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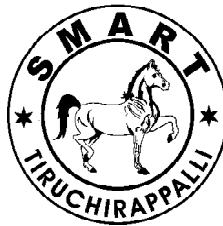
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## THE IMPACT OF BOARD STRUCTURE ON CORPORATE GOVERNANCE PRACTICES IN INDIA

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### **Abstract**

*India is one of the developing countries where corporate governance systems are in the evolutionary stage. Various reforms have been undertaken including establishment of the Securities and Exchange Board of India (SEBI) in 1992 and the formation of four major committees (Bajaj Committee in 1996, Birla Committee in 2000, Chandra Committee in 2002, and Narayanan Murthy Committee in 2003), to review governance issues and to propose governance laws and a new set of codes and practices. This study investigates the various aspects of corporate governance in India. It also examines different aspects of the effectiveness of boards of directors, board composition, board size, board leadership and board activity in relation to financial performance. The study used correlation analysis, to evaluate various factors and composition of board structure, to gauge the effectiveness of corporate governance. The results suggest that inclusion of more number of independent/ outside directors, with diverse professional skills as well as increased public shareholding, would enhance professionalization of corporate boards and the efficiency of corporate governance practices in India.*

**Keywords:** *Corporate Board Structure, CEO, Chairman, Clause 49, Corporate Governance, Director, Non Executive Director, Independent Director, Sarbanes-Oxley Act, SEBI.*

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## 1. Introduction

Corporate governance systems and structures vary greatly across countries and industrial sectors. **Maher and Anderson (1999)** classified systems of corporate governance, based on the degree of ownership and control and the identity of controlling shareholders, into two broad categories - the outsider systems (notably the United States of America and the United Kingdom), characterized by widely dispersed ownership and the insider systems (notably continental Europe and Japan), characterized by concentrated ownership or control.

The existing literature on corporate governance structure and systems across countries, remains confined mainly to the United States, Europe, and Japan, where the governance systems are quite different from those found in India and other transition economies. The research on corporate governance has remained in its infancy in India, owing to the relatively opaque disclosure practices, followed by the Indian corporate sector (**Goswami, 2000**).

**La Porta, et al., (2000)** argued that emerging economies have traditionally been discounted in financial markets because of their weak governance. Therefore, an investigation of aspects of the competition and operation of boards, as an important driver in corporate governance, may provide insight into the corporate governance practices in an emerging economy such as India. There are country specific factors that may impact corporate governance relationships (**Guest Paul, M., 2008**).

India is one of the developing countries where corporate governance systems are in the evolutionary stage and the findings could be useful for newly liberalized economies. In recent years, the attention and interest in corporate

governance has grown exponentially in the backdrop of major corporate collapses (e.g., Enron, HIH, One Tel and WorldCom,) in the US and Australia. The need for strong governance is evidenced by various reforms and standards developed not only at the country level but also at the international level (e.g., the Sarbanes-Oxley Act in the US, CLERP 9 in Australia, Combined Code in the UK, and the Organization for Economic Development (OECD) Code and Clause 49 in India (**Daily, et al., 2003; Rajagopalan and Zhang, 2008**).

The concern for corporate governance has spread to the developing economies because world market is now accessible to Indian corporate sector and this has intensified the competition in the domestic front. In this changed scenario, quality of governance has become a critical success factor for survival, a source of competitive advantage and for raising funds from capital markets (**Klapper and Love, 2004**).

The governance reforms and recommendations, advocated by various committees, were formally implemented by the SEBI in India. These reforms include increasing the number of outside directors. There has also been change in Clause 49 of the Listing Agreement by the SEBI in 2005 (effective from January 1, 2006), requiring a minimum number of outside directors as boards of directors (**Chakrabarti, et al., 2008**). Higher level of board independence increases shareholder value (**Linck et al., 2007**).

Management holdings include shares owned by members of the corporate board, the CEO, and top management. Exclusive reliance on this measure, to track the severity of the agency problems, suggests that all shareholders, classified as management, have a common interest. This is not likely to be true. A board member, for example, may have a position on

the board because he has, or represents someone who has, large holdings of the company's stock (**Raheja, 2005**).

