE GOVERNANCE IN INDIA:

The concept of corporate governance in India is connected with the ancient text and scriptures like the Vedas, Arthashastra among a few which focuses on good governance. Kautilya’s Arthashastra shows that for good governance, all administrators, including the king are considered to be servants of the people. If rulers are responsive, accountable, removable, recallable, there is stability. These facts hold true even today as only when the governance structure of a corporation and their practices are transparent, accountable, responsible and dynamic, will it be able to retain a good image in the eyes of investors and various other stakeholders. Kautilya focused on fourfold duties of a king that include Raksha, Vriddhi, Palana and Yogakshema. Here, Raksha means protection which in the corporate language means risk management. Vriddhi, which means growth, which is equal to stakeholder value enhancement in corporate scenario. Palana means maintenance or compliance. Yogakshema denoting the well-being and in Kautilya's Arthashastra it is used in context of a social security system which today is called the corporate social responsibility. By substituting the king with the CEO or the board of directors of the company and the subjects into the shareholders shows the connection of good governance practices.

In the year 1991 when the LPG policy was implemented by the government there was a need to match with the reforms adopted across the world. There was a need to put in place effective reforms to ensure uniformity in the functioning of a corporate body which ultimately put in place the corporate governance rules in India.

1.3 CORPORATE GOVERNANCE COMMITTEES

1.3.1 Confederation of Indian Industries (CII):1998

CII was the first institution to take initiatives on Corporate Governance in the Indian Industry. Their major objective was to develop and promote a voluntary code for Corporate Governance to be adopted and followed by all Indian corporates in the Private Sector, the Public Sector, Banks and Financial Institutions. The final draft of their Code was widely circulated in 1997. In April 1998, this Code was released and called "Desirable Corporate Governance: A Code."

1.3.2 Kumar Mangalam Birla Committee: 1999

The Securities and Exchange Board of India (SEBI) on May 7, 1999 set up a committee under the Chairmanship of Kumar Mangalam Birla to promote and raise standards of corporate governance. The Report of the committee was the first formal and comprehensive attempt to design a Code of Corporate Governance, subject to the prevailing conditions of governance in Indian companies, as well as the state of capital markets at that time. The recommendations of the Report, led to inclusion of Clause 49 in the Listing Agreement in the year 2000.

1.3.3 Task Force on Corporate Excellence through Governance: 2000

In May 2000, the Ministry of Corporate Affairs (MCA) formed a broad-based study group under the chairmanship of Dr. P.L. Sanjeev Reddy. The group was given the ambitious task of examining ways to develop the concept of corporate excellence on a sustained basis, so as to strengthen India's global competitive edge thereby developing a good corporate culture in the country. In November 2000, a Task Force on Corporate Excellence set up by the group gave a report containing a wide range of recommendations for raising governance standards among all companies in India. It also suggested the setting up of a Centre for Corporate Excellence.

1.3.4 Naresh Chandra Committee: 2002

The Enron debacle of 2001 involving the hand-in-glove relationship between the auditor and the corporate client, the scams involving the fall of the corporate giants in the U.S. like the WorldCom, Qwest, Global Crossing, Xerox and the consequent enactment of the stringent Sarbanes Oxley Act in the U.S. were some important factors which led the Indian Government to realize the need to revise the corporate governance rules and in the year 2002, Naresh Chandra Committee was appointed to examine and recommend amendments to the law involving the auditor-client relationships and the role of independent directors.

1.3.5 N. R. Narayana Murthy Committee: 2003

In the year 2002, SEBI analyzed the statistics of compliance with the clause 49 by listed companies and felt that there was a need to look beyond the mere systems and procedures if corporate governance was to be made effective in protecting the interest of investors. SEBI therefore constituted a Committee under the Chairmanship of Shri N. R. Narayana Murthy, for reviewing implementation of the corporate governance code by listed companies and for issue of revised clause 49 based on its recommendations.

1.3.6 Dr. J. J. Irani Committee on Company Law: 2004

The Government constituted a committee under the Chairmanship of Dr. J. J. Irani, Director, Tata Sons, with the task of advising the Government on the proposed revisions to the Companies Act, 1956 with the objective to have a simplified compact law that would be able to address the changes taking place in the national and international scenario, enable adoption of internationally accepted best practices as well as provide adequate flexibility for timely evolution of new arrangements in response to the requirements of ever- changing business models. The Committee recommended that effective measures be initiated for protecting the interests of stakeholders and investors, including small investors, through legal basis for sound corporate governance practices. With a view to protect the interest of various stakeholders, the Committee also recommended the constitution of a Stakeholders' Relationship Committee and provision of duties of directors in the Act with civil consequences for non-performance.

1.3.7 CII's Task Force on Corporate Governance: 2009

In 2009, CII's Task Force on Corporate Governance gave its report and suggested certain voluntary recommendations for industry to adopt.

1.3.8 Corporate Governance Voluntary Guidelines: 2009

Inspired by the industry recommendations, in 2009, the MCA released a set of voluntary guidelines on corporate governance. The Guidelines were derived out of the unique challenges of the Indian economy, and took cognizance of the fact that all agencies need to collaborate together, to ensure that businesses flourish, even as they contribute to the wholesome and inclusive development of the country. The Guidelines emphasized that responsible businesses alone will be able to help India meet its ambitious goal of inclusive and sustainable all-round development. It urged businesses to embrace the triple bottom-line approach whereby their financial performance could be harmonized with the expectations of society, the environment and the many stakeholders in a sustainable manner.

1.3.9 NASSCOM Recommendations: 2010

Corporate Governance and Ethics Committee of the National Association of Software and Services Companies (NASSCOM) issued recommendations in mid-2010, focusing on the stakeholders of the company.

1.3.10 Policy Document on Corporate Governance: 2010

The Ministry of Corporate Affairs constituted a committee to formulate a Policy Document on Corporate Governance under the chairmanship of Mr. Adi Godrej with the President ICSI as Member Secretary/ Convenor. The Policy Document sought to synthesize the disparate elements in the diverse guidelines, draw on innovative best practices adopted by specific companies, incorporate current international trends and anticipate emerging demands on corporate governance in enterprises in various classes and scale of operations. The Adi Godrej Committee submitted its report which was articulated in the form of 17 Guiding Principles of Corporate Governance.

1.3.11 Uday Kotak Committee: 2017

The SEBI Committee on corporate governance was formed in June 2017 under the Chairmanship of Mr. Uday Kotak with the aim of improving standards of corporate governance of listed companies in India. With the aim of improving standards of Corporate Governance of listed companies in India, the Committee was requested to make recommendations to SEBI.

1.4 CLAUSE 49 OF LISTING AGREEMENT

Clause 49 lays down the corporate governance rules for all listed companies in India. It was included in the listing agreement in the year 2000 based on the recommendations of the Kumar Mangalam committee set up under SEBI in 1999. The Clause 49 consists of mandatory and voluntary provisions that are to be complied with by all listed companies. The mandatory provisions are in respect of the following broad areas:

1) Board of Directors
2) Audit Committee
3) Remuneration and Nomination committee
4) Stakeholder's grievance committee
5) Subsidiary companies
6) Risk management
7) General body meeting
8) Disclosures
9) Means of communication
10) CEO/CFO Certification

Apart from these mandatory provisions, companies may voluntarily disclose additional information for the interest of various stakeholders.

CHAPTER 2

LITERATURE REVIEW AND RESEARCH METHODOLOGY

2.1 LITERATURE REVIEW

Madhani (2014) studied the corporate governance and disclosure practices for the period of 2011-12 among 54 firms forming part of the S&P BSE sectoral indices with respect to the private and public sector in India to understand the extent to which they disclosed their financial activities to their existing and prospective investors and regulators. They found that the corporate governance and disclosure practices across the public and private sector were at par. The Public sector reforms have controlled the differences between the two sectors, particularly with regard to governance.

