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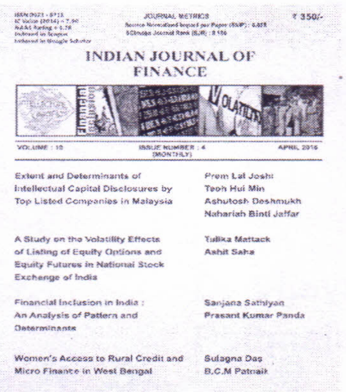
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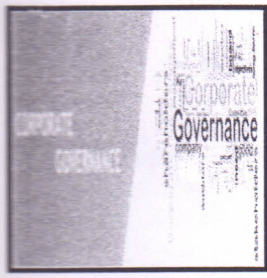

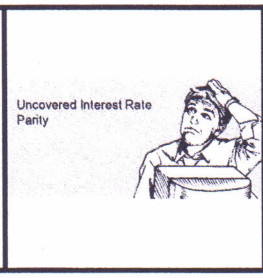

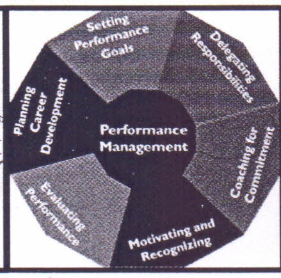

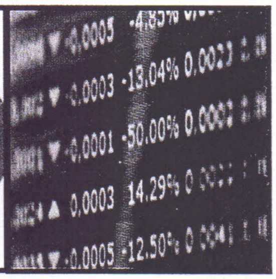

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Impact of Corporate Governance Practices and Firm Performance: An Empirical Study

* *Karpagam Venkatraman*
** *Murugesan Selvam*

Abstract

Corporate governance (CG) is the process and structure through which the affairs of a firm are managed for enhancing business prosperity and corporate accountability, and the ultimate objective of CG is to ensure the shareholders' wealth. A good corporate governance practice is regarded as an important aspect in reducing risks for investors, attracting capital for investment, and improving the performance of companies in the long run. The objective of this paper was to explore the relationship between the firms' performance and corporate governance practices. The paper analysed board of directors and financial performance of major listed companies in the National Stock Exchange (NSE) S&P CNX Nifty during the study period. The study found that the corporate governance structure which incorporated government ownership created more opportunities and resources for better financial performance of the sample firms.

Keywords: corporate governance, financial performance, government ownership structure, board directors

JEL Classification: G34, G32, H3

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Corporate Governance (CG) is the process and structure through which the affairs of firms are well managed for ensuring business prosperity and corporate accountability. The ultimate objective of CG is to ensure shareholders' wealth. Corporate governance also provides the structure through which the objectives of the company are set, the means of attaining those objectives, and monitoring performance are determined. Good corporate governance practices provide proper incentives for the board and management to pursue objectives that are in the interests of the company and the shareholders. Besides, CG may facilitate effective monitoring, thereby encouraging firms to use resources more efficiently (Denis & Denis, 1995).

The corporate governance framework also depends on the legal and regulatory environment. In addition, factors such as business ethics, corporate awareness of environmental issues and societal interests of the community in which it operates may also have an impact upon the performance of a company. A multiplicity of factors affects the effective governance and decision-making processes of firms. The principle focus on governance problems resulted in the separation of ownership and control (Srivastava, 2011). The board of directors is expected to play an important role in the implementation of good corporate governance. It is believed to perform effective monitoring of top corporate managers, replaces poorly performing managers, and determines the compensations. It is understood from few of earlier research studies that boards dominated with non-executive directors are better monitored (Agrawal & Knoeber, 1996 ; Borokhovich, Parrino, & Trapani ,1996).