The Board members of this type do not have interests identical to those of professional management. More likely, their interests are more closely aligned with those of outside investors. For the sample firms in our study, the correlation between the fraction of shares owned by important shareholding families and the fraction owned by the management was 0.67 (**Harris and Raviv, 2006**).

The positive correlation suggests that important shareholding families do have representation on corporate boards. These family board members, or their representatives, may not have interest in common with those of 'pure' management personnel. Boards of directors play fundamentally important role in the corporate governance of publicly listed companies and therefore, the understanding of the determinants of board structure is an important research question (**Lehn et al., 2003; Adams and Ferreira, 2007; Coles et al., 2008**).

The board's advisory role is to provide the CEO with advice and access to information and resources, and it is more efficiently carried out by outside directors who can provide important connections and expertise (**Fama and Jensen, 1983**). A larger proportion of outsiders can provide greater information. This should occur as firm scale and complexity increases (**Lehn et al., 2003**). Many empirical studies found that board size and outsider proportion were positively related to firm size and complexity and the latter was measured by age, leverage, or industrial diversification. The monitoring role involves ensuring that senior management pursues shareholder interests. Outside directors are more likely to be independent and objective in this task

than insider directors since they wish to deploy their competence to other potential employers and already have monitoring experience (**Fama and Jensen, 1983**).

## 2. Review of Literature

More equity ownership, by the managers, leads to superior corporate performance because it results in a better alignment of shareholders' and managers' interests (**Jensen and Meckling, 1976**). The cost of capital argument maintains that increased ownership concentration decreases financial performance because it raises the firm's cost of capital as a result of decreased market liquidity or decreased diversification opportunities on behalf of the investors (**Fama and Jensen, 1983**). Firms' ownership structure is the most researched indicator of corporate governance. Literature on ownership involves two different issues. The first issue relates to the concentration or dispersion in the equity ownership or the presence of block equity holders (**Morck et al., 1988; Thomsen and Pederson, 2000**). The management ownership, market for corporate control, product market competition, shareholder activism, and trading activity are considered as various mechanisms through which shareholders exercise this control (**Walsh and Seward, 1990**). **Pearce and Zahra (1992)** predicted board size to have a positive association with firm performance. Proponents of this view argue that a larger board will have representation of people with diverse background, who bring knowledge and intellect to the board and improve the quality of strategic decision. Size is thus assumed to be associated with the breadth of perspectives in the planning process.

According to **Jensen (1993)**, as groups increase in size, the companies become less effective because the coordination problems overwhelm the advantages from having more

people to draw on. When boards get beyond seven or eight people, they are less likely to function effectively and it becomes easier for the CEO to control. The size of corporate boards has received much attention, particularly given prominent business failures of large companies. On the otherhand, there has been some empirical evidence to suggest that increased board size can have a positive association with performance (**Goodstein, et al., 1994**). There is, however, some evidence that supports the assertion that there is an inverse association between firm performance and size of the board. **Yermack (1996)** presented evidence that small boards of directors are more effective than large boards. The benefits of increased size can be out-weighted by the costs in terms of poorer communication and decision-making associated with larger groups.

**Balasubramanian (1997)** emphasized that the corporate boards are considered the institutions to mitigate the effects of agency problem, in the organizations. As boards are considered to be large decision-making groups, size can affect the decision-making process and effectiveness of the board. Ideal size of the board has been an issue of debate over the years. There are variations in board size across countries. The average board size of a British company, in 1996, was seven whereas on the other extreme, some of the Japanese companies were having around 60 directors on their board. The Business Houses (BH) and Financial Institutions (FIs) control large blocks of shares in most companies. From the agency theory perspective, the objective of corporate governance is to ensure that managers resort to value maximizing strategies. The argument states that large shareholder or block holders may be better monitors of the management as they may be represented in the board of directors and the power to influence boards' decision-

making process. Characteristics of the block holders themselves are found to influence firms' decision (**Shleifer and Vishny, 1997**).

