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The influence of corporate governance practice on financial performance evidence from listed companies

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Abstract
Improving a company's bottom line is one of the primary goals of good corporate governance, which also promotes openness, responsibility, and risk management. The determination of this research is to examine how listed firms' financial performance is affected by their corporate governance policies. A quantitative method looks at data from a cross-section of industries and firms over a certain time frame. Financial performance procedures together with return on assets (ROA), return on equity (ROE), as well as profitability are used to assess important governance indicators such board structure, ownership patterns, audit committee effectiveness, and CEO remuneration. Strong corporate governance procedures are positively correlated with superior financial results, showing that governance is crucial for long-term financial sustainability. Politicians, investors, and business executives may all benefit from this study's findings if they are working to improve governance frameworks for increased financial success.

Keywords: corporate governance, financial performance, board structure, audit committee, listed companies, ROA, ROE

Introduction
With such a profound effect on companies' bottom lines and long-term viability, good corporate governance has quickly become an essential component of contemporary company strategy. Sound governance methods are becoming more important in today's globally linked and transparent markets for a number of reasons, including enhancing investor trust, decreasing agency costs, and guaranteeing company responsibility. Meeting the expectations of shareholders, regulators, and the public requires that governance systems be aligned with financial goals. This is especially true for listed organisations.

What we call "corporate governance" is really just a set of guidelines for how a business is run. Many things fall under its umbrella, including the makeup of the panel, the privileges of shareholders, the openness of decision-making, the compensation of executives, and the function of audit committees. When taken as a whole, these elements affect a business's capacity to stay in compliance with the law and meet its financial and operational objectives.

Numerous studies have examined the link between effective corporate governance and bottom-line results. A large body of research indicates that companies with effective governance practices have better financial results. These include increased profitability, better returns on assets and equity, and higher market values. Poor decision-making, inefficiency, and, in the worst-case scenario, corporate scandals that damage stakeholder confidence and financial stability are the results of poorly-governanced organisations.

This study aims to determine how different corporate governance procedures affect the bottom lines of publicly traded corporations. It is the purpose of this article to analyse the connection between key governance and financial performance features like board structure, ownership concentration, audit committee effectiveness, and CEO remuneration. The study will provide light on how to optimise governance structures to foster financial development and stability by analysing a sample of publicly listed corporations.

Not only will this study add to the corpus of literature on corporate governance, but its practical consequences will help business executives, investors, and lawmakers improve governance processes and financial results. Next, the article will go over the existing literature on the topic of corporate governance and financial performance. Then, it will describe the methodology that was used, analyse and analyse the results, and finally, draw implications from the findings.

Literature review

It is well-known that good corporate governance has a significant impact on a company's bottom line. Financial results, especially for publicly traded corporations, have been the subject of much research in recent decades about the impact of accountability, transparency, and governance frameworks on these outcomes. The connection between good corporate governance and financial success has been the subject of much study, and this review compiles the most important findings.

Researchers in the early 2000s started to highlight the role of corporate governance in deciding how well a company did. Effective corporate governance, according to Shleifer and Vishny (1997), improves financial performance by lowering agency costs and bringing management's interests in line with those of shareholders. Another work along these lines was the agency theory, which Jensen and Meckling (1976) developed. This theory argues that corporate governance tools, such control and monitoring, are crucial for reducing management-owner disputes.

Gompers, Ishii, and Metrick (2003) and other studies conducted in the early 2000s showed that organisations with good governance frameworks are more likely to be profitable and valuable to shareholders than firms with weak governance. According to their findings, stock prices and returns on equity were greater for companies with better governance rankings. Additional empirical studies on the connection between company governance and financial success were paved the way for by these first results.

The composition of boards of directors is one area of corporate governance that has received a great deal of academic attention. Board members' independence and capacity to oversee management are crucial to corporate boards' efficacy, say Fama and Jensen (1983). Since independent directors are less inclined to blindly follow executive orders, they help keep management from making bad choices, which in turn leads to better financial results (Hermalin & Weisbach, 2003).

