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    REVIEW OF LITERATURE
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    OBJECTIVES
    HYPOTHESES
    RESEARCH METHODOLOGY
    RESULTS & DISCUSSION
    FINDINGS
    RECOMMENDATIONS/SUGGESTIONS
    CONCLUSIONS
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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

DOES GOOD CORPORATE GOVERNANCE AFFECT PERFORMANCE OF COMPANIES?

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ABSTRACT

This paper examines the affect of complying with corporate governance practices on company performance, as the failure of Satyam Computers Ltd. in India and financial institutions around the world during global financial crisis 2008 highlighted this issue and raised questions. The paper further explores the effect of global financial crisis and collapse of Satyam Computers in India on Indian economy by constructing a measure of corporate governance, CG Score, after taking into consideration Indian perspective on corporate governance and international best practices too. The study takes implementation of good governance as independent variable and aims to find its effect on two key performance measures namely, operating performance, using return on assets (ROA) and financial performance, using return on equity (ROE). Based on the sample of companies which have been constituents of the CNX 100 Index for each of the two years, 2007-08 and 2008-09, the data analysis is done by using the statistical package for social science (SPSS) version 16.0. whereby the importance of independent directors in audit and remuneration committee is revealed.

KEYWORDS

Corporate Governance, Collapses, Clause 49, Board Committees.

INTRODUCTION

Corporate governance is the way in which the internal management of companies are determined to take decisions and act in the best interests of all the stakeholders maximising their wealth. In the past decade, there has been major focus on the issue of corporate governance and on how various structures in corporate governance framework help to build and maintain long term sustainability of organisation is the most discussed topic among researchers worldwide.

Since decades, corporate governance is in discussion worldwide due to massive breakdowns in the way the organisations are governed. The countries around the world saw major corporate collapses, the first major failure was of Penn Central Transportation Company in the mid of 20th century and thereafter there were series of them which renewed the interest in the corporate governance practices of modern corporations since 2001, due to the high-profile collapses of dozens of large U.S. firms such as Enron Corporation, WorldCom and thereafter the failure of Swissair, the collapse of Parmalat, Vivendi in Europe, the scandal of HIH in Australia revealed that companies worldwide are facing failures in corporate governance. The failure of corporate governance system throughout raises concern for regulators around the world for introducing mechanisms to build back investors' confidence in the system. In the aftermath of financial scandals of Poly Peck, BCCI and pension funds of Maxwell Communication Group in the U.K., the world saw emergence of good corporate governance practices in the form of codes and standards. The Sarbanes-Oxley legislation in the USA, the Cadbury Committee recommendations for European companies and the OECD principles of corporate governance are the best known among the corporate governance norms and standards around the globe, following which many other committees have been appointed in different countries of the world including U.S.A., South Africa, Malaysia, Japan, Germany, France and India. The issue of governance has gained momentum with the fall of Satyam Computer Services Ltd. in India and of large investment institutions all over the world during the financial crisis 2008-09. There is a strong criticism against the failure of companies' in spite of all the standards of governance being laid down.

GOVERNANCE AND PERFORMANCE- A LITERATURE SURVEY

The characteristics of boards, namely, the size of the board, board leadership and proportion of outsiders on the board, form major part of most research studies. Researchers have mixed findings for all board characteristics leading to inconclusive findings. Some researchers followed the practise of using a set of corporate governance indicators in the form of index or score to determine whether these indicators have effect on company's performance. Rechner & Dalton (1991) argued that the choice between CEO duality versus independent board leadership will influence organizational performance. Bhagat & Bolton (2007) found that CEO-Chair separation is significantly positively correlated with operating performance as measured by ROA. Wagner, Stimpert & Fubura (1998) analysed the data from 259 large US companies and confirms the existence of relationship between insider/outsider composition and performance. Liang & Li (1999) examined the relation of board structure with firm performance in a sample of 228 small private firms in Shanghai, China. Weir, Laing & McKnight (2002) recognised the substitutability of internal and external governance mechanisms in determining performance of UK companies for the period 1994-1996. Gompers, Ishii & Metrick (2003) used 24 governance rules to construct a "Governance Index" to proxy for the level of shareholder rights at about 1500 large firms during the 1990s. Bauer et al. (2008) found that well-governed firms significantly outperform poorly governed firms by up to 15% a year but not all aspects of corporate governance matter to shareholders, by employing a unique data set provided by Governance Metrics International(GMI). Drobetz (2003) measured the relationship between the corporate governance system and firm performance of German firms through Corporate Governance Rating (CGR) as a proxy for firm-specific governance quality.

RELEVANCE OF THE STUDY

The issue of governance has gained momentum with the fall of Satyam Computer Services Ltd. in India and of large investment institutions all over the world during the financial crisis 2008-09. There is a strong criticism against the failure of companies' in spite of all the standards of governance being laid down. The aim of "Good Corporate Governance" is to enhance the long-term value of the company through the rules relating to the Board of Directors and management as the most important aspects of corporate governance. The prevailing Corporate Governance practices in India are largely based on the recommendations of various high level committees, notably the Kumar Mangalam Birla Committee and N R Narayanmurthy Committee. The corporate governance in India is strengthened in the form of various committees set up by regulatory bodies from time to time and thereby Clause 49 of corporate governance is framed to make stronger governance standards for Indian corporate. Since compliance with corporate governance principles is considered important and in India the system is developed after failure of companies globally, it becomes relevant to find whether the corporate governance principles complied by firms in India reward them with higher performance levels. As the financial crisis that begun in developed countries has impact on economies worldwide, it remains a concern whether India too is affected due to financial meltdown and to what extent.

OBJECTIVES OF THE STUDY

The study on corporate governance has been conducted to examine if compliance with corporate governance principles has effect on the performance of companise and to determine whether global financial crisis has impact on the performance of Indian companies.

DESIGN OF THE STUDY
To study the effect of corporate governance on performance of firms, dependent and independent variables are decided after taking into consideration Indian perspective on corporate governance and international best practices too.

VARIABLES DESCRIPTION

The effect of corporate governance on firm performance is analysed with the help of following dependent and independent variables selected in the study.

- **DEPENDENT VARIABLES**

To study the affect of corporate governance on firm performance, two key performance areas are taken, namely, operating performance, using return on assets (ROA) and financial performance, using return on equity (ROE).