**Gedajlovic and Shapiro (1998)** studied the relationship between ownership concentration and firm performance across nations in a study pertaining to Canada, France, Germany, the United Kingdom, and the United States of America. The patterns of ownership concentration, is a proxy for propensity to monitor organizational managers, vary widely across countries. Another issue relates to shares held by the board, CEO and top management. The presence of block equity holders is considered to have a positive impact on corporate performance and it is explained by cost of capital and effective monitoring hypotheses (**La Porta et al., 1999**). Indian governance system is typically a hybrid of the Anglo-Saxon governance system prevalent in the US and the UK and the bank dominated systems prevalent in Germany and Japan. A key feature, which distinguishes Indian companies, is a higher reliance on external sources of financing in Indian companies (**Giswanu, 2000**).

**Hillman, et al., (2000)** and **Palmer and Barber (2001)** concluded that the board of directors is an important resource for companies to have association with the external environment. Others have viewed the board-performance nexus as more specifically linked with the ability of the board to tap into significant resources that would flow from a larger rather than a smaller sized board. **Thomsen and Pedersen (2000)** also found differences across countries in the relation between ownership patterns and corporate governance, in a study, covering 12 European countries. Typical issues, considered in corporate governance of a firm, are ownership structure and board effectiveness. Board effectiveness variable, considered in various studies include board size, board

independence, CEO duality, and presence and activity of various board sub-committees (Castanias and Helfat, 2001). Board size is also found to be related to strategic change in an organization. From this perspective, smaller boards are assumed to have inadequate recognition of the need to initiate or support strategic change (Goilden and Zajac, 2001).

Van den Berghe and Levrav (2004) argue that expanding the number of directors provides an increased pool of expertise and thus larger boards are likely to have more knowledge and skills at their disposal than smaller boards. Literature from the management discipline views the board of directors as a potentially important resource for companies and thus supports a resource dependency theory of corporate governance (Nicholson and Kiel, 2007). The business of Indian directors is partly explained by the fact that multiple directorship has evolved largely due to the lack of industrial leadership and adequacy of experience. Sarkar and Sarkar (2008) used data from 2003 to show that 71.6 per cent of Indian directors held more than one directorial position and 56 per cent of directors would be defined as 'busy', based on the three directorship benchmark.

### 3. Statement of the Problem

The corporate governance of business enterprises has become vital in the backdrop of globalized business environment. The assessment of the compliance of corporate governance codes and practices by the listed companies is crucial for understanding the level of adherence to such norms. The protection of shareholders' interest, maximization of wealth and ensuring financial discipline are the key issues to be dealt within the sphere of corporate governance. The composition of Board Structure and Ownership are the two

fundamental elements for any business organization. Any structural change in these aspects, would have far reaching impact on the management and growth of a company. India, being one of the developing economies, is vulnerable since the corporate governance is in the evolving stage and business enterprises strive hard to place the corporate governance system into practice. It is important to assess the current level of efficiency of corporate governance in terms of corporate board structure, board independence and ownership structure to improve the efficiency and performance of corporate enterprises in India. Against this backdrop, this study has been undertaken.

### 4. Need of the Study

This study would help to improve the corporate governance and overall organizational performance of companies in terms of board independence, professionalization of corporate boards and effective ownership structure.

### 5. Objectives of the Study

The main objective of the study was to delineate the relationship between board structure and corporate governance and also to find out the inter-relationship between ownership and corporate governance.

### 6. Hypotheses of the Study

The following null hypotheses were framed, to be tested in the study.

**NH-1:** Board size did not positively influence the corporate governance of BSE-Sensex listed Companies.

**NH-2:** Independent directors did not positively result in better management control and the corporate governance of BSE-Sensex listed companies.

**NH-3:** A higher public shareholding did not have a positive influence on the corporate governance of BSE-Sensex listed Companies.

## 7. Research Methodology

### a) Sample Selection

Thirty companies, indexed in BSE- Sensex, were taken as the sample for this study.

### b) Sources and Collection of Data

The required secondary data were collected from BSE and respective company websites.

### c) Study Period

The period of study was ten years, from 2008 to 2017.