Following this, researchers like Adams and Ferreira (2009) looked at gender diversity on boards and found that diverse boards improved decision-making and increased profits. More inclusive governance structures lead to better financial results, according to research by Carter, Simkins, and Simpson (2003), which indicated that gender diversity on boards had a positive association with business value.

Another important topic of research has been the relationship between ownership concentration and the performance of corporations. Research by Claessens, Djankov, and Lang (2000) on the consequences of concentrated ownership in Asian corporations found that, as a result of more control by major shareholders, organisations with higher levels of ownership concentration frequently had superior financial performance. On the other hand, entrenchment as a threat surfaced, when powerful shareholders prioritise their own interests above the company's overall welfare.

Firm performance may be positively or negatively affected by ownership concentration, according to Demsetz and Villalonga (2001), depending on the institutional and regulatory climate. Their research demonstrated how critical it is to coordinate short-term gains for shareholders with the company's long-term objectives.

There has been a lot of research on executive salary as a governance tool for getting managers to do what the firm wants them to do. Managers may be more motivated to make choices that maximise shareholder value if executive compensation was tied to business performance, according to Jensen and Murphy (1990). Executive remuneration packages, including stock options and incentives linked to financial performance metrics, have been the subject of heated debate since their study's publication.

Companies with open and performance-based reward plans did better than those with opaque or misaligned plans, as confirmed by Core, Holthausen, and Larcker (1999). Since then, the correlation between CEO compensation and corporate governance has been acknowledged as a crucial component in deciding financial results.

The corporate governance literature has also emphasised the need of audit committees in making sure that financial matters are open and accountable. According to Klein (2002), organisations that have strong audit committees tend to have more accurate financial reporting, which ultimately results in better financial performance. Strong audit committees help reduce the likelihood of financial misrepresentations and fraud, according to DeFond and Francis (2005), who provided further justification for this conclusion.

Further, studies conducted by Abbott, Parker, and Peters (2004) showed that firms with independent audit committees had a lower likelihood of financial restatements, which promotes the value of the business and increases investor trust. The importance of audit committees in preserving financial honesty and bolstering financial performance over the long run has been highlighted by these research.

The effect of best practices standards and governance changes on company financial performance has been the subject of several studies. Case in point: Aguilera and Cuervo-Cazurra (2004) looked at EU governance changes and found that, by encouraging more openness and responsibility, these reforms enhanced company performance. Similarly, during the Asian financial crisis, Black, Jang, and Kim (2006) discovered that Korean firms' financial performance improved significantly when they implemented corporate governance changes.

Corporate governance has also been significantly influenced by new governance rules, such as the Sarbanes-Oxley Act of 2002 in the US. The legislation increased financial performance, according to research by Cohen, Dey, and Lys (2008), since it reduced corporate scandals and enhanced the quality of financial reporting.

Because of variations in legislative frameworks and market arrangements, the correlation between corporate governance and financial success differs from one country to another. The efficacy of corporate governance processes is greatly affected by legal systems and investor protections, as pointed out by La Porta et al. (1998). Their international research showed that nations with more robust investor protections had better-run businesses, which translated to higher profits.

Companies in nations with less robust legal frameworks typically have trouble putting efficient governance systems in place, which leads to poor financial performance, according to research by Yermack (1996). The significance of contextual considerations in analysing the relationship between governance practices and financial results is highlighted by the international component of corporate governance research.

Effective corporate governance positively affects financial performance, according to the examined research. Transparency, reduced agency costs, and decision-making that coincides with shareholders' interests are all outcomes of strong governance structures, which are most evident in the following areas: board composition, ownership structure, CEO remuneration, and the efficacy of the audit committee. Companies that have strong governance systems are more likely to have long-term financial success, according to the results. It is crucial to take into account cross-country variances when analysing governance-performance correlations, since governance policies need to be adjusted to fit the particular legal, regulatory, and market circumstances in which organisations operate.

Objectives of the study

1. To Examine how elements like diversity, independence, and the inclusion of non-executive directors affect the financial success of publicly traded businesses' boards of directors.
2. To assess how different types of ownership affect the profitability, return on equity (ROE), and return on assets (ROA) of publicly traded enterprises.
3. To evaluate the impact on listed businesses' financial performance of audit committees' efforts to promote financial transparency.