Surapalli & Parashar (2022) emphasized to study the relationship between the corporate governance practices among five private sector banks forming part of the BANKEX OF BSE that are given the CG rating by ICRA for the period 2009-2016. They used the regression model to establish a relationship between the financial performance indicators and the Corporate Governance Index along with capital adequacy and Net NPA ratio. It is evident from their study that corporate governance index can be used to study the corporate governance practices of a firm and it does have an impact on the firm's profitability where the board of directors have shown a positive correlation with the bank's profitability.

Ritika Gugnani (2013) examined the relationship of corporate governance on performance of 97 Indian firms listed on BSE for the period of 2005-2012. The board size, board composition, CEO duality, promoter holdings and audit committee were considered to understand their influence on the financial performance indicators like Return on assets, Profit margin, Return on Equity, P/B and P/E using Ordinary Least Square method. The study found a negative relationship of board size and CEO duality on financial performance but showed a positive relation with respect to board independence and promoter holdings.

The study has made it evident that profit margin is significantly related with the board size, promoter’s holdings and the capital structure. It also showed that the higher the promoters control the higher is the profit margin, return on assets and return on equity compared to those who have a lower promoter holding. The findings of the study also concluded that the stock market performance of a firm is not related with their corporate governance indicators.

Paniagua et al. (2018) aimed to examine the relationship between corporate governance and ownership structure and financial performance among 1207 companies from 59 different countries from 19 different sectors during the period of 2013-2015. They used multiple regression, Poisson and fsqca to estimate this relationship by considering annual growth rate of Return on Equity as the financial performance indicator. Their results have shown that non-linear techniques offer a better insight to establish the relationship compared to the traditional multiple OLS regression. The study found an inverse relation between board members and ROE and that a higher payout negatively affects the financial performance.

B & Mutyala (2017) focused on studying the relationship between corporate governance and firm’s performance of the top five companies listed in the 'A' group of BSE, based on their market capitalization. they used a checklist containing 116 items on the basis of the SEBI report on corporate governance with broad classification as company's philosophy, board of directors, audit committee, remuneration of directors, nomination committee and means of communication using equal weightage method. They have made it evident that the corporate governance disclosure practices have improved year by year and so did the financial performance of the select companies.

Raithatha & Bapat (2012) examined the level of compliance with disclosure practices with respect to the corporate governance code by 30 'A' graded companies listed on the Bombay Stock Exchange. Along with this they also aimed to study if there exists a relationship between the compliances and market capitalization, net profit margin, leverage ratio, FII stake and promoter holdings and to use factor analysis for the corporate governance compliance score. The findings have shown that the net profit margin, market capitalization, FII stake and leverage ratio are not related to the corporate governance score.

The results of factor analysis have shown that strength of committee and board competence are important parameters in corporate governance practices. It can therefore be concluded from their study that corporate governance is not an important parameter for FII decisions on buying stakes of the company.

Lal Bhasin (2010) explored the corporate governance practices by the Reliance group for the period of 2008-09 by using their own model of point value system. The findings have shown that the Reliance industries have one of the best disclosure practices with regards to corporate governance with an overall score of 85 points and there is still hope for improvements given the limitations.

Student (2015) studied the relationship between the quality of corporate governance and accrual-based earnings management among 723 listed firms in the U.S during the year 2015 by using nine individual measures of corporate governance as against one measure used in prior studies on U.S based firms in order to establish a better understanding of the quality of corporate governance in the U.S firms. The study was focused on post financial crisis (2007-08) period during the year 2015.

Varshney et al. (2015) through their study aimed to establish a linkage between corporate governance and firm performance with the help of a corporate governance index based on internal and external governance mechanisms among 105 companies listed on NSE for two period namely 2002-03 that marked the beginning of corporate governance under clause 49 and 2008-09. They used Economic Value added as the firm's performance indicator along with return on net-worth, Return on Capital employed to examine the relation with the corporate governance with the help of regression analysis, random effects model and ANOVA. they found a positive linkage between corporate governance index and the firm's performance in terms of EVA.

Usman & Abubakar (2012) aimed to identify the relationship between corporate governance on the financial performance and earnings management during the period of 2008-2010 among 25 non-financial firms listed on the Nigerian Stock Exchange. The used Earnings before interest and tax as the financial performance indicator and examined the relationship with corporate governance indicators like board composition, institutional shareholdings, audit committee and executive compensation using cross sectional regression analysis. The study recommended that the appointment of independent directors on the board should be based on the past records of those directors and that executive compensation should be less linked with performance. It is also evident that institutional shareholding is positively related to firm performance and the high proportion of outside directors affects the firm’s performance negatively.

Prusty & Kumar (2016) ascertained the impact of corporate governance with respect to board composition and board committee on Return on assets and return on capital employed as the financial performance indicators among five Indian based IT MNC's. They studied the linkage using correlation, regression and ANOVA analysis. The study has shown that all the selected companies have disclosed their corporate governance practices though in a different way. The findings convey that board composition and board committee are positively related with ROA and ROCE. Thus, it can be concluded that Board composition have a significant influence on the financial performance of companies.

Haldar & Rao (2013) tried to examine the impact of corporate governance on the financial performance for the period 2008-2011 among 323 companies listed on Bombay Stock Exchange. They used 44 items of corporate governance classified under six major attributes. Using panel least square with random effects, simultaneous equation results and Hausman test they have shown a positive relation between promoter holding and firm performance. The level of debt in the capital structure and firm performance is found to be negative. Thus, from this study it can be seen that companies should adopt good governance practices to improve their overall performance.

Karpagam & Selvam (2013) also tried to explore if corporate governance mechanisms have any influence on the firm's performance on 50 selected companies listed on BSE 100 during the period 2005-2012. Board size, board independence, insider ownership and grey directors were among the few corporate governance indicators used to examine their influence on financial performance in relation to Earnings per share, firm leverage, profitability margin with the help of descriptive statistics, cross correlation and OLS regression. It can be inferred from the study that independent directors have failed to monitor performance effectively whereas the board size and independence and financial performance are inversely related.

Aggarwal (2013) provided an overview of various components of corporate governance and its impact on the financial performance of 20 companies listed on S&P CNX Nifty 50 index for the period 2010-12. Board size, independence of board from management, separate chairman and CEO, financial expertise of directors, number of board meetings, role of external auditors, audit committee and remuneration and nomination committee were the indicators of corporate governance used to study their impact on return on assets, return on equity, return on capital employed and profit before tax. The relationship was explored using multiple regression, correlation, t-test and F-test. The p-values are less than 0.05 concluding that corporate governance has a positive influence on financial performance.

Al-ahdal (2018) aimed to examine the impact of corporate governance on financial performance in seven Indian electronic consumer goods firms for the period of 2010-2017 listed on BSE. The impact of board size, audit committee meetings and independence on return on assets and return on capital employed was analyzed using descriptive statistics, correlation and regression analysis. The findings showed that there is no significant linkage between the corporate governance indicators and financial performance where only audit committee independence has significant relationship with the accounting measures of ROA and ROCE.

Kiradoo (2018) also analyzed the relation between corporate governance and financial performance in the firm from the U.K. CEO, board size and ownership are considered as corporate governance measures while profitability is a determinant for financial performance. This linkage was studied using descriptive data and regression analysis and shown that corporate governance helps to improve profitability effectively.

Alhazaimeh et al. (2014) explored the linkage between corporate governance and ownership structure on voluntary disclosures among 73 non-financial firms listed in Amman Stock exchange using Dynamic panel GMM. The voluntary disclosures like board activity, board compensation, non-executive directors, large audit firms, foreign ownership, government ownership, block holder ownership and number of shareholders were considered. Among these, the study showed that board activity, foreign ownership, non-executive and block holder ownership influences voluntary disclosures. Thereby concluding that voluntary disclosures in annual reports affect the market capitalization of the firm.