➢ Return on equity

This is one of the most important indicators of a firm's profitability and potential growth. It measures a firm's efficiency at generating profits from every unit of shareholders' equity and thus shows how well a company uses its investment funds to generate earnings growth. ROE is equal to profit after tax (after preferred stock dividends but before common stock dividends) divided by total shareholder's equity, expressed as a percentage.

ROE = (PAT-Dividend to Preference shareholders)/ (Paid up equity capital+ Reserves & Funds – Revaluation Reserve)

➢ Return on Assets

The ratio indicates the profitability of a company in relation to its total assets. It measures how efficient the management is at utilizing company assets to generate earnings. ROA is equal to profit before interest and tax (pure measure of efficiency that is not affected by management financing decision) divided by average of firm assets. As many companies see wide swings in assets during the course of a year, the average of the firm's assets is taken.

ROA = PBIT/Average Assets

- **INDEPENDENT VARIABLES**

The corporate governance variables selected in the study are first examined individually and then on the basis of different categories formed for them. Finally for analysing the effect of financial crisis, the corporate governance score is computed on the basis of all the variables.

➢ Corporate Governance variables

The independent variables are taken from the mandatory and non-mandatory principles of good corporate governance as provided in Clause 49 of the Listing agreement. As the most important role is played by the board of directors in the governance of the company through monitoring and decision making activities, the focus is on the principles related to board of directors. Further to find how far the company is committed towards following good corporate governance practices, the list is prepared as 'Governance Commitment' based upon factors identified in international best practice guidelines and other principles as considered relevant for good corporate governance. The principles herein determine the commitment of company towards governance practices going beyond the formal requirements laid down by SEBI.

TABLE 1.1: PRESENTS CORPORATE GOVERNANCE VARIABLES CONSIDERED IN THE STUDY

Mandatory Principles in Clause-49		
Board Characteristics	(a)	At least 50% of the board comprise non-executive members.
	(b)	Proportion of independent directors to the total directors.
	(c)	Atleast four board meetings were held in the financial year.
Board Committees		
Audit Committee	(a)	Size of Audit Committee is atleast three members.
	(b)	The chairman of the Audit Committee is an independent director.
	(c)	Audit Committee consists solely of non executive directors.
	(d)	At least 2/3 of the members are independent directors.
	(e)	Audit Committee had atleast four meetings in the financial year.
Shareholders' Grievance Committee	(a)	The chairman of the SGC is a non-executive director.
Non Mandatory Principles		
Remuneration Committee	(a)	Size of Remuneration Committee is atleast three members.
	(b)	The chairman of the Remuneration Committee is an independent director.
	(c)	Remuneration committee consists solely of non executive directors.
	(d)	Remuneration committee is comprised majority of independent directors.
Others	(a)	Directors serve on no more than 15 additional boards.
	(b)	Adoption of Whistleblower policy by the company.
	(c)	Director term limit exists
	(d)	Training of board members
	(e)	Performance of the board is reviewed regularly.
Governance Commitment		
	(a)	The CEO and Chairman duties are separated.
	(b)	Size of board of directors is at least six but not more than 15 members.
	(c)	CEO serves on no more than two additional boards.
	(e)	Independent directors serve on no more than ten additional boards of other companies.
	(f)	Audit committee consists solely of independent directors.
	(g)	Remuneration committee is comprised solely of independent directors.
	(h)	Remuneration Committee had atleast four meetings in the financial year.
	(i)	Formation of Nomination Committee.
	(j)	All directors attended at least 80% of board meetings.
	(k)	All independent directors attended at least 80% of board meetings.
	(l)	All independent directors attended at least 80% of Audit Committee meetings.
	(m)	Mandatory retirement age for directors exist.

- Development of Corporate Governance Score

A new measure of corporate governance named as “CG Score” is developed from a comprehensive set of corporate governance variables, the approach used is similar to that of Gompers, Ishii and Metrick (2003). Brown & Caylor (2004), Padgett & Shabbir (2005) and Drobetz et al. (2003) too constructed indices incorporating the firms’ corporate governance choices following the approach of Gompers et al. by categorizing each governance attribute into a binary variable and computing the score based on equal weighting scheme i.e. all the principles are assigned equal weights to avoid making value distinctions for complying with different principles. As per GIM (2003), “although many of the provisions can be made stronger or weaker, we made no strength distinctions and coded all provisions as simply ‘present’ or ‘not present’. This methodology sacrifices precision for the simplicity necessary to build an index. Thus this simple index does not accurately reflect the relative impacts of different provisions; it has the advantage of being transparent and easily reproducible.” The ‘CG Score’ in the study is developed as a measure of governance quality in firms through a list of 30 principles of good corporate governance. It is constructed by assigning one point for compliance with each principle and zero for non-compliance, and then summing up each firm’s 30 binary variables. With this scoring system, a firm’s CG Score can vary between 0 and 30 with 30 indicating perfect compliance and 0 indicating complete non-compliance. Thus, the higher the CG Score, the better the firm is governed.