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Review of Literature

Karpagam, Selvam, and Babu (2013) studied that the ownership registered insignificant impact on performance measures, which implied that indicators were mainly affected by economic and market conditions rather than ownership concentration. The study suggested that the investors, policy makers, and stakeholders need to be educated about the relationship between ownership structure and performance of the firms. The investors may take appropriate decisions regarding the portfolio after taking into account this information. Karpagam and Selvam(2013) examined that the incorporated promoters' ownership and profitability creates more opportunities and resources for better performance. The board independence was something that has just started getting importance and is catching on in India. Karpagam (2013) examined the performance and ownership structures of a board of directors that revealed the level of its independence. The study suggested that independent directors need to monitor managers, especially to strengthen their independence. It is pertinent to mention that there was no conflicting evidence that directors destroy the value of the firm.

Velnampy and Pratheepkanth (2013) investigated the board structure and corporate reporting as the determinants of corporate governance that have a significant impact on ROA, ROE, and NP as the measurements of firm performance. The study found that there was positive relationship between the variables of corporate governance and firm performance. Sarkar, Sarkar, and Sen (2012) focused on rising trend in the level of the corporate governance index of Indian companies. The study found that there was a strong association between the corporate governance index and the market performance of companies. Kumar and Singh (2012) examined the efficacy of outside directors on the corporate boards of 157 non-financial Indian companies. The results clearly indicated that the proportion had significant implications for devising a board model for companies in India.

Najjar (2012) analyzed the good and bad corporate governance which was a crucial step in building the market's confidence. The study suggested that every insurance firm should properly define corporate governance and its mechanisms and implement them effectively in order to reach the firm's long-term goals, build stakeholders' confidence, and generate positive investment flows. Yusoff and Alhaji (2012) tested the structure of the board, particularly in relation to the structure of the decision making process, which needs to be transformed to enable companies to focus on sustaining high performance. The results found that investors considered only governance practices that were important for their investment decisions. Srivastava (2011) assessed whether the ownership type affects the key accounting and market performance of listed firms. The analysis of results found that there was market inefficiency as well as the lack of prompt disclosure by listed companies in India.

Hashim and Devi (2008) tested the relationship between internal governance mechanisms, namely, the role of board independence and the ownership structure (that is, managerial ownership, family ownership, and institutional ownership). The results indicated that the presence of higher proportion of family members on corporate boards is likely to enhance the earnings quality reported by the firms. Garg (2007) analyzed the relationship between board independence, board size, and firm performance. The study found mixed evidence that independent directors added value and improved the performance of the firm. Selarka (2005) studied corporate governance issues in emerging economies by examining the role of blockholders in influencing firm value. The study recorded the significant role played by these shareholders with substantial voting power in situations when equity holding is less vis-à-vis more concentrated in the hands of promoters.

Kumar (2004) examined the effect of interactions between corporate, foreign, institutional, and managerial ownership on firms' performance. The study found that foreign ownership led to higher performance. Kumar (2003) assessed the relationship between managerial ownership and firm performance. The study found that the share-holding pattern did not affect firms' performance significantly, and the agency problem was solved by the optimal ownership pattern in the long run. Xu & Wang (1999) found that the ownership structure significantly affected the performance of publicly listed companies in China within the framework of corporate governance. The study examined the importance of large institutional shareholders in corporate governance, the inefficiency of state ownership, and potential problem in an overly dispersed ownership structure. The above literature provides an overview of different models used to study the ownership structure and corporate performance from various parts of the world.

Statement of the Problem

Corporate governance is the system by which companies are properly directed and effectively controlled. It deals largely with the relationship between the essential parts of a company - the directors, the board (and its sub-committees), and the shareholders. The success of any business firm mainly depends upon good and effective corporate governance. The shareholders, who are supposed to control, are unable to control the firms effectively and make the decisions. The problem is that there is no assurance that the management team represents the interest of the shareholders. The majority of the shareholders, by excising their voting rights, elect the directors and control a majority of the directors to determine the outcome of the firms. It is possible that majority shareholders have tremendous powers to benefit themselves over the minority shareholders. It directly affects the firm's performance in the long run. Hence, corporate governance is essential to protect the interests of all. Previous studies have tested the corporate governance mechanism, earning quality firms, external market discipline, and firms' productivity & firms' financial performance in different countries. However, only few studies have examined the performance of corporate governance in Indian firms. Hence, the present study investigates the impact of corporate governance practices on firm performance of the S&P CNX Nifty listed firms of NSE.

