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RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE: AN EMPIRICAL STUDY ON HEALTHCARE SECTOR IN INDIA

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ABSTRACT
Corporate governance is a collection of rules by which corporations are operated, managed and controlled. Well-managed corporate governance helps in improving the financial performance of the organizations. In India, the healthcare sector is one of the important and growing sectors. This study intends to examine the relationship between corporate governance and financial performance and how corporate governance impacts the financial performance of the healthcare sector in India. This study considers twenty healthcare companies listed in the Nifty Healthcare Index as a sample. All the data for this study have been collected from authentic secondary sources, for a period of ten years starting from the year 2013-14 to 2022-23. Size of Board (SOB), CEO Duality (CEOD), Independence of Board (IOB) and Female Board Members (FBM) have been regarded as corporate governance variables as well as independent variables and Margin on Income (MOI), Return on Investment (ROI), Return on Capital Employed (ROCE) and Return on Total Assets (ROTA) have been considered to measure financial performance and which are also regarded as dependent variables. Correlation coefficient technique has been used to analyze the data. This study found a significant negative association between Size of Board (SOB) and financial performance of the Indian healthcare sector.

KEYWORDS
CEO duality, corporate governance, financial performance, healthcare sector, profitability.

JEL CODES
G30, G32, G34, I11.

I. INTRODUCTION
The relationship of corporate governance with corporate performance is a crucial domain of pragmatic and theoretical investigation in corporate study. Corporate governance is a system by which corporations are guided, managed and controlled in the best possible ways. The owners of the corporations don't really manage or administer the corporations, these responsibilities are given to the board of directors, who are considered as the brains and agents of the corporations. Board of directors administer and manage the corporations by taking into account the interests of the stakeholders of the corporations. Corporate governance is a set of rules and regulations applicable for the individuals who manage and administer the corporations. Well-managed and well-implemented corporate governance plays an essential role in enhancing corporate performance. Good governance is very much important for corporations in scores of ways such as improving the depiction of the corporations, minimizing the menaces of deceptive activities, upgrading the convictions of the shareholders and stakeholders. Therefore, the primary philosophy of corporate governance is to elevate the performance of the corporations by designing, organizing and succoring dynamisms that drive the corporate representatives to enlarge the operational and market efficiencies of the corporations.

The Healthcare sector is one of the largest sectors in India. It is important in terms of revenue and employment both. This sector consists of hospitals, medicines, medical equipment, medical tourism, health insurance, telemedicine etc. The Healthcare sector in India is growing tremendously. As per the reports of IBEF (India Brand Equity Foundation; a Trust of Department of Commerce, Ministry of Commerce and Industry, Government of India), the healthcare sector in India is anticipated to achieve three-fold growth. It is currently growing at a compounded annual growth rate (CAGR) of 22% between the years 2016 and 2022. One of the main reasons for the tremendous growth of the Indian healthcare sector is the ample availability of well-trained medical professionals. Cost competitiveness of India in comparison with Asia and western nations is also one of the notable reasons for the growth of the Indian healthcare sector. Lower costs of surgery, medical services and clinical research than that of other parts of the word ensured increase in India's medical tourism, attraction of foreign patients and international medical R&D players towards India. Being a significant industry, the financial performance of the Indian healthcare sector matters to the Indian economy. Therefore, the main intention behind this study is to observe corporate governance practices of the Indian healthcare sector and whether and how the financial performance of the Indian healthcare sector is impacted by their corporate governance practices.

II. LITERATURE REVIEW
Numerous studies have been conducted on the topic of corporate governance and financial performance. Some of the related studies have been discussed here. For example, ***Singh, K. and Rastogi, S. (2023)*** examined the influence of corporate governance on financial performance of listed SMEs in India. 88 listed SMEs in BSE have been taken as samples for this study. The time period for this study was from 2018 to 2020. Panel data analysis has been employed in this study. To test the association between variables, the fixed effects model along with cluster robust standard errors has been used. Researchers have found that there is no association between ownership concentration and financial performance, they have found that disclosure of information and financial performance are negatively associated and this association is statistically significant too. ***Hassan, S. U., & Ahmed, A. (2012)*** have also examined the relationship between corporate governance and corporate financial performance in their study. 25 non-financial firms listed on the Nigerian Stock Exchange (NSE) have been considered as samples for this study. For analysing the data, researchers had used a univariate OLS multiple regression method. This study found that corporate financial performance is significantly impacted by corporate governance. After discussing the two earlier studies showing the relationship between corporate governance and corporate financial performance, we will now discuss the few previous studies providing evidence regarding the relationship between specific corporate governance variables and corporate financial performance. ***Guest, P.M. (2009)*** examined the impacts of board size on the corporate financial performance. The researcher had taken 2746 listed firms in the UK as sample companies for the study for the period from 1981 to 2002. This study found a strong negative impact on the size of board on the financial performance of the UK listed companies. ***Malik et al. (2014)***, also evaluated the relationship between board size and financial performance for the banking sector in Pakistan. The researchers had taken 14 listed commercial banks in Pakistan as sample from the year 2008 to 2012. Their study found a strong positive