SAMPLE DESCRIPTION

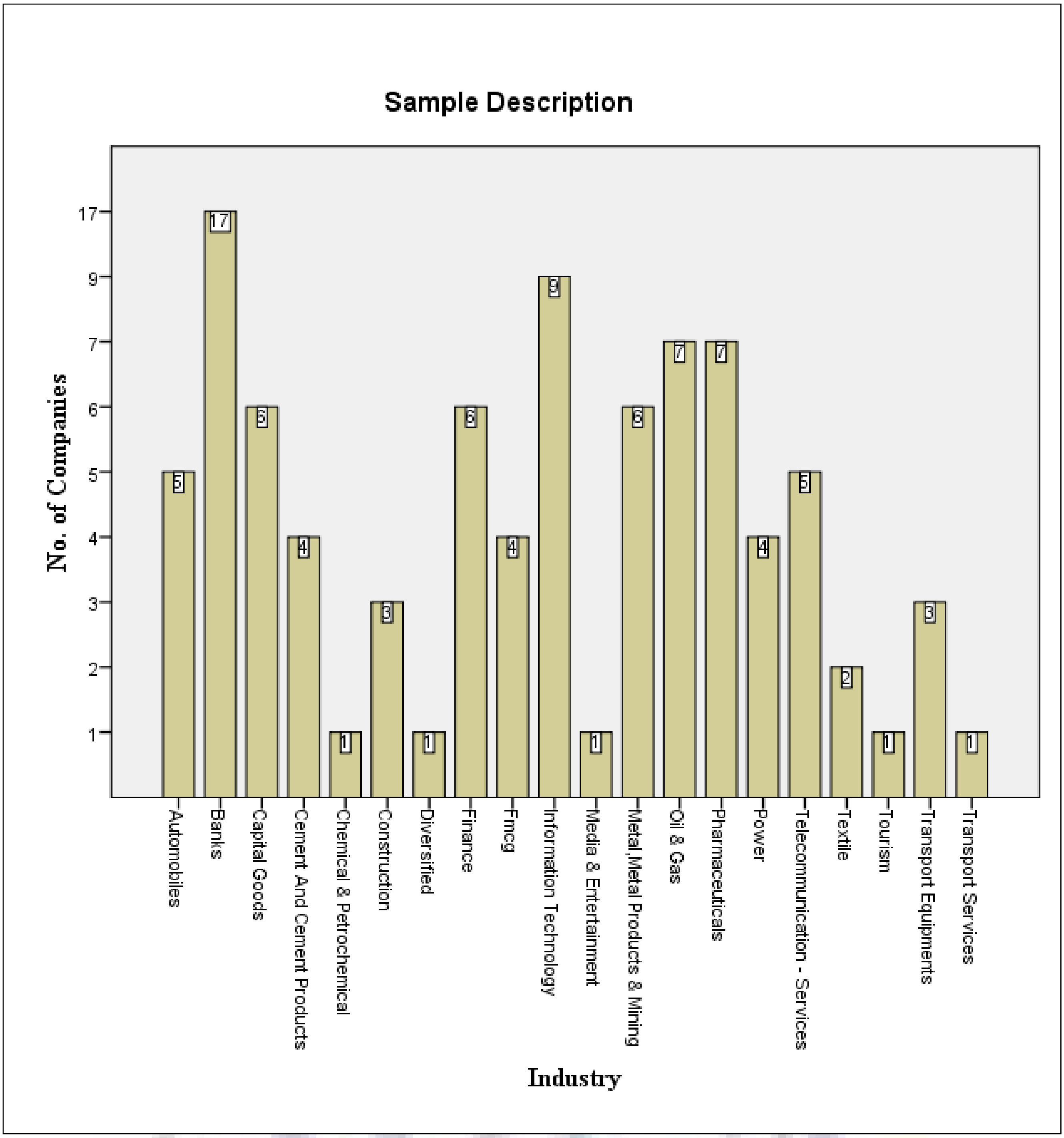
To find out the relationship between corporate governance and firm performance, firms from CNX 100 are selected and data is collected for 2007-08 and 2008-09 as observation period. The CNX 100 index combines the Nifty50 and the CNX Nifty Junior, it provides investors and market intermediaries with an appropriate benchmark that captures the performance of the top 100 most liquid and large market capitalization securities. The sample is taken for companies which have been constituents of the CNX 100 Index for each of the two years, 2007-08 and 2008-09. The Index as on 30.04.2007 was taken and changes in its composition were incorporated to reach the total number of companies constituting the Index for both the years. The total numbers of firms included in the Index are 100 but adding 12 firms that got listed during 2007-08 and removing 19 firms that were de-listed within 2007 to 2009, give the final sample of 93 companies after incorporating these changes. The final sample includes 4 companies that were excluded from the Index with effect from March 27, 2009, due to the fact that they form part of the index for almost both the years. The sample covers firms in 20 industry sectors with Banks having largest number of firms and Information Technology, the second highest among all sectors.

Table 1.2 and Fig 1.1 below summarize the profile of the sample that is used in the study.

TABLE 1.2: INDUSTRY CLASSIFICATION

Industry	No. of Companies
Automobiles	5
Banks	17
Capital Goods	6
Cement And Cement Products	4
Chemical & Petrochemical	1
Construction	3
Diversified	1
Finance	6
FMCG	4
Information Technology	9
Media & Entertainment	1
Metal, Metal Products & Mining	6
Oil & Gas	7
Pharmaceuticals	7
Power	4
Telecommunication – Services	5
Textile	2
Tourism	1
Transport Equipments	3
Transport Services	1
	93

FIG. 1.1



DATA SOURCE

The source of information regarding corporate governance is annual reports of companies available at the specific company websites. Information about corporate governance was readily accessible from the 'Report on Corporate Governance' as every listed company is required to report the extent to which they complied with the Corporate Governance Principles laid down in Clause 49 of the listing agreement in their annual reports. With respect to the data relating to performance, the information is gathered from *Prowess*, the corporate database of the Centre for Monitoring of the Indian Economy (CMIE).

RESEARCH METHODOLOGY

The study is divided in two parts, one is related to effect of corporate governance on firm performance and another relates to effect of global financial crisis on corporate governance and firm performance in India. All the data were analysed using the statistical package for social science (SPSS) version 16.0. In analysing the effect of corporate governance on performance of companies, each of the 30 corporate governance variables are tested for their effect on performance measures; ROA and ROE through Independent Samples T test. The study is then undertaken to find the effect of global financial crisis and collapse of Satyam Computers in India on changes in firms' compliance with corporate governance principles and upon firm performance at two time points, 2007-08 and 2008-09, that is changes in performance are shown for 2007-08 and 2008-09 in contrast with the changes in corporate governance for the same time through Wilcoxon Signed ranks method. Further, to study the impact on banks and IT firms in the sample Paired Sample T test is conducted.

CORPORATE GOVERNANCE AND FIRM PERFORMANCE

The hypothesis for all the corporate governance variables is framed as:

H_o: $\mu_1=\mu_2$, there is no significant difference between the performance (ROE and ROA) of firms complying with the principle and firms that do not comply with the principle.