Need and Objective of the Study

Firm performance is affected by corporate governance mechanism of sample companies in India, because their success or failure is dependent on the extent to which they are managed efficiently. The study of governance mechanisms is helpful for the shareholders to take well informed investment decisions. A study of this type is useful for the corporates in a more reasonable, fair, and transparent manner in terms of accounting, auditing, and corporate reporting that is in sync with the global standards. It is beneficial for the companies to enhance their corporate strategy and financial integrity of their organizations so as to protect the interest of all the stakeholders, including the creditors, investors, policy makers, apex regulating bodies, and the economy as a whole. Since the governance practices contribute to enhance the value of listed companies in NSE, the study aimed to explore the efficacy of corporate governance mechanism, which affects firm performance resulting in accountability to shareholders and other stakeholders through appropriate corporate reporting, which develops the value of the firms of listed companies in India. Having an effective corporate governance mechanism in place enables the firms to attract low cost investments by attracting improved investors and creditors' confidence, both nationally and internationally. It increases the firms' responsiveness to the needs of the society and results in improving long-term performance.

The main aim of the study is to examine the impact of corporate governance practices on the firms' performance with reference to S&P CNX Nifty listed firms in NSE.

Hypothesis

- **NH1:** There is no significant relationship between corporate governance practices and firm performance.

Methodology

- **Sample Selection :** The Indian stock market is one of the most dynamic and efficient markets in Asia. Similarly, NSE is one of the top stock exchanges in India. The S&P CNX Nifty is one of the best indicators introduced by NSE. Hence the sample for this study includes S&P CNX Nifty companies listed on the National Stock Exchange. Out of 50 companies, only 30 companies were selected based on the value of market capitalization. Companies that earned high values of market capitalization were selected. It is to be noted that Nifty companies represent about 60% of the market capitalization (www.nseindia.com).

Sources and Collection of Data : The present study mainly depended on secondary data and used financial statements of S&P CNX Nifty Companies, which were collected from PROWESS, and websites of respective stock exchanges. The other relevant details of this study were collected from different websites, reputed journals and books.

Time Period of the Study : The study analyzed the financial statement of S&P CNX Nifty companies from January 1, 2005 to December 31, 2012.

Tools Used in the Study : The present study used the descriptive statistics like mean, standard deviation, minimum, maximum, kurtosis, and skewness. Besides, financial ratios like return on asset (ROA), return on equity (ROE), earnings per share (EPS) and Tobin's Q were also used.

a) Cross Correlation : The following equation was used to calculate the cross correlation.

$$r = \frac{n(\Sigma xy) - (\Sigma x)(\Sigma y)}{\sqrt{n(\Sigma x^2 - (\Sigma x)^2)(n\Sigma y - (\Sigma y)^2)}}$$

where,

N = Number of observations,
Σx = dependent variables,
Σy = independent variables.

b) Linear Regression Model : The residual, ê, is the difference between the actual Y and the predicted Y and has a zero mean. In other words, OLS calculates the slope coefficients so that the difference between the predicted Y and the actual Y is minimized. (The residuals are squared in order to compare negative errors to positive errors more easily). The estimated regression equation is :

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 D + \hat{e}$$

Analysis of Corporate Governance Practices and Firm Performance

The analysis of corporate governance and firm performance is as follows :

The Variables used in the Study

Name of the Variables	Measure of Variables
ROA	Return on assets (Net Income /Total Asset)
ROE	Return on equity (Net Profit/Shareholders Equity)
EPS	Earnings per share (Net Earnings/Outstanding Shares)
Tobin's Q	Year-end market capitalization divided by the book value of total assets and the sum of the market value of equity and the book value of debt divided by the book value of total assets.
Government Ownership	Equity shares held by government companies as percentage of total equity.
Foreign Ownership	Equity shares held by foreigners as percentage of total equity shares.
Dependent Directors	Number of non-executive non-independent directors divided by the total number of directors on the board.
Independent Directors	Number of independent directors divided by the total number of directors on the board.