relationship between board size and financial performance of Pakistani commercial banks. ***Brickley et al. (1997)*** examined whether CEO duality has any impact on financial performance of US firms or not. Researchers of this study had considered 661 large US firms from a Forbes survey of executive compensation as a sample. The results of this study suggest that the separation of CEO and chairperson causes higher cost than the benefits of the US firms, indirectly suggesting CEO duality is beneficial for the financial performance of large US firms. ***Elsayed, K. (2007)*** attempted to evaluate the impact of corporate leadership on corporate performance of listed firms in Egypt. This study found positive and significant coefficient of CEO duality when performance of the firms is low, indicating a negative relation between CEO duality and corporate performance. ***Mishra, S. (2020)*** attempted to find out the relationship between independence of board and firm performance of all listed Indian companies from the year 2003 to 2019. The findings of the study show a negative association of board independence with the firm financial performance. ***Prabowo, M., & Simpson, J. (2011) also*** analysed the association between board independence and firm performance using the sample of family controlled non-financial companies in Indonesia. The findings of this study suggest that family control is negatively associated with firm performance and independence of board doesn't have any significant association with firm performance. ***Smith et al. (2006)*** examined the relationship of diversity in management and firm performance in case of presence of women in board. This study had taken 2500 largest firms in Denmark during the period from 1993 to 2001. This study found a positive correlation between women board members and firm performance. ***Darmadi, S. (2013)*** also analysed the association between gender diversity in board and financial performance of the listed companies in Indonesia. This study had taken 92.4% of the total public companies listed on the Indonesia Stock Exchange (IDX). The findings of the study show a negative relationship between female board members and firm performance.

III. OBJECTIVES OF THE STUDY

The main objective of this study is to examine the relationship between corporate governance practices and financial performance of the Indian healthcare sector. Present study specifically tries to find out the following matters –

1. How corporate governance and financial performance are associated with each other in selected healthcare companies in India?
2. How financial performance of Indian healthcare companies (Selected) is impacted by their corporate governance practices?

IV. RESEARCH METHODOLOGY

- **SAMPLE SELECTION**

Twenty (20) healthcare companies which are listed in the Nifty Healthcare Index have been selected as sample for this study by applying Purposive sampling technique. The sample companies have been displayed in Annexure I.

- **DATA COLLECTION AND PERIOD OF STUDY**

Present study is entirely based on secondary data which have been accumulated manually from reliable and authentic sources such as CMIE Prowess IQ database, annual reports and public disclosures of the selected companies. Time period of this study is ten (10) years, starting from the financial year 2013-14 to 2022-23.

- **VARIABLES USED IN THIS STUDY**

Total eight (8) variables have been used in this study, out of which four (4) are corporate governance variables and another four (4) are financial performance variables. Corporate governance variables have been considered as independent variables and financial performance variables have been considered as dependent variables for present study. Independent variables i.e., corporate governance variables of this study are Size of Board (SOB), CEO Duality (CEOD), Independence of Board (IOB) and Female Board Members (FBM) and dependent variables i.e., financial performance variables of this study are Margin on Income (MOI), Return on Investment (ROI), Return on Capital Employed (ROCE) and Return on Total Assets (ROTA). These variables have been briefly discussed below:

TABLE 1

Variables	Definition	Measurement
Size of Board (SOB)	Total number of members serving on a company's board of directors.	Total number of executives, non-executive, and independent directors in the board.
CEO Duality (CEOD)	Situation where, same individual holds the positions of chairperson of the board and CEO (Chief Executive Director) or Managing Director at the same time.	Dummy variable '1' has been taken if CEO Duality exists and '0' if CEO Duality doesn't exist.
Independence of Board (IOB)	Percentage of independent directors presented in the board of directors of a company as a whole.	Independent directors as a percentage of total number of members serving on the board of directors.
Female Board Members (FBM)	Presence of women as members of board of directors of a company.	Total number of female directors present on the board.
Margin on Income (MOI)	MOI expresses how much profit a company generates out of its income or turnover. It is expressed in percentage. Higher the percentage higher the capacity of a company to generate profit out of its income.	MOI is calculated as a percentage of PBDIT (Profit before depreciation, interest and tax) on sales.
Return on Investment (ROI)	ROI estimates how much profit/loss a company generates on the money the company invests. ROI is also expressed in percentage. Higher ROI indicates a company can earn higher profit out of its invested amount.	ROI has been calculated by dividing PAT (Profit after tax) by Net worth of the company. Net worth is computed by deducting total liabilities from total assets.
Return on Capital Employed (ROCE)	ROCE assesses how well a company generates profits from its employed capital. Higher ROCE indicates higher capacity of the company to bring out profit out of its capital put in use.	ROCE has been calculated as a percentage of PAT (Profit after tax) on Capital Employed. Capital Employed is calculated by subtracting current liabilities from total assets.
Return on Total Assets (ROTA)	ROTA expresses how efficiently a company utilises its assets to earn profit. Higher ROTA is always favourable, which indicates higher efficiency of the company to make higher profit by utilising its total assets.	ROTA has been calculated by dividing PAT (Profit after tax) by Total Assets of the company.

- **Statistical Technique Used**

To analyze the data and to perceive the relationship between independent and dependent variables, statistical technique of Correlation Coefficient has been used in this study. To calculate the Correlation Coefficient of the variables, authors of this study have IBM SPSS Statistics software.

V. ANALYSIS OF DATA

Correlation analysis is used to observe the degree of association between two variables. Table 1 displays the correlation results between independent and dependent variables. Complete Correlation results have been provided in Annexure 2.

TABLE 1: CORRELATION RESULTS BETWEEN INDEPENDENT AND DEPENDENT VARIABLES

Correlations									
		SOB	CEOD	IOB	FBM	MOI	ROI	ROCE	ROTA
MOI	Pearson Correlation	-.191**	0.011	0.077	0.016	1			
	Sig. (2-tailed)	0.007	0.882	0.276	0.826				
	N	200	200	200	200				
ROI	Pearson Correlation	-.235**	-0.112	-0.018	-0.111		1		
	Sig. (2-tailed)	0.001	0.113	0.797	0.117				
	N	200	200	200	200				
ROCE	Pearson Correlation	-.208**	-0.056	-0.008	-0.093			1	
	Sig. (2-tailed)	0.003	0.434	0.910	0.190				
	N	200	200	200	200				
ROTA	Pearson Correlation	-.164*	-0.051	-0.004	-0.075				1
	Sig. (2-tailed)	0.020	0.472	0.958	0.292				
	N	200	200	200	200				
**. Correlation is significant at the 0.01 level (2-tailed).									
*. Correlation is significant at the 0.05 level (2-tailed).									

VI. RESULTS AND INTERPRETATION

From the above table, we can notice that Margin on Income (MOI) and Size of Board (SOB) are negatively correlated (p value = -.191) and the correlation is significant at 1% level. On the other hand, Margin on Income (MOI) is positively associated with the other corporate governance variables i.e., CEO Duality (CEOD) (Correlation value = 0.011), Independence of Board (IOB) (Correlation value = 0.077) and Female Board Members (FBM) (Correlation value = 0.016), but all these three associations are statistically insignificant.

Return on Investment (ROI) possesses negative associations with all the four corporate governance variables considered in this study i.e., Size of Board (SOB) (Correlation value = -0.235), CEO Duality (CEOD) (Correlation value = -0.112), Independence of Board (IOB) (Correlation value = -0.018) and Female Board Members (FBM) (Correlation value = -0.111). Out of all these associations, only the association between Return on Investment (ROI) and Size of Board (SOB) is statistically significant.