H_a: $\mu_1 \neq \mu_2$, there is significant difference between the performance (ROE and ROA) of firms complying with the principle and firms that do not comply with the principle.
The hypothesis is tested by Independent Samples t test and findings are reported in Table 1.3 as under:

TABLE 1.3: EMPIRICAL RESULTS

CG Variable	Result	
	ROA	ROE
Board Size	Insignificant	Insignificant
Board Leadership	Insignificant	Insignificant
% Non Executive Directors	Insignificant	Insignificant
% Independent Directors	Insignificant	Insignificant
Directors #Independent Directors in Meeting	Insignificant	Insignificant
CEO<=2 Directorships	Insignificant	Insignificant
All Independent Directors in Audit Committee	Significant at α=.004	Insignificant
All Non Executive Directors in Audit Committee	Insignificant	Insignificant
Majority Independent Directors in Audit Committee	Significant at α=.000	Insignificant
Remuneration Committee=Independent Director Chair	Insignificant	Insignificant
All Non Executive Directors in Remuneration Committee	Insignificant	Insignificant
All Independent Directors in Remuneration Committee	Significant at α=.006	Insignificant
Remuneration Committee Majority Independent Directors	Insignificant	Insignificant
Remuneration Committee Meetings	Insignificant	Insignificant
Nomination Committee	Significant at α=.005	Insignificant
Independent Directors<=10 Directorships	Insignificant	Insignificant
Independent Directors attended 80% Board Meetings	Insignificant	Insignificant
Independent Directors attended 80% Audit Committee Meetings	Insignificant	Insignificant
Whistle Blower Policy	Insignificant	Insignificant
Director Term Limit	Insignificant	Insignificant
Board Training	Significant at α=.036	Insignificant
Retirement Age	Insignificant	Insignificant
Performance Review	Insignificant	Insignificant

The results show that among all the governance variables, the role of audit and remuneration committee is highly significant when they are composed of independent directors only. None of the mandatory or non mandatory principles given in Clause 49 is significant in improving the performance; instead all the non mandatory principles result in decline in performance. Moreover, board training and existence of nomination committee leads to significant fall in Return on Assets of the company. It clearly shows the importance of credibility of financial statements and pay structures and role of implementing the governance practices except those specified in India. The implementation gap in non mandatory principles and box ticking approach for mandatory principles could be the reason for the results achieved in the analysis.

IMPACT OF GLOBAL FINANCIAL CRISIS ON INDIAN ECONOMY

Global financial crisis that became full blown in the second half of 2008 interrupted India's growth momentum too. With increasing integration of Indian economy and its financial markets with the world, the country does face the impact due to slowdown of economies worldwide. The corporate governance score, 'CG Score' is obtained based on the corporate governance variables taken in the study for studying the effect of global financial crisis on corporate governance practices of sample firms. The effect on performance measures is also assessed by comparing ROE and ROA for the two years, 2007-08 and 2008-09.
Table 1.4 below shows how the CG Score has varied for different firms in the sample from 2007-08 to 2008-09.

TABLE 1.4: TREND IN THE BEHAVIOUR OF THE CG SCORE OVER TIME (2008 TO 2009)

Trend	Number of Firms	% of the Total
Increasing	34	36
Decreasing	**37**	40
Stable	22	24
Total	93	100

As the table indicates number of firms that have become less compliant increased over those that are more compliant with corporate governance principles that shows marginal decline in the compliance of corporate governance practices among sample firms. But the difference between the two is small and also most of the firms are having the same level of compliance in 2009. Overall more than half of the sample firms have either increased their corporate governance practices or have same level of governance.
Wilcoxon Signed ranks method is employed which tests the null hypothesis that the medians of dependent variables are same. The hypothesis is framed as:
1) H_o: $m_1=m_2$, there is no significant difference between median CG Score in 2008 and median CG Score in 2009.
H_a: $m_1 \neq m_2$, there is significant difference between median CG Score in 2008 and median CG Score in 2009.
2) H_o: $m_1=m_2$, there is no significant difference between median ROA in 2008 and median ROA in 2009.
H_a: $m_1 \neq m_2$, there is significant difference between median ROA in 2008 and median ROA in 2009.
3) H_o: $m_1=m_2$, there is no significant difference between median ROE in 2008 and median ROE in 2009.
H_a: $m_1 \neq m_2$, there is significant difference between median ROE in 2008 and median ROE in 2009.

TABLE 1.5: WILCOXON SIGNED RANKS TEST STATISTICS

	CGScore09 - CGScore08	ROE09 - ROE08	ROA09 - ROA08
Z	-.567[a]	-4.978[b]	-4.776[b]
Asymp. Sig. (2-tailed)	.571	.000	.000

a. Based on negative ranks (statistic for 2009 < statistic for 2008).
b. Based on positive ranks (statistic for 2009 > statistic for 2008).
The results give insignificant *z* statistic for difference in CG Score but the difference in performance measures is highly significant with α=.000 for both ROE and ROA. Thus it is concluded that firms underperforms in 2009 as compared to their median performance level in 2008 whereas the change in compliance with corporate governance principles in 2009 is insignificant. Thus the results prove that the Indian economy is affected due to slowdown of economies worldwide with performance of Indian companies declining significantly whereas there is no change in corporate governance practices of companies. The effect of financial