### d) Tools Used

Correlation and Percentage Analysis were used, for the analysis of the relationship between the board structure and corporate governance practices in India.

## 8. Impacts of Board Structure and Ownership on the Corporate Governance in India

The analysis of data, on the Impact of Board Structure and Ownership on the Corporate Governance in India, was done in the following manner:

- a) Proportion of BSE Sensex Companies by Industry Classification
- b) Board Structure and Ownership of BSE-Sensex Companies
- c) Corporate Board Structure of BSE Sensex Companies and
- d) Correlation Analysis of Ownership and Board Structure of BSE Listed Companies

### a) Proportion of BSE Sensex Companies by Industry Classification

The results of Descriptive Statistics of BSE-Sensex companies, by the industry classification, are shown in **Table-1**. BSE-Sensex consists of 30 active stocks, representing different sectors of the Indian Economy. This index is considered

as one of the important indicators of Indian corporate sector performance. The matrix of index includes many sectors. The Automobile sector had six companies and the percentage was 19.98. Similarly the Banking sector had six companies and the percentage was 19.98. Computer software services, Oil and Petroleum sector and Steel and Mining sector had three companies each and the respective percentage was 9.99% for each sector. Engineering services, Fast Moving Consumer Goods (FMCG) and Power sector had two companies each and the relative percentage was 6.67% for each sector. Chemicals sector, Pharmaceuticals sector and the Telecom sector had one company each and the relative percentage was 3.33% for each sector. This shows that matrix of BSE-Sensex represents and signifies eleven vital industrial sectors, during the study period.

### b) Board Structure and Ownership of BSE-Sensex Companies

**Table-2** depicts the Descriptive Statistics of Board Structure and Ownership of BSE-Sensex Companies, during the study period, from 1<sup>st</sup> January 2008 to 31<sup>st</sup> December 2017. The analysis of Table reveals that the board size recorded a mean value of 10.72, median value of 11.00, standard deviation value of 3.14, minimum value of 3.00, and the maximum value of 21.00. The advertising intensity registered a mean value of 2.76, median value of 1.64, standard deviation value of 3.52, minimum value of 0, and the maximum value of 46.17. The R&D intensity recorded a mean value of 0.43, median value of 0.04, standard deviation of 1.17, minimum value of 0, and the maximum value of 23.03.

According to the Table, the gross fixed assets registered a mean value of 79.46, median value of 58.26, minimum value of 0.91, and the maximum value of 1054.47. The Return on

capital employed recorded a mean value of 19.24, median value of 16.28, standard deviation of 35.64, minimum value of -731.42, and the maximum value of 624.18. The Debt-equity ratio recorded a mean value of 1.13, median value of 0.92, standard deviation of 5.98, minimum value of -200.17, and the maximum value of 79.46.

It is found that the foreign shareholding registered a mean value of 15.41, median value of 4.89, standard deviation of 21.58, and the maximum value of 30.81. Also, the financial institution shareholding recorded a mean value of 13.74, median value of 11.13, standard deviation of 10.37, and the maximum of 51.04. The Directors' shareholding recorded mean (32.16), median (33.18), and the maximum value of 90.89. The public shareholding recorded a mean value of 38.69, Median value of 19.93, and the maximum value of 58.73. The trading activity recorded a mean value of 497.56, median value of 16.54, standard deviation of 238.19, and the maximum value of 41198.56 of BSE-Sensex companies during the study period 2008-2017.

Hence the null hypothesis **NH-3: Higher public shareholding did not positively influence on the corporate governance of BSE-Sensex listed companies**, is rejected. In other words, higher public shareholding (58.73%) positively influenced the corporate governance of BSE-Sensex Companies.

### **c) Corporate Board Structure of BSE Sensex Companies**

The analysis of the Corporate Board Structure of BSE Sensex companies, during the study period of 2008-2017 is exhibited in **Table-3**. For the purpose of analysis, the factors, considered for this study, were grouped into i) Performance variables, ii) Governance variables and iii) Other variables.

### **i) Performance Variables**

The performance variables include Return on Assets (%), Log of Return on Assets (%), Tobin's Q (TQ) and Log of Tobin's Q.