(1) Analysis of descriptive statistics for corporate governance practice (ownership) of S&P CNX Nifty companies.

(2) Analysis of descriptive statistics for firm performance of S&P CNX Nifty companies.

(3) Analysis of cross correlation for corporate governance practice (ownership) and firm performance of S&P CNX Nifty companies.

(4) Analysis of OLS regression for ROA of S&P CNX Nifty companies.

(5) Analysis of OLS regression for ROE of S&P CNX Nifty companies.

(6) Analysis of OLS regression for EPS of S&P CNX Nifty companies.

(7) Analysis of OLS Regression for Tobin's Q of S&P CNX Nifty Companies.

(1) Analysis of Descriptive Statistics for Corporate Governance Practices (Ownership) of S&P CNX Nifty Companies : The Table 1 reveals the result of Descriptive Statistics for S&P CNX Nifty 30 companies during the study period from January 1, 2005 to December 31, 2012. It is clearly understood from the above Table that there are four types (variables) of ownership of Indian firms (namely government ownership, foreign ownership, independent directors, and dependent directors). For the purpose of analysis (variables) of ownership of Indian firms, the mean, standard deviation, minimum, maximum, kurtosis and skewness were used. The analysis of mean value reveals the fact that the stake of government ownership (average holdings) in the case of sample firms was high (43%) during the study period. It means that on an average, sample companies in India were dominated by Government holdings and their stake while the average foreign ownership was just 30% during the study period, the average holdings of independent directors was at 6% and the share of dependent directors was only 4%. The standard deviation of foreign ownership was high (7.1672), with a mean return of 29.9129. It is to be noted that the Government ownership earned the lowest risk (2.2986), with the highest return (43.0339) and independent directors recorded very low risk (0.4523), with low return (5.9714). The value of Kurtosis (3.1086) was Platykurtic in all parameters, except one. The government ownership (3.1086) was high in the case of leptokurtic. Thus the possibility of a distribution was peaked as the value of kurtosis was positive and normally distributed. The performance of Indian firms was positively skewed in the case of independent directors (0.0789) and negatively skewed in government ownership (-1.2321), foreign ownership (-0.5820) and dependent directors (-0.8987). The analysis reveals that there was inverse relationship between risk and return and the regulators should take necessary steps to minimize the risk and return trade off.

(2) Analysis of Descriptive Statistics for Firm Performance of S&P CNX Nifty Companies : The result of Descriptive Statistics (Mean, Standard Deviation, Skewness and Kurtosis) for the financial performance of S&P CNX Nifty firms during the study period from January 2005 to December 2012 is shown in Table-2. It is to be noted that the performance of sample firms was measured in respect of return on asset (ROA), return on equity

Table 1. Results of Descriptive Statistics for Corporate Governance Practices (Ownership) of S&P CNX Nifty Companies from January 2005 to December 2012

Variables \ Descriptive Statistics	Mean	Standard Deviation	Minimum	Maximum	Kurtosis	Skewness
Govt. Ownership	43.0339	2.2986	38.5127	44.9173	3.1086	-1.2321
Foreign Ownership	29.9129	7.1572	16.9645	39.654	2.8190	-0.5820
Independent Directors	5.9714	0.4523	5.44	6.6	1.5619	0.0789
Dependent Directors	3.8228	1.6948	1.12	5.24	1.9571	-0.8987

Source: Collected from PROWESS corporate database and Computed using E-Views (5.0).