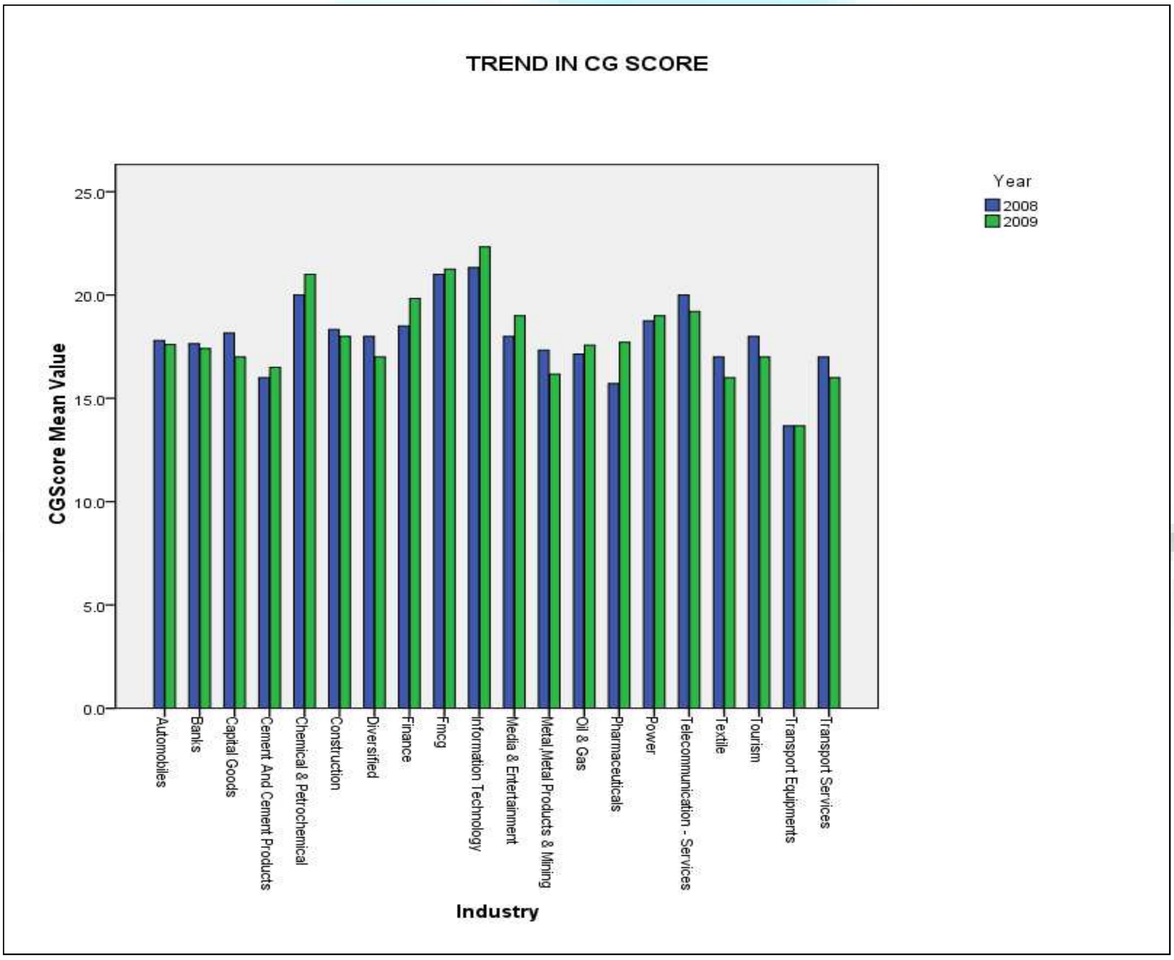
meltdown in India is seen in the form of reduced capital flow and contraction of export demand due to constrained financial conditions worldwide. All the sectors faced problems in raising funds from international sources where they were getting funds from foreign investors at a lower cost due to India's growth potential. It affected their growth plans hence leading to decline in performance.

A detailed analysis of different sectors is presented in Table 1.6 showing sectoral trend in CG Score over period of the study and Fig. 1.2 depicts mean CG Score for different sectors over 2007-2009. As can be seen from the table the mean CG Score shows declining and increasing trend for almost equal number of companies. Certain sectors including finance, IT, pharmaceuticals have registered a substantial increase in 2009 over the previous year whereas capital goods, metal, textiles, tourism and transport service have declined substantially.

TABLE 1.6: SECTORAL TRENDS

Industry Classification	**No. of companies**	**Sectoral Trend in the Corporate Governance**		**Sectoral Trend in the Performance Measures**			
		CG Score Mean Values		**ROE Mean Values**		**ROA Mean Values**	
		2008	**2009**	**2008**	**2009**	**2008**	**2009**
Automobiles	5	17.80	17.60	25.2	16	18.46	12.55
Banks	17	17.65	17.41	16.29	**17**	6.92	**7.31**
Capital Goods	6	18.17	17.00	26.83	20	16.11	11.31
Cement And Cement Products	4	16.00	**16.50**	34.25	23.5	32.48	22.08
Chemical & Petrochemical	1	20.00	**21.00**	40	33	24.98	17.57
Construction	3	18.33	18.00	24	13.67	12.72	8.17
Diversified	1	18.00	17.00	16	15	8.35	8.26
Finance	6	18.50	**19.83**	20.67	17.83	11.4	10.93
Fmcg	4	21.00	**21.25**	16.33	12.67	17.16	14.57
Information Technology	9	21.33	**22.33**	23.22	**24.11**	22.12	**22.12**
Media & Entertainment	1	18.00	**19.00**	14.00	13.00	17.21	15.99
Metal, Metal Products & Mining	6	17.33	16.17	21.50	17.00	19.53	14.73
Oil & Gas	7	17.14	**17.57**	17	7	12.94	7.66
Pharmaceuticals	7	15.71	**17.71**	25.14	2.86	20.29	8.74
Power	4	18.75	**19.00**	11.5	**11.75**	9.85	9.83
Telecommunication - Services	5	20.00	19.20	27.6	19.4	9.86	**9.89**
Textile	2	17.00	16.00	6	-10	7.03	-0.63
Tourism	1	18.00	17.00	19	8	18.94	10.36
Transport Equipments	3	13.67	13.67	20.67	15.33	17.19	14.96
Transport Services	1	17.00	16.00	24	21	26.54	24.16
Total	93						

FIG. 1.2



Performance measures (ROA and ROE) have shown increase in banks, ROE has increased in IT whereas ROA remain same for the sector. ROE has increased for power sector too but ROA has shown increase in telecom industry. Out of 20 industry sectors, only IT has shown increase in both the performance measures and

CG Score. Banks too have shown increase in performance with only minor fall in CG Score. Otherwise, all other sectors that have increased CG Score in 2009 do not have corresponding increase in performance measures. Based on the findings and evidence related to the jumps in CG Score and performance measures, a tentative conclusion can be drawn that increase in corporate governance practices do not necessarily lead to corresponding increase in performance of the company. Further analysis is undertaken for banks and IT sector in India as they are the only sectors where both the performance measures are either same or have increased. The variables taken in the study for both Banks and IT industry is tested for their normality by applying Kolmogorov-Smirnovtest, thus Paired Samples T test is employed to tests the null hypothesis that the means of dependent variables are same.