**Table-3** shows that the Return on Assets (%) recorded a minimum value of -40.58, maximum value of 37.53, mean value of 8.44, median value of 7.84, and standard deviation value of 7.95. Log of Return on Assets (%) registered minimum (-30.83), maximum (44.81), mean (8.45), median (7.80), and standard deviation (8.12) during the study period 2008-2017.

Tobin's Q (TQ) registered a minimum value of 0.45, maximum value of 221.09, mean value of 4.84, median value of 2.20, and Log of Tobin's Q recorded minimum (0.38), maximum (52.93), mean (2.44), and median (1.49), for the BSE-Sensex companies, during the study period 2008 - 2017.

### **ii) Governance Variables**

The governance variables include Number of the Outside Directors, Proportion of Outside Directors, CEO Chair (Duality), Promoter CEO, CEO only Employee, Powerful CEO, Business-All Directors, Business-Outside Directors, Board Size, and Number of Board Meetings.

It is found that the number of outside directors recorded minimum value (0), maximum value (10), mean value (4.62), median value (4.00), and standard deviation value (1.83). The proportion of outside directors registered minimum (0.50), maximum (1.00), mean (0.48), and median (0.50). Another corporate governance variable, CEO Chair (Duality) recorded minimum value (0), maximum value (1), mean value (0.35), and median value (0.50). Promoter CEO had minimum (0), maximum (1), mean (0.42), and median (0.50).

The corporate governance variable, Board size, registered minimum value (4), maximum



value (18), mean value (9.56), median value (9.55), and standard deviation value (2.63). Number of board meeting registered minimum value of 4, maximum value of 15, mean value of 6.32, median value of 6.33, and standard deviation value of 2.18, for BSE-Sensex companies, during the study period of 2008-2017.

### iii) Other Variables

The other variables include Total Assets, Log of Total Assets, Leverage, Growth-Capital Expenditure to Sales, Growth-Research and Development and Firm Age.

One of the important other variables, Total Assets, recorded minimum value (Rs.25,975 crores), maximum value (Rs.968,70,000 crores), mean value (Rs.42,200,200 crores), median value (Rs.11,300,000 crores), and standard deviation value (Rs.121,000,000 crores), for BSE-Sensex companies, during the study period of 2008-2017. It is found that the Log of Total Assets registered minimum value (10.16), maximum value (20.69), mean value (16.32), and median value (16.23). Leverage had maximum value (1.01), mean value (0.28), and median value (0.29).

It is found that Growth-Capital Expenditure to Sales recorded minimum value (0), maximum value (51.85), mean value (0.24), and median value (0.06). Similarly, Growth- Research and Development registered minimum value (0), maximum value (0.30), mean value (0.003), and median value (0). Firm Age had minimum value of 3, maximum value of 144, mean value of 42.21, median value of 34, and standard deviation value of 27.37, for BSE-Sensex companies, during the study period, from 2008 to 2017.

### d) Correlation Analysis of Ownership and Board Structure of BSE Listed Companies

**Table-4** illustrates the Correlation analysis of BSE-Sensex companies, for testing

Ownership and Board Structure, during the study period from 2008 to 2017. Ownership and Board Structure were studied in respect of i) Controlling Ownership, ii) Business Group, iii) Institutional Ownership, iv) Leverage, v) Herfindahl Index, vi) Age, vii) Price to Book Value, and viii) Free Cash Flow.

### Controlling Ownership

Controlling ownership signifies the significant stake in the company. In the case of Controlling Ownership, for small companies, the correlation value regarding board size was 8.63, for independent directors, the value was 6.21, and percentage value of Independent directors was 52.1. In medium level companies, the correlation value for board size was 10.43, for independent directors, it was five and percentage value of independent directors was 50. In large size firms, the correlation value for board size was 12.45, for independent directors, the value was 4.25 and percentage value of independent directors was 48.48. The difference of board size was -3.82, and for independent directors, the value was 1.96. The t-value for board size was 37.75 and for independent directors, it was 25.25, during the period from 2008 to 2017.