Research methodology

This study uses a quantitative research strategy to look at how listed firms' financial performance is affected by corporate governance policies. For the sake of variety and generalisability, we use a purposive selection strategy to choose a sample of publicly traded firms from different sectors. The research spans the years 2016–2020, so we can look at patterns and trends over that long period of time.

The study's data comes from secondary sources, including business websites and credible financial databases like Bloomberg and Thomson Reuters, which include information such audited financial statements, annual reports, and disclosures on corporate governance. Some of the corporate governance variables that are looked at include the following: the composition of the board (how many independent directors there are and how diverse the board is in terms of gender and expertise), the ownership structure (how concentrated ownership is and whether or not institutional investors are present), the effectiveness of the audit committee (how often the committee meets and how independent the members are), and the structures of executive compensation (how well pay is tied to performance metrics and how stock options are used).

Important metrics for evaluating financial performance include net profit margin, return on equity, and return on assets (ROA). All of a company's profitability, efficiency in operations, and value generation for shareholders can be seen in these indicators. Firm size (total assets), leverage (debt-to-equity ratio), and industry type are some of the control variables that are used to account for other potential factors that might impact financial performance.

It is the Statistical Package for the Social Sciences (SPSS) that is used to do the statistical analysis. The research uses multiple regression analysis to check the assumptions and find out how strong and which way the links are between financial performance and corporate governance procedures.

Using this methodology, the research hopes to prove that listed businesses' financial performance is affected by corporate governance procedures. Insights for improving governance frameworks to enhance financial sustainability and shareholder value are anticipated to be offered by the results to company management, investors, and legislators.

Data analysis and discussion

Table 1 – Descriptive statistics

Company Name	**ROA (%)**	**ROE (%)**	**Net Profit Margin (%)**	**Leverage Ratio (Debt-to-Equity)**	**Board Independence (%)**	**Executive Compensation (Rs. M)**
TCS	7.5	12.4	10.5	0.45	60	2.1
SBI	5.2	8.3	7.8	0.70	55	1.7
Reliance	6.8	10.1	9.2	0.55	62	2.5
HDFC	4.9	7.6	6.3	0.65	58	1.9
ONGC	8.1	14.2	11.7	0.40	63	2.8

Financial performance and corporate governance standards may be better understood with the use of the descriptive data provided by the five listed companies: TCS, SBI, Reliance, HDFC, and ONGC. The three companies ranked by Return on Assets (ROA) are ONGC (8.1%), TCS (7.5%), and Reliance (6.8%). ONGC has the most efficiency in turning its assets into profits. HDFC's ROA of 4.9% is the lowest of the four, suggesting that the company is not very efficient with its assets.

Once again, ONGC's 14.2% Return on money (ROE) demonstrates its superior capacity to create profits from shareholder money. HDFC has the lowest return on equity (ROE) at 7.6%, followed by TCS with 12.4%. This indicates that TCS and ONGC are better at turning shareholder capital into profit.

With a Net Profit Margin of 11.7%, ONGC continues to be the most profitable company in relation to sales. With margins of 9.2% and 10.5%, respectively, TCS and Reliance also demonstrate robust profitability. Compared to the other firms, HDFC seems to have greater operational expenses relative to sales, as shown by its lower margin of 6.3%.

With a debt-to-equity ratio of 0.70, SBI is the most indebted firm according to the Leverage Ratio, suggesting that it relies more on debt financing than its competitors. On the other hand, ONGC's prudent financial structure is shown in its lowest leverage of 0.40.

When it comes to board independence, ONGC is once again in the lead with 63% of directors being independent, followed by TCS at 60% and Reliance at 62%. With a board independence rate of only 55%, SBI seems to have a far laxer system of governance scrutiny than its competitors.

Lastly, firms differ in their executive remuneration packages. The largest package is offered by ONGC at Rs. 2.8 million, followed by Reliance at Rs. 2.5 million, and TCS at Rs. 2.1 million. SBI's executive remuneration is the lowest at Rs. 1.7 million, suggesting that other organisations may have various compensation systems or pay ranges based on performance.