Just like the associations between Return on Investment (ROI) and all the corporate governance variables, the correlations between Return on Capital Employed (ROCE) and all the corporate governance variables are also negative. The correlation values are -0.208, -0.056, -0.008 and -0.093 in cases of Size of Board (SOB), CEO Duality (CEOD), Independence of Board (IOB) and Female Board Members (FBM) respectively. But only the correlation between Return on Capital Employed (ROCE) and Size of Board (SOB) is statistically significant.

Again, we observe similar situations like Return on Investment (ROI) and Return on Capital Employed (ROCE), where Return on Total Assets (ROTA) is also negatively associated with all the corporate governance variables considered in the present study. The values of the correlation of Return on Total Assets (ROTA) with Size of Board (SOB), CEO Duality (CEOD), Independence of Board (IOB) and Female Board Members (FBM) are -0.164, -0.051, -0.004 are -0.075 respectively. Also in this case, only the correlation between Return on Total Assets (ROTA) and Size of Board (SOB) is statistically significant.

VII. FINDINGS AND CONCLUSION

After analyzing the data, we found that Size of Board (SOB) is negatively correlated with all the financial performance indicators taken in this study i.e., Margin on Income (MOI), Return on Investment (ROI), Return on Capital Employed (ROCE) and Return on Total Assets (ROTA). All these correlations are statistically significant too. Which is clearly signifying a negative relation between financial performance and size of board of directors in the Indian healthcare sector. Small board size will help Indian healthcare companies to perform financially better. This result is supported by the results of the earlier study of *Guest, P.M. (2009)* and denies the findings *of Malik et al. (2014)*.

With most of the financial indicators i.e., Return on Investment (ROI), Return on Capital Employed (ROCE) and Return on Total Assets (ROTA); CEO Duality (CEOD) is negatively associated, but only Margin of Income (MOI); it is positively associated with. But none of these associations of CEO Duality (CEOD) with financial performance indicators of the Indian healthcare sector are statistically significant. These results indicate that in majority cases, CEO duality is not good for the financial performance of Indian healthcare companies. The earlier findings of *Elsayed, K. (2007)* support these results.

Similar to CEO Duality (CEOD), Independence of Board (IOB) is also negatively correlated with most of the financial performance indicators, which are Return on Investment (ROI), Return on Capital Employed (ROCE) and Return on Total Assets (ROTA). Independence of Board (IOB) is only positively correlated with Margin on Income (MOI). In the case of Independence of Board (IOB) also, none of the correlations are statistically significant. These findings reveal that in most of the cases higher percentage of board independence is not good for the financial performance of healthcare companies in India. These results are supported by the results of the previous study of *Mishra, S. (2020)*.

Again, we found identical circumstances in the case of Female Board Members (FBM). Just like CEO Duality (CEOD) and Independence of Board (IOB), Female Board Members (FBM) is also negatively associated with Return on Investment (ROI), Return on Capital Employed (ROCE) and Return on Total Assets (ROTA). Female Board Members (FBM) is positively associated only with Margin on Income (MOI). All the associations of Female Board Members (FBM) with the financial performance variables are statistically non-significant. These findings suggest having a smaller number of female board members to achieve good and positive financial performance in the Indian healthcare sector. These findings are similar to the findings of *Darmadi, S. (2013).*

Therefore, after all the analysis and discussion we can conclude that Size of Board (SOB) is totally negatively associated with the financial performance of the healthcare sector in India. CEO Duality (CEOD) and Independence of Board (IOB) and Female Board Members (FBM) are also negatively correlated with the financial performance of Indian healthcare companies in most of the cases. Summarily, corporate governance and financial performance are majorly negatively related in the Indian healthcare sector.

VIII. RECOMMENDATIONS

As per the findings of this study, following recommendations can be given to Indian healthcare sector -

Healthcare companies in India should not increase the size of their board for better financial performance, rather they should have smaller board size in order to get better financial performance as board size is negatively correlated with financial performance.

Since, CEO duality is majorly negatively associated with financial performance for Indian healthcare companies, they should have different individuals for the positions of chairman and CEO or managing director to get better financial performance.

Although higher degree of independence of board indicates good sign of corporate governance, in case of Indian healthcare sector, higher degree of independence of board adversely affects their financial performance as board independence is negatively correlated with financial performance.

It is recommended for healthcare companies in India that they should not increase the number of female members in their board to get good financial performance as female board members are negatively related to financial performance for them.