### Business Group

Business group emphasizes the uniqueness of promoters of different industrial houses. In the case of business group, for small companies, the board size value was 11.93, the value of independent directors was 5.82, and percentage value of independent directors was 49.02%. In Medium level companies, the board size value was 9.61, independent directors value was 4.67, and percentage value of independent directors was 27.37%. For Large companies, the board size value was 7.52, and independent directors value was 3.26. The t-value of board size was -25.29 and independent directors was -21.81, during the period from 2008-2017.

### **Institutional Ownership**

Institutional ownership signifies the institutional promoters of different business firms. In the case of Institutional Ownership, for small companies, the board size value was 9, independent directors value was 4.43 and the percentage value of independent directors was 50.03%. In the case of Medium level companies, the board size value was 10.58, and independent directors value was 5.08. In Large size companies, the board size value was 12.31, and independent directors value was 6.01. t-value for board size was 30.27 and for independent directors, it was 24.39.

### **Leverage**

Leverage is the ratio of a company's loan capital (debt) to the value of its ordinary shares. For small companies, the board size value was 10.27, independent directors value was 4.94, and the percentage value of independent directors was 49.00%. In Medium level companies, board size value was 10.61, and independent directors value was 5.19. For Large size companies, the value of board size was 10.99, independent directors value was 5.4. The t-value of board size was 6.25, and the value of independent directors was 0.57, during the study period 2008-2017.

### **Herfindahl Index**

The Herfindahl Index is a measure of the size of firms in relation to the industry and an indicator of the amount of competition among the companies. For small size firms, the board size value was 11.06, and the percentage value of independent directors was 49.31%. For Medium level companies, the board size value was 10.53, independent directors value was 5.15, the percentage value of independent directors was 49.38%. In Large firms, the board size value was 10.29, and the percentage value of independent directors was 48.76%, t- value of

board size value was -6.77. independent directors value was -7.42, and the percentage value of independent directors was -1.8, during the period from 2008-2017.

### **Age**

Age signifies the company's chronological age of existence. In the case of Age of a company, for small companies, the board size value was 9.81, and independent directors value was 4.79. In Medium size companies, the board size value was 10.32, and independent directors value was 4.96, In Large size companies, the board size value was 11.74, and independent directors value was 5.78. The t-value of board size was 16.91, independent directors value was 14.91 and the percentage value of independent directors was 0.21, during the study period.

### **Price to Book Value**

Price to Book Value signifies the market price of the equity share of the company to its current book value. In the case of Price to Book Value, for small companies, the board size value was 9.56, and independent directors value was 4.77. For Medium size companies, board size value was 10.79, and independent directors value was 5.23. For Large size companies, the board size value was 11.51, and independent directors value was 5.52, t-value of board size value was 16.5, and independent directors value was 5.73, during the study period.

### **Free Cash Flow**

Free cash flow denotes the quantum of cash flow in the specific accounting period of a company. In the case of free cash flow, for small companies, the board size value was 10.05, and independent directors value was 4.98. In Medium size companies, the board size value was 10.77, and independent directors value was 5.26. In Large size companies, the board size value was 11.06, and the percentage value of independent directors was 48.34%, t-value of board size was

9.02, and independent directors value was 4.73, during the study period 2008-2017.

From the above analysis, it is clearly evident that the Board size exercised considerable influence and it was one of the major influencing factors, on the corporate governance of BSE – Sensex companies. Hence the null hypothesis, **NH-1 (Board size did not positively influence the corporate governance of BSE-Sensex listed Companies)**, is rejected. It signifies that firms with small board size, performed better in terms of Free Cash Flow (50.02%) than medium and large size companies (**Table-4**).

Similarly, the Independent Directors on the corporate boards, also wielded significant influence and it was one of the major influencing factors, on the corporate governance of BSE–Sensex companies. Hence the null hypothesis, **NH-2 (Independent directors did not positively result in better management control and the corporate governance of BSE-Sensex listed Companies)**, is rejected. In the study, for all the eight factors of corporate governance, the Independent Directors value ranged between 48 percent to 50 percent (**Table-4**). Hence there is need for more number of Independent Directors on the company boards and their extended role of professional management of companies, in the long run, is recommended.