2.2 NEED OF THE STUDY

Corporate governance is a set of rules and practices that govern companies. It enables companies to function more effectively thereby adding value to the various stakeholders. The main components of Corporate Governance include the Audit committee, the Board of Directors and the Stakeholders of the company. Securities and Exchange Board of India has placed Clause 49 that outlines the various Corporate Governance requirements and rules to ensure efficient and effective corporate practices across the nation. With better Corporate Governance practices the financial health of the company is presumed to be more stable and hence, there is a need to identify if Corporate Governance practices have any influence on the financial performance of companies. It is important to understand if the Corporate Governance Disclosure Practices are consistently abided with taking into account the amendments done from time to time in Clause 49 by SEBI. Since the inception of Covid-19 pandemic, there was slowdown in business in some sectors while some sectors were positively impacted and hence there is need to identify if the disclosure practices have been met by such Companies.

2.3 RESEARCH GAP

It is evident that most studies on Corporate Governance in the past have been done prior to the year 2015. Most studies done in India have considered a sample of listed companies on the Bombay Stock Exchange and few studies have been done in respect to Companies listed on the National Stock Exchange.

Most of the past studies have been done to examine the impact of Corporate Governance practices for a shorter time duration that is three to five years. Very few studies in India have shown evidence for more than Five years since the introduction of Clause 49 taking into consideration the Covid-19 pandemic period. ANOVA as a statistical tool for studying Corporate Governance Disclosure Practices within and across Industries is rarely used.

2.4 RESEARCH QUESTIONS

2.5.1 Do companies in India abide by the clause 49 and its amendments done by SEBI time to time?

2.5.2 Do Corporate Governance Disclosure Practices impact the financial performance of companies in India?

2.5.3 Is there any significant difference in the corporate governance disclosure practices in the IT and Pharmaceutical Industry?

2.5 OBJECTIVES OF THE STUDY

2.4.1 To examine the relation between Corporate Governance Disclosure Practices and Corporate Governance Ranking of selective Companies from selective Industries in India

> 2.4.1.1 To construct the CG Index and CG Ranking for selective Companies from selective Industries.
>
> 2.4.1.2 To examine the relation between Corporate Governance Disclosure components and CG score as per SEBI Clause 49.

2.4.2 To study the impact of Corporate Governance on financial performance of select companies.

2.6 RESEARCH METHODOLOGY

2.6.1 PERIOD OF STUDY

The study is aimed to identify the Indian company Scenario in the IT and Pharmaceutical Industry with respect to compliance of Corporate Governance practices as per clause 49. Hence, to arrive at the desired conclusion the period of ten years is considered from financial year ending 2012 to 2021.

2.6.2 SAMPLE SIZE

For the purpose of the study Companies belonging to the IT and Pharmaceutical sector, listed on the National Stock Exchange under NIFTY 500 are drawn. These two sectors have been chosen as they were highly impacted during the covid-19 pandemic scenario. To identify the Corporate Governance Practices and their impact on Financial Performance, a total of 20 Companies belonging to these two sectors were considered using Convenience Sampling where 10 Companies from IT Sector and 10 Companies under Pharmaceutical Sector. The sample companies were selected based on availability of annual data and those that have not undergone mergers and acquisition during the period under study.

TABLE 2.1 List of Companies

INDUSTRY NAME	COMPANY NAME
(I) Information Technology	63 Moon’s Technologies India Ltd.
	HCL Technologies Ltd.
	Hexaware Technologies Ltd
	Infosys Ltd.

	NIIT Ltd.
	Coforge Ltd.
	Tata Elxsi Ltd
	Tata Consultancy Services Ltd.
	Wipro Ltd.
	Zensar Technologies Ltd.
(II) Pharmaceutical	Jubilant Pharmova Ltd.
	Piramal Pharma ltd.
	Sun Pharma Advanced Research Company Ltd. (SPARC)
	Divis Laboratories Ltd.
	J. B chemicals Ltd.
	Dr. Reddy’s Laboratories Ltd.
	Aurobindo Pharma Ltd
	Suven life sciences Ltd.
	Sun Pharmaceuticals Ltd
	Cipla Ltd.

Source: Student’s Compilation

2.6.3 SOURCE OF DATA

The study is based on secondary data which is extracted from the CMIE PROWESS IQ database, annual Corporate Governance reports from company websites, NSE website and SEBI website for the period under study.

2.6.4 STATISTICAL TOOLS

2.6.4.1 Descriptive Statistics:

In order to summarize the characteristics of the data, descriptive statistics is used to describe the mean and standard deviation of each variable.

2.6.4.2 ANOVA:

To identify if the Board of Directors, Audit Committee, Remuneration and Nomination Committee, Shareholder's Grievance Committee, General Body Meeting and Disclosures have any influence on the Corporate Governance score. Two paired sample test is done to examine if the CG Compliance practices are significantly different in the IT and Pharma Sector.

2.6.4.3 Correlation Analysis:

To identify if there is any relationship between the Corporate Governance Compliance Score and the Financial Performance indicators, correlation analysis is done.

2.6.5 STATISTICAL MODEL

2.6.5.1 Ordinary Least Square (OLS):

The simple Regression analysis is studied through Ordinary Least Square model using Gretl Software to examine the following:

To find if the Corporate Governance Compliance scores have any significant influence on the select Financial Performance indicators.

To find if the components of Corporate Governance Compliance which include the Board of Directors, Audit Committee, Remuneration and Nomination Committee, Shareholder' Grievance Committee, General Body Meeting and Disclosures have any significant influence on the select Financial Performance indicators.

The analysis is done using the annual Corporate Governance Compliance Scores and the select Financial Performance indicators of the 20 Select Companies for a period of 10 years.

2.6.6 STATISTICAL TECHNIQUE

2.6.6.1 Corporate Governance Index:

The Corporate Governance Index is constructed based on Seven core mandatory provisions that form the very basis of Corporate Governance Practices followed by Companies in accordance to Clause 49 laid down by SEBI. These broad components include the Board of Directors that have the highest weightage in the Index construction as its composition and structure plays a very important role in the overall management of a Company. Audit Committee with next highest weightage as they play an important role in ensuring that the financial statements represent a fair picture of the financial health of the company, followed by Remuneration and Nomination Committee, Shareholder's Grievance Committee, General Body Meeting, Disclosures and Means of Communication.

The following table shows the CG Index composition with its maximum corresponding score. If the company has complied with the given component, a score of '1' is assigned and if not, a score of '0' is given for each component that has not been complied with. The maximum score for a company during one financial year is 40. The maximum score for a Company for 10 years is therefore 400.