IX. LIMITATIONS OF THE STUDY

This study possesses few limitations, which are stated below:

- This study has considered only twenty companies which are in the Nifty healthcare index. Other healthcare companies operating in India have not been considered in this study.
- Since this study is fully based on secondary data, the limitations of considering secondary data cannot be eliminated from this study.
- This study has considered only four corporate governance as independent variables. There are many more governance indicators which have been ignored in this study.
- This study has taken only four financial ratios for measuring financial performance. Other financial indicators like Tobin's Q, Market to Book Value (MTBV), Price Earnings (PE) ratio have not been considered.
- Time period of this study is ten years, it can be increased.
- For analyzing the data, only correlation techniques have been used. For more detailed analysis, other statistical tools like descriptive statistics, multiple regression analysis and other statistical tests can also be used.

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ANNEXURE

TABLE 2: SAMPLE COMPANIES FOR THIS STUDY

Sl. No.	Company Names	Sl. No.	Company Names
1	Abbott India Ltd.	11	Granules India Ltd.
2	Alkem Laboratories Ltd.	12	Ipca Laboratories Ltd.
3	Apollo Hospitals Enterprise Ltd.	13	Laurus Labs Ltd.
4	Aurobindo Pharma Ltd.	14	Lupin Ltd.
5	Biocon Ltd.	15	Max Healthcare Institute Ltd.
6	Cipla Ltd.	16	Metropolis Healthcare Ltd
7	Divi'S Laboratories Ltd.	17	Sun Pharmaceutical Inds. Ltd.
8	Dr. Lal Pathlabs Ltd.	18	Syngene International Ltd.
9	Dr. Reddy'S Laboratories Ltd.	19	Torrent Pharmaceuticals Ltd.
10	Glenmark Pharmaceuticals Ltd.	20	Zydus Lifesciences Ltd.

TABLE 3: COMPLETE CORRELATION RESULTS

Correlations									
		SOB	CEOD	IOB	FBM	MOI	ROI	ROCE	ROTA
SOB	Pearson Correlation	1	-0.013	0.046	.267**	-.191**	-.235**	-.208**	-.164*
	Sig. (2-tailed)		0.857	0.520	0.000	0.007	0.001	0.003	0.020
	N	200	200	200	200	200	200	200	200
CEOD	Pearson Correlation	-0.013	1	.212**	-.162*	0.011	-0.112	-0.056	-0.051
	Sig. (2-tailed)	0.857		0.003	0.022	0.882	0.113	0.434	0.472
	N	200	200	200	200	200	200	200	200
IOB	Pearson Correlation	0.046	.212**	1	0.037	0.077	-0.018	-0.008	-0.004
	Sig. (2-tailed)	0.520	0.003		0.599	0.276	0.797	0.910	0.958
	N	200	200	200	200	200	200	200	200
FBM	Pearson Correlation	.267**	-.162*	0.037	1	0.016	-0.111	-0.093	-0.075
	Sig. (2-tailed)	0.000	0.022	0.599		0.826	0.117	0.190	0.292
	N	200	200	200	200	200	200	200	200
MOI	Pearson Correlation	-.191**	0.011	0.077	0.016	1	.689**	.676**	.713**
	Sig. (2-tailed)	0.007	0.882	0.276	0.826		0.000	0.000	0.000
	N	200	200	200	200	200	200	200	200
ROI	Pearson Correlation	-.235**	-0.112	-0.018	-0.111	.689**	1	.938**	.926**
	Sig. (2-tailed)	0.001	0.113	0.797	0.117	0.000		0.000	0.000
	N	200	200	200	200	200	200	200	200
ROCE	Pearson Correlation	-.208**	-0.056	-0.008	-0.093	.676**	.938**	1	.978**
	Sig. (2-tailed)	0.003	0.434	0.910	0.190	0.000	0.000		0.000
	N	200	200	200	200	200	200	200	200
ROTA	Pearson Correlation	-.164*	-0.051	-0.004	-0.075	.713**	.926**	.978**	1
	Sig. (2-tailed)	0.020	0.472	0.958	0.292	0.000	0.000	0.000	
	N	200	200	200	200	200	200	200	200
**. Correlation is significant at the 0.01 level (2-tailed).									
*. Correlation is significant at the 0.05 level (2-tailed).									

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