## 9. Findings of the Study

It is found that from this study of linking corporate governance with board structure and ownership, the findings revealed many facets of corporate governance in India. A country's financial system and legal provisions, regarding shareholder rights protection, play an important role in moderating or influencing this relationship. Our analysis of the Indian corporate sector provides evidence that a higher proportion of

foreign shareholding was associated with increase in market value of the firm while the Indian institutional shareholders' association was not statistically significant. A weak positive association was also found between board size and firm value. Directors' shareholding recorded a non-linear negative relationship with firm value, while the public shareholding registered a linear negative association. The Board size exercised considerable influence and it was one of the major influencing factors, on the corporate governance of BSE–Sensex companies. It signifies that firms with small board size, performed better in terms of Free Cash Flow (50.02%) than medium and large size companies.

## 10. Suggestions

Independent Directors on the corporate boards also wielded significant influence and it was one of the major influencing factors, on the corporate governance of BSE-Sensex companies. In the study, for all the eight factors of corporate governance, the Independent Directors value ranged from 48% to 50%. This phenomenon signifies the need for more number of Independent Directors on the company boards and their extended role of professional management of companies in the long run is recommended.

## 11. Conclusion

The Indian Government initiated market reforms in 1991. Major elements of the reforms have resulted in the opening of the Indian economy to multinational and foreign investment in the past two decades. The increased foreign investment, in India, has intensified the interest in good corporate governance and in particular, the application of western governance structures to Indian firms. This study has examined the relationship between established governance structures and corporate governance performance of BSE-Sensex listed Indian

companies. The issue of endogeneity is a major concern in such investigations, and hence the need to address the inter-relationships amongst board structure (proportion of outsiders), firm performance and capital structure (leverage). There is a need to restructure the board with more independent directors, with professional basis.

## 12. Limitations of the Study

Only secondary data of 30 companies, indexed in BSE-Sensex, were used for a ten year period, in the study.

## 13. Scope for Future Research

The limited availability of data hindered the board level characteristics to be explored beyond the board size and board ownership. Important issues of board composition and board activity were left out and these could be explored further. A study of qualitative aspects of the board which contribute to firm value, such as the directors' perception of the role of the board and board decision-making process, would be interesting to pursue for research. The researchers could also endeavour to delineate the influence of other board related aspects on the corporate governance mechanism, in detail.

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**Table-1: Proportion of BSE Sensex Companies by Industry Classification**

<b>Industrial Sector</b>	<b>Number of Companies</b>	<b>Percentage</b>
Automobiles	6	19.98
Banking	6	19.98
Chemicals	1	3.33
Computer Software and Services	3	9.99
Engineering Services	2	6.67
Fast Moving Consumer Goods (FMCG)	2	6.67
Oil and Petroleum	3	9.99
Pharmaceuticals	1	3.33
Power	2	6.67
Steel and Mining	3	9.99
Telecom	1	3.33
Total	30	100.00

Source: www.bseindia.com (2018)

**Table-2: Descriptive Statistics of Board Structure and Ownership of BSE-Sensex Companies during the period 2008-2017**

<b>Variables</b>	<b>Mean</b>	<b>Median</b>	<b>Standard Deviation</b>	<b>Minimum</b>	<b>Maximum</b>
Board Size	10.72	11.00	3.14	3.00	21.00
Advertising Intensity	2.76	1.64	3.52	0	46.17
R&D Intensity	0.43	0.04	1.17	0	23.03
Gross Fixed Assets (%)	79.46	58.26	81.09	0.91	1054.47
Return on Capital Employed (%)	19.24	16.28	35.64	- 731.42	624.18
Debt-Equity Ratio	1.13	0.92	5.98	- 200.17	79.46
Foreign Shareholding (%)	15.41	4.89	21.58	0	30.81
Financial Institution Shareholding (%)	13.74	11.13	10.37	0	51.04
Directors' Shareholding (%)	32.16	33.18	21.87	0	90.89
Public Shareholding (%)	38.69	19.93	10.95	0	58.73
Trading Activity	497.56	16.54	238.19	100.00	41198.56