TABLE 2.2 Showing Components of the Corporate Governance Index

CORPORATE GOVERNANCE COMPONENTS	SCORE
BOARD OF DIRECTORS	1
Clear distinction	1
Non-executive not less than 50%	1
CEO and Chairman are not same	1
Chairman non-executive, 1/3rd is independent 0r Chairman is executive or related to promoter, 1/2 is independent	1
Details of directorship in other companies	1
Member in not more than 10 committees (audit and share grievance)	1
Attendance of each director on board meeting	1
No. of board meetings held	1
not more than 120 days between meetings	1
Information on nominee directors	1
Code of conduct signed by the CEO	1
TOTAL	1
Audit Committee	
minimum 3 members	1
2/3rd are independent members	1
At least one member is a financial expert	1
chairman independent director	1
chairman present at AGM	1
CS as the committee secretary	1
defined powers and functions	1
No. of meetings held	1
Rotation criteria adhered to	1

TOTAL	9
REMUNERATION AND NOMINATION COMMITTEE	
Company’s remuneration policy	1
no. of members on committee	1
all the members non-executive and half are independent	1
details of fixed component and performance linked	1
details of service contracts, notice period	1
payment to non- executive directors	1
TOTAL	6
STAKEHOLDERS GRIEVANCE COMMITTEE	
chairperson is non- executive	1
name and designation of compliance officer	1
No. shareholders complaints received	1
No. of pending complaints	1
TOTAL	4
GENERAL BODY MEETINGS	
Last three AGM, place time	1
special resolution passed in previous 3 AGM	1
special resolution passed through postal ballet	1
TOTAL	3
DISCLOSURES	
material significant related party transactions having conflict with the company	1
Non-compliance or penalties imposed	1
no person denied access to audit committee and whistle blower	1
risk assessment and minimization procedures	1
disclosures of accounting treatment	1
TOTAL	5

MEANS OF COMMUNICATION	
Quarterly results	1
information furnished to respective stock exchanges	1
TOTAL	2
TOTAL PROVISIONS	40

Source: Compilation by Student

2.7 LIMITATIONS OF THE STUDY

The study is focused on only two Sectors with a limited sample size due to time constraints. Hence, the conclusions drawn herewith are limited to the two sectors and does not give an overview of all sectors that are listed on the National Stock Exchange. The impact of Covid 19 Pandemic on Financial Performance of select Companies and the Corporate Governance Disclosure Practices followed by Companies on account of Clause 49 during the pre and post amendment period was not studied due to limited time.

The Variables and Hypothesis used in examining the Objectives are described in Chapter 3 and Chapter 4 accordingly.

CHAPTER 3

CORPORATE GOVERNANCE DISCLOSURE PRACTICES IN INDIAN IT AND PHARMACEUTICAL SECTOR

This chapter deals with the study of Corporate Governance Disclosure Practices of select Companies from the IT and Pharmaceutical Sector. The relation between Corporate Governance Disclosure Practices and Corporate Governance Ranking of the Select Companies is studied in this Chapter. The Corporate Governance Disclosure Practices are laid down in Clause 49 of Listing Agreement by SEBI which are classified as Mandatory and Voluntary Provisions. This study considers only the Mandatory Provisions. It defines the components forming the very basis of Corporate Governance Practices to be followed and complied by Listed Companies. The Companies are assigned ranks based on their Compliance level with Corporate Governance Disclosure Practices.

3.1 VARIABLES

To study the relation between Corporate Governance Disclosure Compliance Score and Corporate Governance components, the following variables are used:

Independent variables for the study are:

a. Board of directors
b. Audit committee
c. Remuneration and nomination committee
d. Stakeholder’s grievance committee
e. General body meeting
f. Disclosures

Dependent variable: Corporate Governance Score

3.2 HYPOTHESIS

In order to examine the relation between the Corporate Governance Compliance score and CG components, the following hypothesis have been drawn.

H01.1.1: There is no significant relation between Board of Directors and CG compliance scores among companies from IT and Pharma sector.

H01.1.2: There is no significant relation between Audit Committee and CG compliance scores among companies from IT and Pharma sector.

H01.1.3: There is no significant relation between Remuneration and Nomination Committee and CG compliance scores among companies from IT and Pharma sector.

H01.1.4: There is no significant relation between Shareholder's Grievance Committee and CG compliance scores among companies from IT and Pharma sector.

H01.1.5: There is no significant relation between General Body Meeting and CG compliance scores among companies from IT and Pharma sector.

H01.1.6: There is no significant relation between Disclosures and CG compliance scores among companies from IT and Pharma sector.

H01.2.1: There is no significant difference between IT sector and Pharma sector with respect to CG Compliance on Board of Directors.

H01.2.2: There is no significant difference between IT sector and Pharma sector with respect to CG Compliance on Audit Committee.

H01.2.3: There is no significant difference between IT sector and Pharma sector with respect to CG Compliance on Remuneration and Nomination Committee.

H01.2.4: There is no significant difference between IT sector and Pharma sector with respect to CG Compliance on Shareholder's Grievance Committee.

H01.2.5: There is no significant difference between IT sector and Pharma sector with respect to CG Compliance on General Body Meeting.

H01.2.6: There is no significant difference between IT sector and Pharma sector with respect to CG Compliance on Disclosures.

3.2 DATA ANALYSIS FOR IT SECTOR

TABLE 3.1 Descriptive Statistics for IT Sector

		N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
BOD	NIIT	10	10.00	.000	.000	10	10
	63 MOONS	10	8.60	.516	.163	8	9
	HCL	10	9.70	.483	.153	9	10
	HEXAWARE	10	10.00	.000	.000	10	10
	INFOSYS	10	10.00	.000	.000	10	10
	COFORGE	10	10.00	.000	.000	10	10
	TATA ELXSI	10	10.00	.000	.000	10	10
	TCS	10	10.00	.000	.000	10	10
	WIPRO	10	9.00	.000	.000	9	9
	ZENSAR	10	10.00	.000	.000	10	10
	Total	100	9.73	.529	.053	8	10
AC	NIIT	10	8.90	.316	.100	8	9
	63 MOONS	10	7.30	1.160	.367	6	9
	HCL	10	8.60	.516	.163	8	9
	HEXAWARE	10	8.80	.422	.133	8	9
	INFOSYS	10	7.10	.738	.233	6	9
	COFORGE	10	8.40	.516	.163	8	9
	TATA ELXSI	10	6.30	.823	.260	5	7
	TCS	10	6.90	.316	.100	6	7
	WIPRO	10	8.10	.316	.100	8	9
	ZENSAR	10	6.80	.422	.133	6	7
	Total	100	7.72	1.074	.107	5	9
RNC	NIIT	10	5.60	.516	.163	5	6
	63 MOONS	10	5.10	.876	.277	4	6
	HCL	10	4.90	.994	.314	4	6
	HEXAWARE	10	5.90	.316	.100	5	6

	INFOSYS	10	4.80	.632	.200	3	5
	COFORGE	10	5.90	.316	.100	5	6
	TATA ELXSI	10	3.40	.516	.163	3	4
	TCS	10	5.20	.422	.133	5	6
	WIPRO	10	6.00	.000	.000	6	6
	ZENSAR	10	5.30	.483	.153	5	6
	Total	100	5.21	.913	.091	3	6
SGC	NIIT	10	4.00	.000	.000	4	4
	63 MOONS	10	3.40	.843	.267	2	4
	HCL	10	3.60	.699	.221	2	4
	HEXAWARE	10	3.90	.316	.100	3	4
	INFOSYS	10	4.00	.000	.000	4	4
	COFORGE	10	4.00	.000	.000	4	4
	TATA ELXSI	10	4.00	.000	.000	4	4
	TCS	10	3.90	.316	.100	3	4
	WIPRO	10	3.00	.000	.000	3	3
	ZENSAR	10	3.90	.316	.100	3	4
	Total	100	3.77	.489	.049	2	4
GBM	NIIT	10	2.90	.316	.100	2	3
	63 MOONS	10	2.60	.699	.221	1	3
	HCL	10	2.60	.699	.221	1	3
	HEXAWARE	10	3.00	.000	.000	3	3
	INFOSYS	10	3.00	.000	.000	3	3
	COFORGE	10	3.00	.000	.000	3	3
	TATA ELXSI	10	3.00	.000	.000	3	3
	TCS	10	2.90	.316	.100	2	3
	WIPRO	10	3.00	.000	.000	3	3
	ZENSAR	10	2.90	.316	.100	2	3
	Total	100	2.89	.373	.037	1	3
D	NIIT	10	4.90	.316	.100	4	5
	63 MOONS	10	3.00	.000	.000	3	3
	HCL	10	3.00	.000	.000	3	3
	HEXAWARE	10	2.40	.516	.163	2	3
	INFOSYS	10	3.90	.316	.100	3	4
	COFORGE	10	5.00	.000	.000	5	5
	TATA ELXSI	10	3.00	.000	.000	3	3
	TCS	10	3.00	.000	.000	3	3
	WIPRO	10	3.00	.000	.000	3	3
	ZENSAR	10	3.00	.000	.000	3	3
	Total	100	3.42	.867	.087	2	5
C	NIIT	10	2.00	.000	.000	2	2