Table 2. Results of Descriptive Statistics of Sample Firms' Financial Performance for S&P CNX Nifty Companies from January 2005 to December 2012

Variables \ Descriptive Statistics	Mean	Standard Deviation	Minimum	Maximum	Kurtosis	Skewness
ROA	0.8897	0.0817	0.7872	0.9836	1.3764	-0.1315
ROE	55.6739	5.3446	58.0599	73.3951	1.8767	0.0926
EPS	41.2393	4.6590	36.3124	49.4892	2.1526	-0.6064
Tobin's Q	1.6123	0.6013	1.0153	2.7656	2.9122	0.9976

Source: Collected from PROWESS corporate database and Computed using E-Views (5.0).

Note: ROA-Return on Asset, ROE-Return on Equity, EPS-Earnings Per Share.

(ROE), earnings per share (EPS) and Tobin's Q as these are considered important parameters. The mean return value was 55.6749 and standard deviation of ROE was at 5.3446. The EPS assumed the lowest risk (4.6580), with the highest return (41.2393) and the value of other indicators, Tobin's Q (1.6123), and ROA (0.8897) recorded low risk and low return. It indicates the fact that the return on equity (ROE) and earnings per share (EPS) was more important than other parameters (ROA and Tobin's Q) as far as the sample companies are concerned during the study period. According to the result of kurtosis, it was Leptokurtic in all parameters. However, it was high in the case of Tobin's Q (2.9122). Besides, the analysis of kurtosis indicates that the variables (returns) were perfectively distributed in a normal bell curve. The value of skewness reveals that sample companies were positively skewed in respect of ROE (0.0926), Tobin's Q (0.9976) and negatively skewed in respect of ROA (-0.1315) and EPS (-0.6064).

(3) Analysis of Cross Correlation for Corporate Governance Practices (Ownership) and Firm Performance of S&P CNX Nifty Companies : The Table 3 gives the results of Cross Correlation Test for S&P CNX Nifty firms for the period from January 2005 to December 2012. The analysis of the Table 3 clearly reveals the fact that out of 8 variables (36 sets of variables), only 4 sets recorded significant and positive relationship between government ownership - ROE (0.8508), independent directors - government ownership (0.0467), government ownership - EPS (0.6893), independent directors - EPS (0.7086) and their *p* - values were 0.0152, 0.0467, 0.0865, and 0.0467 respectively at 5% and 10% significant levels. Besides, it was observed that there was negatively correlated between independent directors - ROA (-0.6745) and their *p* -value for two-tailed test of significance was 0.0965. Only 5 sets of variables were significantly correlated at 1% and 5% levels during the study period from 2005 to 2012. It is to be noted that the analysis of cross correlation shows that the null hypothesis (NH1) : There is no significant relationship between the corporate governance practice and firm performance is rejected. At the same time, the remaining (31) sets of variables were not correlated at 1% and 5% significant levels. The governance disclosure may establish a specific authorization for each regulatory agency and thus manner the ownership structure will be strengthening the corporate governance practices.

(4) Analysis of OLS Regression for ROA of S&P CNX Nifty Companies : The results of the ordinary linear regression (OLS) analysis for S&P CNX Nifty firms during the period from January 2005 to December 2012 are provided in Table 4. It is understood that there was negatively significant coefficient value recorded for government ownership firms (-0.0085), foreign ownership firms (-0.0011), and for firms with dependent directors (-0.0247). The value for firms with independent directors was -0.1344 which was negatively insignificant. The coefficient of ROA was not significant at 5% level, which indicates that there was no impact of corporate governance practice on firms' performance. According to the analysis of the Table, the R^2 was 0.6809 for ROA with 68% of variation. With reference to the analysis of *F* value, it is clear that there was insignificant value at 1.0669. Based on the *F*-statistics, it is clear that there was no significant difference between the corporate

Table 3 : Results of Cross Correlation for Corporate Governance Practices (Ownership) and Firm Performance of S&P CNX Nifty Companies from January 2005 to December 2012