Source: www.bseindia.com Data using SPSS (Version 20)

**Table-3: Corporate Board Structure of BSE Sensex Companies during 2008-2017**

Factors	Minimum	Maximum	Mean	Median	Std.dev.
<b>Performance Variables</b>					
Return on Assets (%)	40.58	37.53	8.44	7.84	7.95
Log of Return on Assets (%)	-30.83	44.81	8.45	7.80	8.12
Tobin's $Q$	0.45	221.09	4.84	2.20	18.54
Log of Tobin's $Q$	0.38	52.93	2.44	1.49	4.68
<b>Governance Variables</b>					
Number of Outside Directors	0	10	4.62	4.00	1.83
Proportion of Outside Directors		1	0.48	0.50	0.15
CEO Chair (Duality)	0	1	0.35	0.50	0.48
Promoter CEO	0	1	0.42	0.50	0.49
CEO only Employee	0	1	0.28	0.50	0.45
Powerful CEO	0	1	0.06	0.50	0.19
Business – All Directors	0.23	8.11	2.94	2.6	1.34
Business – Outside Directors	0.80	12.00	3.48	3.25	1.64
Board Size	4	18	9.56	9.00	2.63
Number of Board Meetings	4	15	6.32	6.33	2.18
<b>Other Variables</b>					
Total Assets (Rs'000)	25,975	968,700,000	42,200,200	11,300,000	121,000,000
Log of Total Assets	10.16	20.69	16.32	16.23	1.49
Leverage	0	1.01	0.28	0.29	0.20
Capital Expenditure to Sales	0	51.85	0.24	0.06	4.28
Research and Development	0	0.30	0.003	0.00	0.02
Firm Age	3	144	42.21	34.00	27.37

Source: www.bseindia.com Data using SPSS (Version 20)

**Table-4: Correlation Analysis of Ownership and Board Structure of BSE Listed Companies**

Factors	Board Size	Independent Directors	Independent Directors (%)	Board Size	Independent Directors	Independent Directors (%)
<b>Controlling Ownership</b>				<b>Business group</b>		
Small	8.63	6.21	52.1%	11.93	5.82	49.02%
Medium	10.43	5.00	50%	9.61	4.67	27.37%
Large	12.45	4.25	48.48%	7.52	3.26	23.11%
Difference	- 3.82**	1.96	3.62%	- 2.32	- 1.15	0.9%
t-value	37.75	25.25	7.59	- 25.9	- 21.81	- 4.56
<b>Institutional Ownership</b>				<b>Leverage</b>		
Small	9	4.43	50.03%	10.27	4.94	49.00%
Medium	10.58	5.08	48.61%	10.61	5.19	49.27%
Large	12.31	6.01	48.80%	10.99	5.4	49.18%
Difference	3.31	1.58	- 1.23%	0.72	0.46	0.18%
t-value	30.27	24.39	- 4.02	6.25	6.88	0.57
<b>Herfindahl Index</b>				<b>Age</b>		
Small	11.06	5.43	49.31%	9.81	4.79	49.42%
Medium	10.53	5.15	49.38%	10.32	4.96	48.54%
Large	10.29	4.94	48.76%	11.74	5.78	49.49%
Difference	- 0.77	- 0.49	- 0.55%	1.94	0.99	0.07%
t-value	- 6.77	- 7.42	- 1.8	16.91	14.91	0.21
<b>Price to Book Value</b>				<b>Free Cash Flow</b>		
Small	9.56	4.77	50.16%	10.05	4.98	50.02%
Medium	10.79	5.23	48.90%	10.77	5.26	49.10%
Large	11.51	5.52	48.34%	11.06	5.29	48.34%
Difference	1.95	0.75	- 1.88%	1.02	0.30	- 1.68%
t-value	16.5	5.73	- 4.56	9.02	4.73	- 5.49

**Source:** www.bseindia.com Data using SPSS (Version 20). \*\*\*Indicates significance at 1% level.

\*\*Indicates significance at 5% level. \*Indicates significance at 10% level.