63 MOONS	10	2.00	.000	.000	2	2
HCL	10	2.00	.000	.000	2	2
HEXAWARE	10	2.00	.000	.000	2	2
INFOSYS	10	2.00	.000	.000	2	2
COFORGE	10	2.00	.000	.000	2	2
TATA ELXSI	10	2.00	.000	.000	2	2
TCS	10	2.00	.000	.000	2	2
WIPRO	10	2.00	.000	.000	2	2
ZENSAR	10	2.00	.000	.000	2	2
Total	100	2.00	.000	.000	2	2

Source: Compiled using SPSS

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, C = Means of Communication)

The Table 3.1 shows the mean and standard deviation of the Corporate Governance Components for 10 years. The various CG components are Board of Directors, Audit Committee, Remuneration and Nomination Committee, Shareholder's Grievance Committee, General Body Meeting, Disclosures and Means of Communication. The Standard Deviation is lower than mean which shows that the CG scores are moving closely around its mean.

With the mean values as shown in the Table 3.1 of Descriptive Statistics it can be seen that NIIT, Hexaware Technologies, Infosys, Coforge, Tata Elxsi, TCS and Zensar Technologies have the highest compliance with respect to Board of Directors with a mean of 10 and 63 Moons Technologies have lowest compliance with a mean of 8.60.

NIIT have highest CG compliance in regards to Audit Committee with a mean of 8.90 and Tata Elxsi have lowest mean of 6.30 depicting.

Wipro have highest CG compliance in the Remuneration and Nomination Committee component with mean of 6 and Tata Elxsi have lowest mean of 3.40 showing poor compliance.

In Shareholder Grievance Committee component NIIT, Infosys, Coforge and Tata Elxsi secured highest compliance among other companies while 63 moons Technologies showed least compliance record.

Hexaware Technologies, Infosys, Coforge and Tata Elxsi showed highest CG compliance in the General Body Meeting component while 63 Moons Technologies and HCL showed lowest compliance.

With respect to Disclosures Component, Coforge showed highest compliance while Hexaware Technologies showed poor compliance.

On account of Means of Communication, all 10 Companies have complied equally during the study period.

TABLE 3.2 showing results for ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
BOD	Between Groups	23.210	9	2.579	51.578	.000
	Within Groups	4.500	90	.050		
	Total	27.710	99			
AC	Between Groups	80.360	9	8.929	23.775	.000
	Within Groups	33.800	90	.376		
	Total	114.160	99			
RNC	Between Groups	52.890	9	5.877	17.808	.000
	Within Groups	29.700	90	.330		
	Total	82.590	99			
SGC	Between Groups	10.210	9	1.134	7.563	.000
	Within Groups	13.500	90	.150		
	Total	23.710	99			
GBM	Between Groups	2.290	9	.254	1.991	.049
	Within Groups	11.500	90	.128		
	Total	13.790	99			

D	Between Groups	70.160	9	7.796	167.048	.000
	Within Groups	4.200	90	.047		
	Total	74.360	99			
C	Between Groups	.000	9	.000	.	.
	Within Groups	.000	90	.000		
	Total	.000	99			

Source: Compiled using SPSS

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, C = Means of Communication)

It can be seen from the results of ANOVA that the significance value is less than 0.05 (taking 5% as significance level) for Board of Directors, Audit Committee, Remuneration and Nomination Committee, Shareholder's Grievance Committee, General Body Meeting and Disclosures. Hence, the above components are significant in contributing the Corporate Governance Disclosure Practices Score of IT Companies. Thus, it rejects the Null Hypothesis and concludes that there is significance difference in compliance with respect to these variables.

However, it can also be inferred that the Corporate Governance Disclosure Compliances with respect to each of these components across companies within the IT sector are different, where NIIT showed highest compliance in Board of Directors, Audit Committee and Shareholder Grievance Committee while 63 Moon's Technologies Ltd. showed poor CG compliance practices.

The Companies from IT Sector are ranked in the following manner on the basis of their Corporate Governance Disclosure Practices. The ranks are given in descending order as shown in Table 3.3 below.

TABLE 3.3 Corporate Governance Ranking of IT Companies

COMPANY	CGI (10 years)	RANK
NIIT	383	1
COFORGE	383	1
HEXAWARE	360	2
INFOSYS	348	3
HCL	344	4
WIPRO	341	5
TCS	339	6
ZENSAR TECHNOLOGIES	339	6
63 MOONS TECHNOLOGIES	320	7
TATA ELXSI	317	8

Source: Compilation by Student

From Table 3.3, it can be seen NIIT Ltd. and Coforge Ltd. have scored 383 points out of 400 and achieved the first rank among Companies in IT Sector. While Tata Elxsi Ltd. secured 317 points and ranks last in the Ranking of IT Companies as shown above.

3.3 DATA ANALYSIS OF PHARMACEUTICAL SECTOR

TABLE 3.4 Descriptive Statistics of Pharmaceutical Sector

		N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
BOD	SUN PHARMA	10	10.00	.000	.000	10	10
	JUBILANT	10	11.00	.000	.000	11	11
	PIRAMAL	10	10.40	.516	.163	10	11
	DIVI'S LAB	10	10.00	.471	.149	9	11
	J B CHEMICALS	10	10.00	.000	.000	10	10
	DR. REDDY	10	9.90	.568	.180	9	11
	AUROBINDO	10	10.00	.000	.000	10	10
	SUVEN LIFE	10	9.30	.483	.153	9	10
	SUN PHARMACEUTICAL	10	9.30	.483	.153	9	10
	CIPLA	10	9.50	.527	.167	9	10
	Total	100	9.94	.617	.062	9	11
AC	SUN PHARMA	10	8.80	.422	.133	8	9
	JUBILANT	10	8.50	.707	.224	7	9
	PIRAMAL	10	8.90	.316	.100	8	9
	DIVI'S LAB	10	8.20	.422	.133	8	9
	J B CHEMICALS	10	7.80	.632	.200	6	8
	DR. REDDY	10	9.00	.000	.000	9	9
	AUROBINDO	10	9.00	.000	.000	9	9
	SUVEN LIFE	10	6.90	.876	.277	6	8
	SUN PHARMACEUTICAL	10	7.60	.966	.306	6	9
	CIPLA	10	7.10	.316	.100	7	8
	Total	100	8.18	.925	.093	6	9
RNC	SUN PHARMA	10	3.30	.949	.300	3	6
	JUBILANT	10	6.00	.000	.000	6	6
	PIRAMAL	10	5.00	.000	.000	5	5
	DIVI'S LAB	10	4.10	.316	.100	4	5
	J B CHEMICALS	10	6.00	.000	.000	6	6
	DR. REDDY	10	6.00	.000	.000	6	6
	AUROBINDO	10	4.90	.568	.180	4	6
	SUVEN LIFE	10	2.60	1.713	.542	1	5
	SUN PHARMACEUTICAL	10	3.00	1.054	.333	2	4