Variables	Pearson Correlation	ROA	ROE	Tobin's Q	EPS	Govt. Ownership	Foreign Ownership	Independent Directors	Dependent Directors
ROA	Pearson Correlation	1							
	Sig. (2-tailed)	.							
ROE	Pearson Correlation	-0.3533	1						
	Sig. (2-tailed)	0.4368	.						
Tobin's Q	Pearson Correlation	-0.0359	0.1068	1					
	Sig. (2-tailed)	0.9390	0.8196	.					
EPS	Pearson Correlation	-0.6023	0.4974	0.6449	1				
	Sig. (2-tailed)	0.1523	0.2560	0.1177	.				
Govt.	Pearson Correlation	-0.6636	**0.8508***	0.3182	**0.6893****	1			
Ownership	Sig. (2-tailed)	0.1040	0.0152	0.4866	0.0865	.			
Foreign	Pearson Correlation	-0.1736	0.0165	-0.1747	0.3314	-0.1580	1		
Ownership	Sig. (2-tailed)	0.7096	0.9720	0.7077	0.4676	0.7349	.		
Independent	Pearson Correlation	**-0.6745****	0.6516	0.0228	**0.7086****	**0.7613***	0.3637	1	
Directors	Sig. (2-tailed)	0.0965	0.1127	0.9611	0.0746	0.0467	0.4225	.	
Dependent	Pearson Correlation	-0.0038	-0.2809	0.0151	-0.2072	-0.2465	-0.3133	-0.5631	1
Directors	Sig. (2-tailed)	0.9934	0.5416	0.9742	0.6556	0.5939	0.4937	0.1880	.

Source: Collected from PROWESS Corporate Database and Computed by using SPSS (16.0)

*Correlation is significant at the 0.05 level (2-tailed), **significant at the 0.10 level (2-tailed)

Table 4. Results of OLS Regression for ROA of S&P CNX Nifty Companies from January 2005 to December 2012

Variables	Coefficient	Std. Error	*t* - Statistic	Prob.
Govt. Ownership	-0.0085	0.0336	-0.2529	0.8239
Foreign Ownership	-0.0011	0.0071	-0.1626	0.8857
Independent Directors	-0.1344	0.1997	-0.6733	0.5701
Dependent Directors	-0.0247	0.0251	-0.9876	0.4274
C	2.1889	0.7674	2.8522	0.1041
R - squared	0.6809	*F* - statistic	1.0669	
Durbin-Watson stat	2.4284	Prob(*F* - Statistic)	0.5363	

Source: Collected from PROWESS Corporate Database and Computed by using E-Views (5.0),

* Significant at 0.05 level.

governance practice and firm performance of sample companies during the study period. Further, Durbin-Watson Statistic of 2.4284 clearly indicates the autocorrelation in the residuals. Hence the null hypothesis (NH1), namely, there is no difference between corporate governance practice and firm performance in Indian companies, is accepted. In other words, the results at 5% level of significance reveals the fact that the corporate governance practice followed by sample companies did not have any relationship with financial parameters measures during the period taken in the study. From the analysis of the results of OLS regression model, it is found that the policy makers and stake holders should take appropriate steps to improve the governance practice and performance of government ownership, foreign ownership and directors.

Table 5. Results of OLS Regression for ROE of S&P CNX Nifty Companies from January 2005 to December 2012

Variables	Coefficient	Std. Error	*t* - Statistic	Prob.
Govt. Ownership	3.0456	1.7822	1.7088	0.2296
Foreign Ownership	0.2853	0.3784	0.754	0.5295
Independent Directors	-6.8085	10.5732	-0.6439	0.5856
Dependent Directors	-0.5132	1.3287	-0.3862	0.7365
C	-31.3085	40.6272	-0.7706	0.5215
R - squared	0.7909	*F* - statistic	1.8923	
Durbin-Watson stat	2.2255	Prob(*F* - statistic)	0.3743	

Source: Collected from PROWESS Corporate Database and Computed by using E-Views (5.0),

* Significant at 0.05 level.