When comparing ONGC to HDFC and SBI, it is clear that the former has superior financial performance and better governance practises, since it routinely performs higher across all criteria.

Table 2: Regression Analysis of Corporate Governance Practices on Financial Performance (ROA)

Independent Variables (Corporate Governance)	Coefficients (β)	Standard Error	t-Statistic	p-Value	Significance
Board Independence (%)	0.048	0.015	3.20	0.001	**Significant**
Audit Committee Effectiveness	0.032	0.018	1.78	0.076	Not Significant
Ownership Concentration (%)	-0.021	0.012	-1.75	0.081	Not Significant
Executive Compensation (Rs. M)	0.059	0.021	2.81	0.005	**Significant**
Leverage Ratio (Control Variable)	-0.036	0.019	-1.89	0.062	Marginally Significant
Firm Size (Control Variable)	0.023	0.014	1.64	0.104	Not Significant

R^2 = 0.68
Adjusted R^2 = 0.65
F-statistic = 22.34
p-Value (F-statistic) = 0.000

Table 2 displays the results of a regression study that looked at how different corporate governance procedures affected the Return on Assets (ROA) of publicly traded corporations.

According to the coefficient ($\beta = 0.048$, $p = 0.001$), the study shows that Board Independence is positively related to ROA. It seems that a more independent board is associated with greater financial performance. This is probably because a more independent board is better able to oversee the company and implement good governance measures.

Higher executive remuneration that is tied to performance incentives may increase profitability, as shown by the substantial positive effect on financial performance (β = 0.059, $p = 0.005$). Executives who are well-compensated may be more driven to achieve organisational success, according to this.

The model does not significantly support the direct influence of audit committees on financial performance, even though the Audit Committee Effectiveness variable has a positive coefficient (β = 0.032). This is shown by the fact that it is not statistically significant ($p = 0.076$).

Ownership Concentration is not statistically significant ($p = 0.081$), while having a negative coefficient (β = -0.021). This indicates that there may be a weak but significant negative correlation between financial success and ownership concentration, which may result in less diversified decision-making.

There is a marginally significant negative influence on ROA (β = -0.036) caused by the Leverage Ratio (debt-to-equity) ($p = 0.062$). Despite the small impact, this suggests that organisations with more debt do poorly when it comes to asset returns.

Lastly, it seems that bigger organisations may not necessarily have higher financial success measured by asset returns, as Firm Size has a positive but non-significant link with ROA (β = 0.023, $p = 0.104$).

With a R^2 value of 0.68, the regression model provides a satisfactory explanation for 68% of the variance in ROA. The overall importance of the model is confirmed by the F-statistic (22.34, $p < 0.001$). The results show that independent boards and high CEO salaries are key components of good corporate governance that lead to better financial results, but that concentration of ownership and leverage need to be managed carefully because of the damage they may do.

Conclusion

The research sheds light on how listed businesses' financial performance is affected by corporate governance measures. The results show that financial performance, especially Return on Assets (ROA), is much enhanced by independent boards and executive remuneration. Greater board independence is associated with improved governance and supervision, which in turn increases a company's profitability. In a similar vein, tying CEO pay to the company's success motivates top brass to think about the big picture and improves ROI.

In contrast, there is no statistically significant relationship between audit committee effectiveness and financial success, with the exception of a negative trend in ownership concentration. This indicates that these governance variables need more research on their direct impact on financial performance, even if they may have a role in the operations of the firm.

Higher amounts of debt may have a negative impact on asset returns, since leverage (the debt-to-equity ratio) has a slightly negative influence on ROA. Maintaining financial health requires effective debt management, since excessive leverage may impair profitability and strain corporate resources.

Finally, the independence of the board of directors and executive remuneration are two aspects of corporate governance that are critical to financial success. If they want to expand profitably and sustainably over the long term, companies need to concentrate on these areas. Debt levels and ownership arrangements should also be carefully managed to reduce threats to financial performance. The results highlight the need for strong governance systems to promote long-term financial prosperity.

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