	CIPLA	10	3.30	.949	.300	3	6
	Total	100	4.42	1.478	.148	1	6
SGC	SUN PHARMA	10	3.80	.422	.133	3	4
	JUBILANT	10	4.00	.000	.000	4	4
	PIRAMAL	10	4.00	.000	.000	4	4
	DIVI'S LAB	10	4.00	.000	.000	4	4
	J B CHEMICALS	10	4.00	.000	.000	4	4
	DR. REDDY	10	4.00	.000	.000	4	4
	AUROBINDO	10	4.00	.000	.000	4	4
	SUVEN LIFE	10	4.00	.000	.000	4	4
	SUN PHARMACEUTICAL	10	4.00	.000	.000	4	4
	CIPLA	10	4.00	.000	.000	4	4
	Total	100	3.98	.141	.014	3	4
GBM	SUN PHARMA	10	2.70	.483	.153	2	3
	JUBILANT	10	3.00	.000	.000	3	3
	PIRAMAL	10	3.00	.000	.000	3	3
	DIVI'S LAB	10	3.00	.000	.000	3	3
	J B CHEMICALS	10	2.00	.000	.000	2	2
	DR. REDDY	10	2.40	.516	.163	2	3
	AUROBINDO	10	1.80	.422	.133	1	2
	SUVEN LIFE	10	2.80	.422	.133	2	3
	SUN PHARMACEUTICAL	10	1.80	.422	.133	1	2
	CIPLA	10	2.50	.527	.167	2	3
	Total	100	2.50	.577	.058	1	3
D	SUN PHARMA	10	5.00	.000	.000	5	5
	JUBILANT	10	4.70	.675	.213	3	5
	PIRAMAL	10	3.00	.000	.000	3	3
	DIVI'S LAB	10	5.00	.000	.000	5	5
	J B CHEMICALS	10	4.00	.000	.000	4	4
	DR. REDDY	10	5.00	.000	.000	5	5
	AUROBINDO	10	4.60	1.265	.400	1	5
	SUVEN LIFE	10	1.90	.568	.180	1	3
	SUN PHARMACEUTICAL	10	2.90	.568	.180	2	4
	CIPLA	10	3.20	.632	.200	3	5
	Total	100	3.93	1.183	.118	1	5
C	SUN PHARMA	10	2.00	.000	.000	2	2
	JUBILANT	10	2.00	.000	.000	2	2
	PIRAMAL	10	2.00	.000	.000	2	2
	DIVI'S LAB	10	2.00	.000	.000	2	2
	J B CHEMICALS	10	2.00	.000	.000	2	2

DR. REDDY	10	2.00	.000	.000	2	2
AUROBINDO	10	2.00	.000	.000	2	2
SUVEN LIFE	10	2.00	.000	.000	2	2
SUN PHARMACEUTICAL	10	2.00	.000	.000	2	2
CIPLA	10	2.00	.000	.000	2	2
Total	100	2.00	.000	.000	2	2

Source: Compiled using SPSS

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, C = Means of Communication)

Using Table 3.4 of Descriptive Statistics, it can be seen that Jubilant Pharmova has the highest compliance in Board of Directors with mean of 11 while Suven Life Sciences and Sun Pharmaceuticals Industries ltd obtained lowest mean of 9.30.

With respect to Audit Committee, Aurobindo Pharma and Dr. Reddy's Laboratories have shown highest CG Compliance and Suven Life Sciences ltd. Showed lowest compliance with a mean of 6.90.

Jubilant Pharmova, J B chemicals ltd. and Dr. Reddy's Laboratories have shown highest mean of 6 in Remuneration and Nomination Committee while Suven Life Sciences have shown lowest mean of 2.60.

In the Shareholder's Grievance Committee component, all companies showed high CG compliance with mean of 4 except Sun Pharma Advanced Research Company ltd. that showed lower CG compliance.

Jubilant Pharmova, Divi's laboratories and Piramal Pharma ltd. showed highest CG compliance in the General Body Meeting component while Sun Pharmaceuticals ltd. and Aurobindo Pharma showed poor compliance.

Sun Pharma Advanced Research Company ltd., Divi's Laboratories and Dr. Reddy's Laboratories secured highest CG compliance in Disclosure Component while Suven Life Sciences have shown poor Disclosure compliance.

TABLE 3.5 Showing Results for ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
BOD	Between Groups	23.640	9	2.627	16.886	.000
	Within Groups	14.000	90	.156		
	Total	37.640	99			
AC	Between Groups	56.360	9	6.262	19.845	.000
	Within Groups	28.400	90	.316		
	Total	84.760	99			
RNC	Between Groups	159.960	9	17.773	28.362	.000
	Within Groups	56.400	90	.627		
	Total	216.360	99			
SGC	Between Groups	.360	9	.040	2.250	.026
	Within Groups	1.600	90	.018		
	Total	1.960	99			
GBM	Between Groups	21.200	9	2.356	17.966	.000
	Within Groups	11.800	90	.131		
	Total	33.000	99			
D	Between Groups	110.610	9	12.290	39.645	.000
	Within Groups	27.900	90	.310		
	Total	138.510	99			
C	Between Groups	.000	9	.000	.	.
	Within Groups	.000	90	.000		
	Total	.000	99			

Source: Compiled using SPSS

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, C = Means of Communication)

The ANOVA results for Pharmaceutical Sector shows the significance value of less than 0.05 taken at 95% confidence level for the Board of Directors, Audit Committee, Remuneration and Nomination Committee, Shareholders Grievance Committee, General Body Meeting and Disclosures. Thus, the Null hypothesis drawn above is rejected and conclusion can be drawn that the Corporate Governance compliance with respect to each of these components is significantly different among Companies in the Pharmaceutical Sector.

Therefore, it can be seen that Corporate Governance compliances with respect to the above components varies from company to company within the Pharmaceutical Sector where Jubilant Pharmova showed highest CG Compliance in Board of Directors, Remuneration and Nomination Committee, Shareholder Grievance Committee and General Body Meeting while Suven Life Sciences ltd showed poor CG Disclosure practices.

The following table shows the Ranking of Companies in the Pharmaceutical Sector with regards to their overall Corporate Governance Disclosure Practices during the period under study.

TABLE 3.7 Corporate Governance Ranking of IT Companies

COMPANY	**CGI**	**RANK**
JUBILANT	392	1
DR. REDDY'S	383	2
PIRAMAL PHARMA LTD	363	3
DIVI'S LABORATORIES	363	3
AUROBINDO	363	3
J B CHEMICALS	358	4
SUN PHARMA	356	5
CIPLA	316	6
SUN PHARMACEUTICALS	306	7
SUVEN LIFE SCIENCES	295	8

Source: Compilation by Student

From Table 3.7 it can be seen that Jubilant Pharmova Ltd. secured highest Corporate Governance Score of 392 points on a scale of 400, while Suven Life Sciences Ltd. obtained a CG score of 295 of 400 implying poor Corporate Governance Disclosure Practices.

3.4 COMPARISON OF CGDP BETWEEN IT SECTOR AND PHARMACEUTICAL SECTOR

This will help to arrive at the conclusion about which Sector is having good Corporate Governance Disclosure Practices. The CG component wise analysis is shown in Table 3.8 below using Paired Sample Statistics.

Table 3.8 Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	BOD	9.73	100	.529	.053
	BOD	9.94	100	.617	.062
Pair 2	AC	7.72	100	1.074	.107
	AC	8.18	100	.925	.093
Pair 3	RNC	5.21	100	.913	.091
	RNC	4.42	100	1.478	.148
Pair 4	SGC	3.77	100	.489	.049
	SGC	3.98	100	.141	.014
Pair 5	GBM	2.89	100	.373	.037
	GBM	2.50	100	.577	.058
Pair 6	D	3.42	100	.867	.087
	D	3.93	100	1.183	.118

Source: Compilation using SPSS

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, C = Means of Communication)

From Table 3.8, it can be seen that the IT sector Companies have shown better Corporate Governance Practices with respect to Remuneration and Nomination Committee and General Body Meeting components. While the Pharmaceutical Sector has shown better Corporate Governance Disclosure Practices on account of Board of Directors, Audit Committee, Shareholder's Grievance Committee and Disclosures Component compared to the IT Sector.