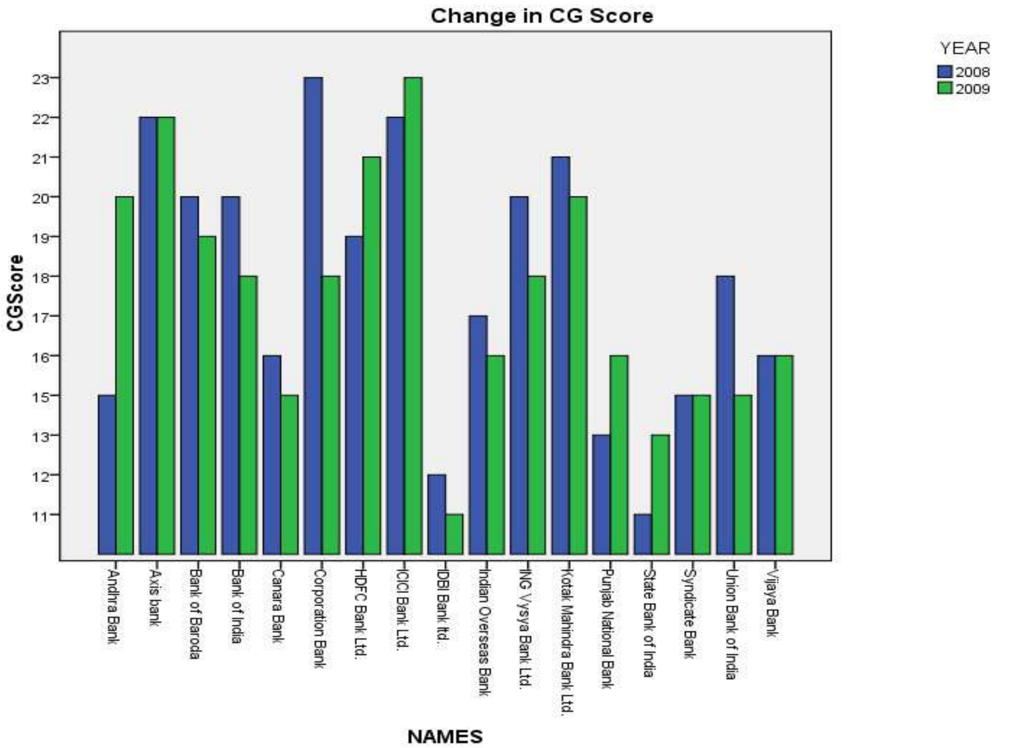
IMPACT OF CRISIS ON BANKS IN INDIA

The global financial crisis resulted in collapse of major banks and financial institutions worldwide but the Indian banks remain insulated from the crisis due to well regulated banking system. Table 1.7 below shows how the CG Score has varied for 17 banks in the sample from 2007-08 to 2008-09.

TABLE 1.7: BANKING COMPANIES TREND IN THE BEHAVIOUR OF THE CG SCORE OVER TIME (2008 TO 2009)

Trend	Number of Firms	% of the Total
Increasing	5	29
Decreasing	9	53
Stable	3	18
Total	17	100

FIG. 1.3



As the table indicates, numbers of banks that have become less compliant increases over those that are more compliant with governance principles. The graph shows change in CG Score across all banks taken in the study, it depicts that the governance practices of large renowned banks such as HDFC Bank Ltd., ICICI Bank Ltd., PNB and SBI has increased manifold and banks like Corporation Bank, UBI have lower CG Score in 2009. Therefore the analysis is undertaken to find whether the change in CG Score of banks is significant and whether their performance has also changed significantly in 2009.The test is here used to determine whether there is a statistically significant difference between pre and post CG Score and performance measures of sample banks. The purpose is to see if banks have improved their compliance with corporate governance principles and whether their performance has changed due to crisis.

TABLE 1.8: 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 CG Score 08 – CG Score09	.235	2.359	.572	-.978	1.448	.411	16	.686
Pair 2 ROE08 - ROE09	-.706	2.974	.721	-2.235	.823	-.979	16	.342
Pair 3 ROA08 - ROA09	-.388	.504	.122	-.647	-.129	-3.171	16	.006

The significance value α>0.05 for both CG Score and ROE show that the change is not significant in them whereas the high α=.006 for ROA proves significant change in bank's ROA, but the increase in ROE is not significant which proves the banks are affected but not much. The major cause of the crisis was low interest rate environment and easily available credit because of abundant liquidity in the US economy. The Indian banking system has prudential policies put in place by RBI which reduce the effect of crisis on them. RBI took proactive steps to manage domestic liquidity with its monetary policy through Liquidity Adjustment Facility (LAF) and other key policy rates. Also, the high credit quality of banks and adequate Capital Adequacy Ratio (CAR) helped them to withstand the crisis. ROA is significantly improved through continuous monitoring and concerted efforts of banks to bring down their gross and net NPAs during the year by making aggressive efforts for loan recovery. Since some banks face mark to market losses due to their almost negligible exposure to derivatives accompanied by slower GDP growth and depressed capital market conditions, their profitability remain under pressure due to which ROE could not be significantly improved.

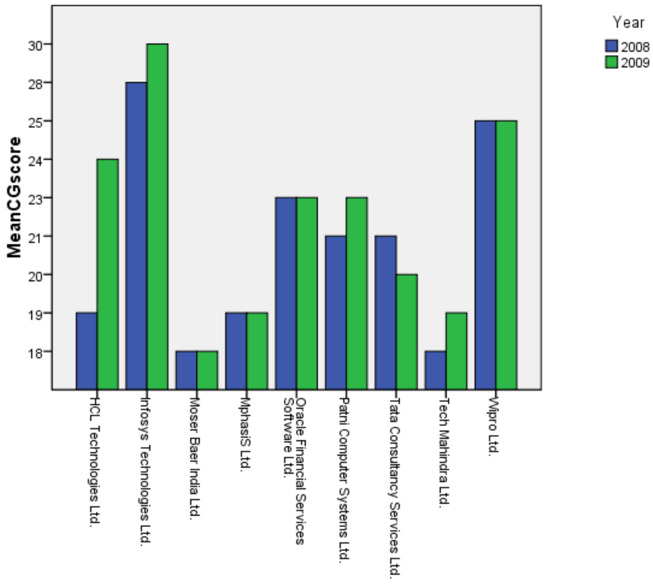
IMPACT OF CRISIS AND SATYAM'S FAILURE ON INDIAN IT INDUSTRY

The Indian IT industry faced challenges in 2009 due to major developments in world as well as in India too. The collapse of fourth major IT firm Satyam Computers in India was cited as case of corporate governance failure in the company that created need for reviewing corporate governance practices. The worldwide financial meltdown too resulted in collapse of major banks and financial institutions worldwide which were large customers of Indian IT firms. Thus analysis is done to find if corporate governance practices of IT firms improved and whether these developments affected their performance. Table 1.9 show how the CG Score has varied for the different IT firms from 2007-08 to 2008-09.

TABLE 1.9: IT COMPANIES TREND IN THE BEHAVIOUR OF THE CG SCORE OVER TIME (2008 TO 2009)

Trend	Number of Firms	% of the Total
Increasing	**4**	44
Decreasing	1	11
Stable	**4**	44
Total	9	100

FIG 1.4: CHANGE IN CG SCORE



Names

As the table indicates, number of firms that have become more compliant and those which have same level of compliance with governance principles is same. It shows overall better compliance of corporate governance principles in sample firms. The graph in Fig. 1.6 shows change in CG Score of across all IT companies taken in the study. HCL Technologies has major improvement in its corporate governance practices and Infosys too increases its CG Score even after being the best governed company. Tata Consultancy Services Ltd. is the only firm whose compliance level decline in 2009.