Table 6 . Results of OLS Regression for EPS of S&P CNX Nifty Companies from January 2005 to December 2012

Variables	Coefficient	Std. Error	*t* - Statistic	Prob.
Govt. Ownership	1.6911	1.8841	0.8975	0.4642
Foreign Ownership	0.3390	0.4000	0.8475	0.4859
Independent Directors	-0.3774	11.1776	-0.0337	0.9761
Dependent Directors	-0.3877	1.4047	0.2760	0.8084
C	-37.9065	42.9498	-0.8825	0.4706
R - squared	0.6926	F-statistic	0.1265	
Durbin-Watson stat	3.3412	Prob(F-statistic)	0.5202	

Source: Collected from PROWESS Corporate Database and Computed by using E-Views (5.0),

* Significant at 0.05 level.

(5) Analysis of OLS Regression for ROE of S&P CNX Nifty Companies : The Table 5 exhibits the results of the Ordinary Linear Regression Analysis based on the financial data for S&P CNX Nifty companies during the study period from January 2005 to December 2012. For the analysis of this study, variables like government ownership, foreign ownership, independent directors, and dependent directors were considered as dependent variables while ROE (return on equity) was taken as independent variable. The Table clearly explains that there was insignificant and positive coefficient value for government ownership (3.0456) and foreign ownership (0.2853) and the values for firms with independent directors (-6.8085) and dependent directors (-0.5132) were negatively insignificant. Besides, there was no significant value for ROE at 5% level. It is seen that the value of R^2 was 0.7909 for ROE with 79% of variation. From the analysis of F - value, it is understood that there was insignificant value at 1.8923. The F - statistics indicates that the overall model was poor. Durbin-Watson Statistic of 2.2255 clearly indicates the autocorrelation in the residuals. Therefore, the null hypothesis (NH1) : there is no significant difference between corporate governance practice and firm performance of Indian companies is accepted. It is found that the regulatory authorities should reassess the procedures for the appointment of directors in order to remove the influence of higher authority from the appointment process.

(6) Analysis of OLS Regression for EPS of S&P CNX Nifty Companies : The results of the ordinary linear regression analysis based on the financial data for S&P CNX Nifty firms from January 2005 to December 2012 are presented in the Table 6. It is to be noted that the coefficient value of variables for all sample firms were positively insignificant, which was high in government ownership firms (1.6911) compared to other variables, namely,

Table 7. Results of OLS Regression for Tobin's Q of S&P CNX Nifty Companies from January 2005 to December 2012

Variables	Coefficient	Std. Error	*t* - Statistic	Prob.
Govt. Ownership	3.0456	1.7822	1.7088	0.2296
Foreign Ownership	0.2853	0.3784	0.7540	0.5295
Independent Directors	-6.8085	10.5732	-0.6439	0.5856
Dependent Directors	-0.5132	1.3287	-0.3862	0.7365
C	-37.9065	40.6272	-0.7706	0.5215
R - squared	0.7909	F-statistic	1.8923	
Durbin-Watson stat	2.2255	Prob(F-statistic)	0.3743	

Source: Collected from PROWESS Corporate Database and Computed by using E-Views (5.0),

* Significant at 0.05 level.

foreign ownership and dependent directors. The coefficient value of independent directors was (-0.3774) negatively insignificant at 5% level. It is inferred from the Table that the R^2 was 0.6926 for EPS with 69% variation. According to the analysis of F - statistics, there was insignificant value for EPS (1.1265). Durbin-Watson Statistic of 3.3412 indicates autocorrelation in the residuals. Based on the null hypothesis (NH1) is accepted. It is suggested that shareholders should carefully make the decision after taking into consideration of the above information.

(6) Analysis of OLS Regression for Tobin's Q of S&P CNX Nifty Companies : The Table 7 reveals the results of OLS Regression for S&P CNX Nifty for the period of January 2005 to December 2012. The Table clearly shows that there was insignificant and positive coefficient value for government ownership (3.0456) and foreign ownership (0.2853) and negative for all other variables, namely, independent directors (-6.8085) and dependent directors (-0.5713) during the study period. The value of the R^2 was 0.7909 for Tobin's Q, which was 79% variation at 5% level. Coefficients (-31.3086) were negative while their F - value (1.8923) and p-value (0.3743) were low. The F - statistic indicates that the overall fit of the model was poor. Based on Durbin-Watson Statistic of value (2.2255) indicates autocorrelation in the residuals. Therefore the null hypothesis (NH1) is accepted. The frequency of board meetings as measures of board activity could intensify positive relationship with the performance. The implication is that when board of directors meet frequently, they are likely to enhance firm performance.