TABLE 3.9 Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	BOD - BOD	-.210	.913	.091	-.391	-.029	-2.299	99	.024
Pair 2	AC - AC	-.460	1.251	.125	-.708	-.212	-3.678	99	.000
Pair 3	RNC - RNC	.790	1.855	.185	.422	1.158	4.259	99	.000
Pair 4	SGC - SGC	-.210	.518	.052	-.313	-.107	-4.052	99	.000
Pair 5	GBM - GBM	.390	.751	.075	.241	.539	5.195	99	.000
Pair 6	D - D	-.510	1.193	.119	-.747	-.273	-4.274	99	.000

Source: Compilation using SPSS

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, C = Means of Communication)

The above table shows whether the Corporate Governance Disclosure Practices is significantly same in the IT and Pharma Sector.

From the results of Paired Sample Test as shown in Table 3.9, it is seen that the Corporate Governance Disclosure Practices with respect to Board of Director's, Audit committee, Remuneration and Nomination Committee, Shareholder's Grievance Committee, General Body Meeting and Disclosures in the IT Sector and Pharmaceutical Sector are significantly different as the significance level is below 0.05 for each of the above Corporate Governance Components. Thus, the Null Hypothesis is rejected and concluded that there is significant difference in the Corporate Governance Disclosure Practices in both the Sectors.

It can therefore be inferred from these observations that the Pharmaceutical Sector has better Disclosure Practices in Corporate Governance compared to the IT sector.

CHAPTER 4

IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE

There is a need to examine if the level of Corporate Governance Disclosure Practices of Companies, have any significant influence on their Financial Performance which is examined in this chapter.

4.1 HYPOTHESIS

In order to study the impact of Corporate Governance on financial performance indicators of Companies from Select Industries, the following hypothesis have been drawn.

H02.1: The Corporate Governance Disclosure Practices have no significant influence on the Financial Performance indicators.

H02.1.1: The Corporate Governance Disclosure Practices have no significant influence on the Return on Assets.

H02.1.2: The Corporate Governance Disclosure Practices have no significant influence on the Return on Capital Employed.

H02.1.3: The Corporate Governance Disclosure Practices have no significant influence on Price to Book ratio.

H02.1.4: The Corporate Governance Disclosure Practices have no significant influence on Earnings Per Share.

H02.2: The Components of Corporate Governance have no significant influence on the Financial Performance indicators that are Return on Assets, Return on Capital Employed, Price to Book Ratio and Earnings Per Share.

H02.2.1: The Board of Directors have no significant influence on the select Financial Performance Indicators.

H02.2.2: The Audit Committee have no significant influence on the select Financial Performance Indicators.

H02.2.3: The Remuneration and Nomination Committee have no significant influence on the select Financial Performance Indicators.

H02.2.4: The General Body Meeting have no significant influence on the Financial Performance Indicators.

H02.2.5: The Disclosures have no significant influence on the Financial Performance.

4.2 VARIABLES

The variables used to study the impact of Corporate Governance on financial performance, the following variables are used:

Independent Variables:

1. Corporate Governance Score
2. Board of directors
3. Audit committee
4. Remuneration and nomination committee
5. Stakeholder's grievance committee
6. General body meeting
7. Disclosures

Dependent Variables:

The dependent variables are financial performance indicators. Based on availability of data, four indicators have been selected of which two are based on internal performance (ROA and ROCE) and two are market performance based (P/B ratio and EPS).

1. Return on Assets (ROA) = $\frac{\textit{Net Profit after Tax}}{\textit{Average Assets}}$

It indicates the effectiveness of a company in using its assets to generate earnings. It describes the net profit a company generates for every rupee invested in total assets.

2. Return on Capital Employed (ROCE) = $\frac{\textit{Profit before Tax and Extraordinary Items}}{\textit{Average of Capital Employed}}$

The ratio measures the percentage of net profit that a company generates with the total capital employed in the business. It is a ratio that indicates the profitability and efficiency of a company's capital investments.

3. Price to Book ratio (P/B) = $\frac{\textit{Market Price per Equity Share}}{\textit{Book Value per Equity Share}}$

Price to Book ratio is used to compare a stock market's value to its book value and is also known as the market to book ratio.

4. Earnings Per Share (EPS) = $\frac{\textit{Net Profit attributable to Equity Shareholders}}{\textit{Weighted Average number of Equity Shares Outstanding}}$

This indicator describes the part of profit that is allocated to each outstanding Equity share and is thus an important indicator of company's financial performance.

4.3 DATA ANALYSIS

Correlation anlysis and Simple Rgression analysis have been used to study if Coprorate Governance have any significant Influence on Finacial Performance of Companies from IT Sector and Pharmaceutical Sector. The following table 4.1 shows the Correlation Matrix for the 20 selected Companies from Indian IT and Pharmaceutical Sector.

TABLE 4.1 Correlation Matrix

	CGI	ROA	ROCE	P/B	EPS
CGI	1				
ROA	-0.11165	1			
ROCE	-0.14638	0.452438	1		
P/B	0.031551	-0.01383	-0.09193	1	
EPS	0.0932	0.279279	0.464669	-0.10415	1

Source: Compilation by Student

(CGI = Corporate Governance Index score, ROA = Return on Assets, ROCE = Return on Capital Employed, P/B = Price to Book Ratio, EPS = Earnings Per Share)

From the above Correlation Matrix shown in Table 4.1, it is evident that the Financial Performance variables like Return on Assets (ROA) and Return on Capital Employed (ROCE) are negatively correlated with the Corporate Governance Index that represents the CG Disclosure Practices. This denotes that as the Corporate Governance Practices improve, the ROA and ROCE decreases and vice versa. However, Price to book Ratio and Earnings Per Share are positively correlated with the Corporate Governance Index which means that as the Corporate Governance Disclosure Practices increases Financial Performance on account of these market-oriented variables (P/B and EPS) also increases.

TABLE 4.2 OLS, using observations 1-200

Dependent variable: ROA

	Coefficient	Std. Error	t-ratio	p-value
const	0.463095	0.242940	1.906	0.0581
CGI	−0.0109838	0.00694757	−1.581	0.1155
R-squared	0.012466			

Source: Compilation using Gretl

(CGI = Corporate Governance Index Score, ROA = Return on Assets)

From the results of OLS as shown in Table 4.2, it can be seen that the Corporate Governance compliance practices do not have any significant influence on the Return on Assets of the select companies. The Null Hypothesis is accepted as the p-value is greater than 0.05 taken at 95% confidence level.

TABLE 4.3 OLS, using observations 1-200

Dependent variable: ROCE

	Coefficient	Std. Error	t-ratio	p-value
const	0.398383	0.120436	3.308	0.0011
CGI	−0.00717142	0.00344422	−2.082	0.0386
R-squared	0.021427			

Source: Compilation using Gretl

(CGI = Corporate Governance Index Score, ROCE = Return on Capital Employed)

The regression results in Table 4.3 show that the Corporate Governance Compliance Practices have a significant influence on the Return on Capital Employed. The Null Hypothesis is rejected as the p-value is lower than 0.05.

TABLE 4.4 OLS, using observations 1-200

Dependent variable: P/B

	Coefficient	Std. Error	t-ratio	p-value
const	−9.20774	47.9550	−0.1920	0.8479
CGI	0.609162	1.37141	0.4442	0.6574
R-squared	0.000995			

Source: Compilation using Gretl

(CGI = Corporate Governance Index Score, P/B = Price to Book Ratio)

Table 4.4 shows that the Corporate Governance Compliance Practices do not significantly influence the Price to Book ratio of the select companies as the p-value is 0.6574 which is greater than 0.05. Therefore, the Null Hypothesis is accepted.