The Paired Samples t test is used to determine whether there is a statistically significant difference between pre and post CG Score and performance measures of IT firms in sample taken for study. The purpose is to see if they have improved their compliance with corporate governance principles and whether their performance has changed due to recent developments.

TABLE 2: 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 CG Score 08 -CG Score09	-1.000	1.803	.601	-2.386	.386	-1.664	8	.135
Pair 2 ROE08 - ROE09	-.889	9.545	3.182	-8.226	6.448	-.279	8	.787
Pair 3 ROA08 - ROA09	.003	9.551	3.184	-7.338	7.344	.001	8	.999

The results of the test give insignificant α for all the variables that show increase in CG Score and ROE is not significant, leading to acceptance of null hypothesis. The insignificant increase in ROE and same average ROA is due to the fact that slowdown in global economy impacted IT industry. But the industry is not adversely affected and has marginally higher performance because India is a low cost destination with high quality services that help firms in marketing their services to other countries and the current scenario force them to act quickly. Also, collapse of Satyam Computers is one such case in the system which should not be generalised to entire industry. Moreover, downsizing in firms help in increasing the productivity of industry as employees work hard to keep their jobs secure.

RECOMMENDATIONS

The corporate governance principles should actively be reviewed by regulatory bodies on an ongoing basis and make improvements therein for effective corporate governance system. In this regard various suggestions are made to make corporate governance stronger:

STRENGTHEN THE PRINCIPLES

The principles that are desirable for improving governance of the company should have proper guidelines framed for implementing them. For example:

- Evaluation of director's performance: Director's role is most important as they act as representative of shareholders to protect their interest. Thus evaluation of their performance as whether they monitor the decisions of management, attend regular meetings, ask frequent questions for protection of shareholder's rights need to be there for strong system.

- Nomination committee: The committee should be formed with its charter to guide its members with well laid down code of conduct in considering candidates for nomination on board. The committee should be composed of only independent directors to avoid any kind of favouritism or informal networks due to management's influence.

ENHANCE MANDATORY PRINCIPLES

The mandatory principles of corporate governance can be made more effective through following changes:

- The principles can be modified to replace non executive non independent directors with independent directors wherever required.
- The audit committee should be composed only with independent directors.
- The remuneration committee should be made mandatory with independent chairman as well as all the members being independent directors.
- The committees of board should not have any executive or non executive directors, only independent directors can be part of board committees.
- There should be mandatory rotation of members on committees to avoid loss of independence.

STRENGTHEN THE ROLE AND RESPONSIBILITY OF AUDIT COMMITTEE

Audit committee is important in governing the reliability of company's financial statements through continuous investigation in company. They can conduct surprise audits, at the time of success too they should make regular enquiry to avoid failure in future. They can try to design regular fraud audits to maintain check on the practices followed by the management. The appointment and reappointment of independent and skilful external auditors will be greatly helpful in this regard. The committee can also plan to have joint audits and peer reviews as they could generate a sense of responsibility in the auditing firm. Due to peer pressure, the audit firm become bound to follow high professional standards.

GUIDELINES FOR WORKING OF REMUNERATION COMMITTEE

The pay structures are now designed with fixed and variable pay components (based on performance), thus it becomes important to avoid short term bias of executives to improve their variable pay. This can be done by evaluating performance of executives over range of years instead of single year and then payouts should be spread over several years. Also, the time period should be specified to retain stock options even if they retire from the company so that executives consider long term consequences of their actions.

STRONG INDEPENDENT BOARD

A company's board can perform its duty with due diligence only when it is independent of management. Proper checks need to be maintained to see if there exists any relationship of the board member with company directly or indirectly through incorporating more stringent guidelines in the definition of independent director. Independent directors should ask frequent questions, more and more questions to challenge strategies framed by executive colleagues. The mandatory principles can provide for sufficient number of nominee directors to be included in the board as financial institutions can take active part in overseeing the performance and quality of management in a company.

CONCLUSIONS

Corporate governance system is important for the company to prosper in the long term by gaining trust of market participants through effective decision making. In the study undertaken to find the effect of corporate governance practices on performance of the company, the results obtained lead to the following conclusions:

IMPORTANCE OF INDEPENDENT DIRECTORS IN BOARD COMMITTEES

One of the most important norms for corporate governance structures is the composition of board with sufficient number of independent directors to avoid influence of management in decisions of the company. Independent directors monitor the management of the company and align their interest with those of shareholders. The results of the analysis found audit and remuneration committee as most important board committees and their independent composition serves the true purpose to the company, as:

- Audit committee: Audit committee is the sub committee of board of directors which is supposed to play a crucial role in increasing the reliability of financial statements. The majority of independent directors with inquiring mind in audit committee can challenge the management for any proposal that could hamper the company in long term. Auditors will also be subject to oversight and discipline by independent composition of audit committee as well as face restrictions on non-audit services to the company.
- Remuneration committee: The committee has to decide on different components of salary, the most important being performance related pay to align interest of directors with company. The role of independent directors is important here for reviewing compensation arrangements of managers impartially. It is important to avoid influence of management in pay structure of directors such that short term incentives are replaced through inclusion of components based on their performance.

INEFFECTIVE ROLE OF CORPORATE GOVERNANCE PRINCIPLES

The compliance of firms with Clause 49 of corporate governance, mandatory as well as non mandatory are not found to be satisfactory in improving the performance of firms. The composition of audit committee with majority independent directors is the only mandatory guideline found to have significant positive effect in improving performance of the company. All the non mandatory principles lead to decline in performance of the company and 'board training' have significant adverse effect on performance of company. For compliance with international governance principles, the results for fully independent audit and remuneration committee is significant but the existence of nomination committee is found to have adverse impact on performance of the company significantly. Thus the role of mandatory and non mandatory principles as principles of good corporate governance in India gets restricted giving way to compliance with international guidelines.

IMPACT OF FINANCIAL CRISIS AND FALL OF SATYAM ON INDIA

The performance of Indian companies is highly impacted with their performance measures moving down during 2009 due to integration with world economy. The collapse of Satyam is cited as case of corporate governance failure in the company, still there is no significant increase in the compliance with corporate governance principles by the sample firms.