Discussion and Conclusion

Emerging stock markets, which are steadily getting integrated with the global economy, recognize the practice of corporate governance. The major challenges in India in respect of implementation of corporate governance were unaddressed. There were conflicts between the dominant shareholders and minority shareholders. Besides, the promoters are dominant shareholders of Indian firms, followed by institutional investors. The individuals were the least significant investors. The board of directors derives its power from dominant shareholders. The results of this study suggests that investors, policy makers and stake holders have to try for a suitable and better efficient functioning of board models for companies with clear definition of the role of directors. The present study indicates that the governance practice registered insignificant impact on firms performance, which implied that the indicators used in the study may be mainly affected by economic and market conditions rather than ownership concentration.

The investors may take appropriate decision on the portfolio, after taking into account these pieces of information. A major issue, however, is the limited availability of trained independent directors who are well versed with the procedures, tasks and responsibilities as expected by the stakeholders. Further, independent

...ectors have to be motivated to carry out their duties perfectly. Firms are advised to bring the required expertise ...nd knowledge to efficiently run the companies in a competitive environment.

According to the results of earlier research studies undertaken by Kumar and Singh (2012), Karpagam (2013), ...rivastava (2011), Denis and Denis (1995), Kumar (2003) , and Kumar (2004), there was no significant ...elationship between corporate governance practices and firm performance. In the same way, the present study ...lso confirmed the findings of these studies. However, there are few other studies undertaken earlier by ...orokhovich et al., (1996), Selarka (2005), Najjar (2012), Hashim and Devi (2008), and Xu and Wang (1999), ...hich found that there was a significant relationship between corporate governance practices and firm ...erformance. The findings of present study did not confirm the findings of these studies.

Research Implications

This study has examined the impact of corporate governance practices and firm performance from India by using descriptive statistics, impact, and relationship between corporate governance and performance of firms. The findings of this study have some interesting implications. The analysis of this study reveals that among the variables government ownership and ROA was important parameter in 2005 to 2012. It is clearly understood that the variable are significant and positively influence between government ownership and return on asset, independent directors and government ownership was 5% significant level. It indicated that the impact of independent board structures on profitability and market value of firms was unstable. It is believed that firms which have implemented effective corporate governance structures, performed better in the competitive business environments. Hence, Indian firms may have to ensure designing of good corporate governance mechanisms in line with the global standard.

It is suggested that the role and responsibilities of directors on various committees (such as ownership structure, directors remuneration, shareholder information, and grievances committee of companies) have to be clearly defined so that the performance of firms would be enhanced in the long run. The market value of a company may grow with a greater proportion of independent directors in the Board. However, the promoters who are the owners and controllers of Indian companies, negatively impact the performance of independent directors. Hence, the policy makers have to try to find a suitable board model for Indian companies and define the role of independent directors.

Limitations of the Study and Scope for Further Research

The following are the limitations of the study :

(1) This study focused only on S&P CNX Nifty companies.

(2) This study was based mainly on secondary data collected from Prowess Database of CMIE.

(3) This study used statistical tools which have certain inherent limitations.

The following are the pointers which can be used for further research :

(1) A study with similar objectives could be made with reference to other indices.

(2) Similar studies can be conducted for longer time periods.

(3) Studies can be conducted with other variables like audit committee, CEO duality, remuneration, corporate reporting, leadership structure, and so forth.

(4) A study with similar objectives could be made from time to time.

(5) Corporate governance variables can be calculated by using the score card method.

(6) A study may be conducted to investigate the impact of corporate governance mechanisms/factors on ownership structure of firms.

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