TABLE 4.5 OLS, using observations 1-200

Dependent variable: EPS

	Coefficient	Std. Error	t-ratio	p-value
const	−9.34350	31.3449	−0.2981	0.7659
CGI	1.18071	0.896397	1.317	0.1893
R-squared	0.008686			

Source: Compilation using Gretl

(CGI = Corporate Governance Index Score, EPS = Earnings Per Share)

From the above Table 4.5, it is clear that Corporate Governance Compliance Practices do not influence the Earnings Per share of the selected Companies as the p-value is higher than 0.05 which leads to accepting the Null Hypothesis.

The following analysis shows whether the sub components of Corporate Governance have any significant influence on the select Financial Performance Indicators:

TABLE 4.6 OLS, using observations 1-200

Dependent variable: ROA

	Coefficient	Std. Error	t-ratio	p-value
const	1.11799	0.386586	2.892	0.0043
BOD	−0.0465366	0.0398160	−1.169	0.2439
AC	−0.0868944	0.0231952	−3.746	0.0002
RNC	0.0160479	0.0179976	0.8917	0.3737
SGC	−0.0200236	0.0610388	−0.3280	0.7432

GBM	−0.0194772	0.0390483	−0.4988	0.6185
D	0.0445397	0.0225342	1.977	0.0495
R-squared	0.080003			

Source: Compilation using Gretl

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, ROA = Return on Assets)

Table 4.6 shows that only Audit Committee and Disclosure Compliances have a significant influence on the Return on Assets with p-value lower than 0.05 which rejects the Null Hypothesis. While other components like Board of Directors, Remuneration and Nomination Committee, Shareholder's Grievance Committee and General Body Meeting do not influence the performance of the company with respect to Return on Assets. Therefore, the Null Hypothesis is accepted.

TABLE 4.7 OLS, using observations 1-200

Dependent variable: ROCE

	Coefficient	Std. Error	t-ratio	p-value
const	0.142854	0.186109	0.7676	0.4437
BOD	0.0309629	0.0191681	1.615	0.1079
AC	−0.0477679	0.0111666	−4.278	<0.0001
RNC	0.0162233	0.00866439	1.872	0.0627
SGC	0.00308488	0.0293852	0.1050	0.9165
GBM	0.0172795	0.0187985	0.9192	0.3591
D	−0.0151733	0.0108484	−1.399	0.1635
R-squared	0.140279			

Source: Compilation using Gretl

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, ROCE = Return on Capital Employed)

Table 4.7 shows that only Audit committee has a significant influence on Return on Capital Employed with a p-value lower than 0.05 leading to rejection of Null Hypothesis. While other CG components do not influence this financial performance measure. Thus, the Null Hypothesis are accepted.

TABLE 4.8 OLS, using observations 1-200

Dependent variable: P/B

	Coefficient	Std. Error	t-ratio	p-value
const	−20.2143	75.4331	−0.2680	0.7890
BOD	0.930445	7.76915	0.1198	0.9048
AC	7.46613	4.52600	1.650	0.1006
RNC	−13.1504	3.51181	−3.745	0.0002
SGC	−8.44793	11.9103	−0.7093	0.4790
GBM	9.69856	7.61935	1.273	0.2046
D	9.15473	4.39702	2.082	0.0387
R-squared	0.090578			

Source: Compilation using Gretl

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, P/B = Price to Book Ratio)

It is evident from the above Table 4.8 that Board of Directors, Audit Committee, Shareholder's Grievance Committee and General Body Meeting do not influence the market-based performance indicator that is Price to Book ratio. Hence, the Null Hypothesis is accepted as p-value is greater than 0.05. However, it can also be seen that the Remuneration and Nomination Committee and Disclosure practices influence the P/B ratio of these companies leading to rejection of Null Hypothesis as p-value is lower than 0.05.

TABLE 4.9 OLS, using observations 1-200

Dependent variable: EPS

	Coefficient	Std. Error	t-ratio	p-value
const	82.1969	49.4336	1.663	0.0980
BOD	−8.02902	5.09136	−1.577	0.1164
AC	−8.01408	2.96602	−2.702	0.0075
RNC	7.94853	2.30140	3.454	0.0007
SGC	10.1322	7.80516	1.298	0.1958
GBM	−1.96961	4.99319	−0.3945	0.6937
D	5.45646	2.88150	1.894	0.0598
R-squared	0.092883			

Source: Compilation using Gretl

(BOD = Board of Directors, AC = Audit Committee, RNC = Remuneration and Nomination Committee, SGC = Shareholder's Grievance Committee, GBM = General Body Meeting, D = Disclosures, EPS = Earnings Per Share)

Table 4.9 shows that Audit committee and Remuneration and Nomination Committee significantly influences the Earnings Per Share of the selected companies as they showed a p-value lower than 0.05. Therefore, Null Hypothesis is rejected. On the other hand, Board of Directors, Shareholder's Grievance Committee and General Body Meeting showed a p-value higher than 0.05 depicting no significant influence on Earnings Per Share.

CHAPTER 5

FINDINGS AND CONCLUSIONS

5.1 FINDINGS

The overall Corporate Governance Rank of a Company is significantly influenced by all major components that include the Board of Directors, Audit Committee, Remuneration and Nomination Committee, Shareholders Grievance Committee, General Body Meeting and Disclosures.

The results of ANOVA and Two sample Test have revealed that the Pharmaceutical Sector has shown better Corporate Governance Disclosure Practices compared to the IT Sector.

Jubilant Pharmova Ltd. got the highest Corporate Governance Score of 392 of 400 followed by NIIT Ltd and Coforge Ltd. with a score of 383 while Suven Life Sciences Ltd. showed the least score of 295 which is lowest score taking both IT and Pharmaceutical Sectors into account.

The study has shown a negative correlation between the Corporate Governance Disclosure Practices and internal Financial Performance indicators like Return on Assets and Return on Capital Employed which conveys that there is an inverse relation between the two variables. However, the Financial Performance from Market perspective as studied using P/B ratio and EPS has shown positive correlation with the Corporate Governance Disclosure Practices.

Out of the Corporate Governance Components, Audit Committee, Remuneration and Nomination Committee and Disclosure Characteristics have shown to impact the Financial Performance of the Selected Companies internally as well as in the market. While Board of Directors, Shareholder’s Grievance Committee and General Body Meeting and their sub components do not significantly impact the Financial Performance.

5.2 CONCLUSIONS

The study examined the relation between Corporate Governance Disclosure Practices and Corporate Governance Ranking of selective Companies from IT and Pharmaceutical Sector listed on National Stock Exchange of India. The Board of Directors, Audit Committee, Remuneration and Nomination Committee, Shareholders Grievance Committee, General Body Meeting and Disclosure Components and its sub components play an important role in declaring the overall Corporate Governance Disclosure Practices of Companies. The IT Sector Companies should disclose all required information with respect to Board of Directors, Audit Committee, Shareholder's Grievance Committee and Disclosures while the Pharmaceutical Sector need to disclose the required information with regards to Remuneration and Nomination Committee and General Body Meeting. Good Corporate Governance Disclosure Practices have shown to improve the Financial Performance of Companies to some extent both internally as well as in the market. Hence, Companies should comply with the Corporate Governance Disclosure Practices as laid down by SEBI through Amendments of Clause 49 from time to time as good and consistent Corporate Governance Disclosure Practices will help to boost Investor Confidence in the Functioning and performance of Companies.

5.3 SUGGESTIONS

The scope of the study can be broadened to include all sectors listed on NSE to get an overall picture of the Corporate Governance Disclosure Practices in India. The compliance level with respect to Clause 49 before and after amendments by SEBI can be examined to know if there is uniformity in CG Disclosure Compliances. The impact of Covid-19 on the CG Disclosure Practices and Financial Performance can also be studied for arriving at the desired conclusion on the status of Indian Industries during the pandemic scenario.

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