STRENGTH OF INDIAN ECONOMY

The performance of Indian companies is adversely affected in 2009 but in some industries performance has improved. The further analysis of banks and IT sector show the strength of Indian economy. The crisis has impact on banks and financial institutions around the world but Indian banks remain insulated from its effect due to well regulated banking system but their corporate governance practices have not improved. Moreover, the IT industry too has higher earnings in 2009 even after suffering loss of demand from its main customers i.e. banks and financial institutions but their corporate governance practices do not improve significantly. The significant increase in banks' ROA without corresponding increase in their compliance with corporate governance principles also proved that corporate governance has no significant effect on performance.

LIMITATIONS OF STUDY

1) The period of study encompass the global financial crisis which could have effect on results.
2) The conclusions are based on companies constituting CNX100 representing only 20 sectors of Indian economy during the period 2007-08 and 2008-09.
3) The study does not consider qualitative aspects of corporate governance variables.
4) The effect of asset tangibility and level of debt on performance ratios taken in the study i.e. ROA and ROE respectively is not considered.

ANNEXURE I

LIST OF SAMPLE FIRMS		
Sr. No.	**Name of Company**	**Industry**
1	ABB Ltd.	Capital Goods
2	ACC Ltd.	Cement And Cement Products
3	Aditya Birla Nuvo Ltd.	Textile
4	Ambuja Cements Ltd.	Cement And Cement Products
5	Andhra Bank	Banks
6	Apollo Tyres Ltd.	Transport Equipments
7	Ashok Leyland Ltd.	Automobiles
8	Asian Paints Ltd.	Chemical & Petrochemical
9	Aventis Pharma Ltd.	Pharmaceuticals
10	Axis bank	Banks
11	Bank of Baroda	Banks
12	Bank of India	Banks
13	Bharat Electronics Ltd.	Capital Goods
14	Bharat Forge Ltd.	Transport Equipments
15	Bharat Heavy Electricals Ltd.	Capital Goods
16	Bharat Petroleum Corporation Ltd.	Oil & Gas
17	Bharti Airtel Ltd.	Telecommunication - Services
18	Biocon Ltd.	Pharmaceuticals
19	Cairn India Ltd.	Oil & Gas
20	Canara Bank	Banks
21	Chennai Petroleum Corporation Ltd.	Oil & Gas
22	Cipla Ltd.	Pharmaceuticals
23	Container Corporation of India Ltd.	Transport Services
24	Corporation Bank	Banks
25	Cummins India Ltd.	Transport Equipments
26	DLF Ltd.	Construction
27	GAIL (India) Ltd.	Oil & Gas
28	GMR Infrastructure Ltd.	Construction
29	Grasim Industries Ltd.	Cement And Cement Products
30	HCL Technologies Ltd.	Information Technology
31	HDFC Bank Ltd.	Banks
32	Hero Honda Motors Ltd.	Automobiles
33	Hindalco Industries Ltd.	Metal,Metal Products & Mining
34	Hindustan Unilever Ltd.	Fmcg
35	Housing Development Finance Corporation Ltd.	Finance
36	I T C Ltd.	Fmcg
37	ICICI Bank Ltd.	Banks
38	IDBI Bank ltd.	Banks
39	Idea Cellular Ltd.	Telecommunication - Services
40	IFCI Ltd.	Finance
41	Indian Hotels Co. Ltd.	Tourism
42	Indian Overseas Bank	Banks
43	Infosys Technologies Ltd.	Information Technology
44	Infrastructure Development Finance Co. Ltd.	Finance
45	ING Vysya Bank Ltd.	Banks
46	Jaiprakash Associates Ltd.	Diversified
47	Jindal Steel & Power Ltd	Metal,Metal Products & Mining
48	Kotak Mahindra Bank Ltd.	Banks
49	Larsen & Toubro Ltd.	Capital Goods
50	LIC Housing Finance Ltd.	Finance
51	Lupin Ltd.	Pharmaceuticals
52	Mahindra & Mahindra Ltd.	Automobiles
53	Maruti Suzuki India Ltd.	Automobiles
54	Moser Baer India Ltd.	Information Technology
55	MphasiS Ltd.	Information Technology
56	National Aluminium Co. Ltd.	Metal,Metal Products & Mining
57	Nirma Ltd.	Fmcg
58	NTPC Ltd	Power
59	Oil & Natural Gas Corporation Ltd.	Oil & Gas
60	Oracle Financial Services Software Ltd.	Information Technology
61	Patni Computer Systems Ltd.	Information Technology
62	Power Finance Corporation Ltd.	Finance
63	Power Grid Corporation of India Ltd.	Power
64	Punjab National Bank	Banks
65	Ranbaxy Laboratories Ltd.	Pharmaceuticals
66	Raymond Ltd.	Textile
67	Reliance Capital Ltd.	Finance
68	Reliance Communications Ltd.	Telecommunication - Services

69	Reliance Infrastructure Ltd.	Power
70	Reliance Industries Ltd.	Oil & Gas
71	Reliance Natural Resources Ltd.	Oil & Gas
72	Siemens Ltd.	Capital Goods
73	State Bank of India	Banks
74	Steel Authority of India Ltd.	Metal,Metal Products & Mining
75	Sterlite Industries (India) Ltd.	Metal,Metal Products & Mining
76	Sun Pharmaceutical Industries Ltd.	Pharmaceuticals
77	Suzlon Energy Ltd.	Capital Goods
78	Syndicate Bank	Banks
79	Tata Communications	Telecommunication - Services
80	Tata Consultancy Services Ltd.	Information Technology
81	Tata Motors Ltd.	Automobiles
82	Tata Power Co. Ltd.	Power
83	Tata Steel Ltd.	Metal,Metal Products & Mining
84	Tata Teleservices (Maharashtra) Ltd.	Telecommunication - Services
85	Tech Mahindra Ltd.	Information Technology
86	UltraTech Cement Ltd.	Cement And Cement Products
87	Union Bank of India	Banks
88	Unitech Ltd.	Construction
89	United Spirits Ltd.	Fmcg
90	Vijaya Bank	Banks
91	Wipro Ltd.	Information Technology
92	Wockhardt Ltd.	Pharmaceuticals
93	Zee Entertainment Enterprises Ltd.	Media & Entertainment

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