RESEARCH ARTICLE

CORPORATE GOVERNANCE AND FIRM FINANCIAL PERFORMANCE IN EMERGING ECONOMIES – A CASE OF SELECTED LISTED COMPANIES IN INDIA.

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Manuscript Info

Abstract

The present paper professed to review the existing Corporate Governance (CG) Practices in Select companies in India. It would stimulate a scholastic parley on several matters pertaining to the CG practices in elevating corporate performance and stakeholders’ value. This article is designed on the CG operation based on the prevailing practices. Both primary and secondary data is used for analysing the backdrop and resilience of good CG practices in the Indian context. This paper seeks the investigation of relationship between corporate governance disclosure practices and firm’s performance of selected listed firms in BSE. The performance of corporate governance is analyzed through Tobin’s Q, while the corporate governance disclosure practices are analysed using S&P scorecard. The data will be obtained from the annual reports of the selected BSE Listed Firms. The article discloses that India’s CG mechanism and disclosure practices are par with the world counterparts. Further the study uses S&P scorecard to measure the disclosure practices of the company and ratios to analyse the firm’s performance. Later on the impact of CGD and Firm’s performance has been studied.

The paper is instrumental to the existing literature on CG in the world in general and in the developing economies in particular. As there is very trivial amount of research on the CG in India, it may be useful to the researchers, policy-makers, research bodies and corporates.

Introduction:-

The Corporate Governance (CG) basically denoted the rule of law, transparency, accountability and protection of public interest in the management of a company’s affairs in the prevailing global and competitive market milieu. It is called for an enlightened investing community and strict regulatory bodies to protect the rights of the investors and companies to improve productivity and profitability without offending the moral, ethical and regulatory framework of business.

Companies pull lot of capital from both domestic and international capital markets day in and day out. In this context, investment is ultimately an act of faith in the ability of a company’s management. Whenever an investor invests money, he expects the board and the management to act as trustees and ensure the safety of their fund and

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also earn a higher rate of return. In this situation the investor expects the management to adopt the best corporate governance practices. Desire of more and more Indian companies to get listed on international stock exchanges also focuses on a need for corporate governance. In fact, corporate governance has become a buzzword in the corporate sector. There is no doubt that international capital market recognizes only companies well-managed according to standard codes of corporate governance (Raksha Talati).

CG has been a contemporary topic and the area for discussion, since last two decades. CG has gained its attention due to many drastic scandals across the world which served as an impetus to recent U.S. regulations. Sarbanes-Oxley Act of 2002 is considered to be the most sweeping corporate governance regulation in the past 70 years. Corporate governance has become inevitable because of the increasing concern about the non-compliance of established standards of financial reporting and accountability by board of directors and management of corporate inflicting heavy losses on investors. The disruption of international giants like Enron, World Com of US and Xerox of Japan are said to be due to devoided corporate governance and nefarious practices adopted by the management of these companies and their financial consulting firms (Subho Mukherji). The business managers and policy framers have become aware of the importance of improved standards of corporate governance.

“The Cadbury Committee” of Sir Adrian, looked into corporate governance issues in U.K and defined Corporate Governance “as the system by which the companies are directed and controlled. The basic objective of corporate governance is to enhance and maximize shareholder value and protect the interest of other stake holders”.

The World Bank, on the other hand had put forth Corporate Governance as a “Blend of law, regulation and appropriate voluntary private sector practices,

- Wherein the corporation can be empowered to spellbind financial and human capital to perform efficiently, and
- Can trigger long term economic value for its shareholders,
- While treasuring the interests of stakeholders and society as a whole”

The corporate sector in India could not remain indifferent to the developments of that were taking place in the UK, which had a tremendous influence on India too. They triggered off the thinking process on corporate governance in the country, which finally led to the government and regulators laying down the ground rules on it. As a result of the interest generated in the corporate sector by the Cadbury Committee’s report, the issue of corporate governance was studied in depth and dealt with by the Confederation of Indian Industry (CII), the Associated Chambers of Commerce and the Securities and Exchange Board of India (SEBI). Though some of the studies on the subject did touch upon the shareholders’ right to “vote by ballot” and a few other issues of general nature, none can claim to be wider than the Cadbury report. Prominent among them are: “Working Group on the Companies Act” (1996), “Kumar Mangalam Birla Committee” (1999), “Naresh Chandra Committee” (2002), The SEBI’s Follow-up on “Birla Committee” (2002), “Narayana Murthy Committee” (2003) and “J. J. Irani Committee” on Company Law (2005). “Voluntary Corporate Governance Disclosure Practices” (2009), “Companies Act” (2013).

Related Literature:
An understanding of corporate governance starts from a thorough examination of a various theories that attempt to explain the basis and rationale behind this management imperative. Corporate governance is all about running an organization in a way that guarantees that its owners or stockholders receive a fair return on their investment, while the expectations of other stakeholders are also met (Joe Duke II & Kechi Kankpang, 2011). The majority of prior studies have examined the association between corporate governance and firm performance using Tobin’s q as a proxy for firm performance.

In their study, have examined whether there is a cross sectional relationship between governance and performance of Indian firms quantifying performance with market-based measure Tobin’s q. Joe Duke II et. al. (2011) in their article, have attempted to establish a nexus between corporate governance and organizational performance. The study explored that there was strong relationship between number of corporate governance variables and firm performance measures and also found that there were no material differences between the reliability of financial reporting between quoted and unquoted firms. The study also recommended a combination of principles and rules-based approaches to deal with governance infractions; mandatory self-reporting of the degree of compliance with governance codes in company annual reports and also suggested to setup high standards for selection of non-executive and independent board members.
Masood Fooladi Chaghadari (2011) attempted to study the relationship between corporate governance and firm's performance. Four board characteristics were majorly considered in the study. They were board independency, CEO duality, ownership structure, and board size. A randomly selected sample of companies listed on Bursa Malaysia had been considered and the linear multiple regression as the underlying statistical tests had been used and found that CEO duality had a negative relationship with firm performance (Return on Equity and Return on Asset) but there was no significant relationship between board independency, board size and ownership structure as independent variables and firm performance as dependent variable.

Neelam Bhardwaj et al. (2014) in the paper, shedded light on the corporate governance practices in Indian firms. Revised Clause 49 of the SEBI guidelines on Corporate Governance was taken as the benchmark for their study with a Sample size of 50 (CNX Nifty Index) companies. The study revealed that the mandatory provisions of revised Clause 49 were followed by most of the companies and suggested that the scope of the then amendments had to be extended. Karam Pal Narwal et al. (2015) in their paper, have critically examined profitability as dependent variable and board size, audit committee members, board meetings, nonexecutive directors, directors remunerations as independent variables and have collected data from the annual reports of textiles companies for the period of five year ranging from 2009-10 to 2013-14. Correlation and OLS regression model were used to analyze the data and have found out that there was a strong positive association between director’s remuneration and profitability. They had also observed that Audit Committee members were negatively associated with the profitability and have concluded by telling that board size, board meeting and nonexecutive directors have no significant association with the profitability.

Madan Mohan G et al. (2015) in the article endeavoured to establish the relationship between financial performance of firms and corporate governance of 30 Indian companies, listed on the BSE. It was a descriptive study and data from companies had been collected for the five year period of 01/04/2009 to 31/03/2014 from moneycontrol.com and CMIE data source and analysed using SPSS, employing the statistical tools of correlation, regression and Mean. Results revealed that the two Corporate Governance variables of Board Ownership and Duality were exerting a significant impact on ROA at 5% level. Mohd. Yameen et al. (2015) in the article have attempted to judge the impact of corporate governance practices on the shareholders wealth and financial performance of the organization. The secondary source of information was utilized. In order to evaluate the financial performance and impact of corporate governance on shareholder’s wealth the various hypotheses had been formulated which were tested through t test (paired two samples for means) and ratio analysis. It was found that the corporate governance practices had a positive impact on shareholder’s wealth as well as financial performance of the organization. The study covered a period of 16 years, which showed eight years study before and eight years study after the implementation of the corporate governance.

Corporate Governance- an Indian perspective:—
Corporate governance (CG) in developing economies such as India possess a challenges, due to the problems such as imperfect product market, illiquid capital market, rigid labour market and regulatory environment, and lack of adequate contract enforcing mechanisms. The above mentioned problems along with institutional void leads to asymmetric information. Sometimes companies withhold information from the stakeholders, including shareholders; On the other hand, Stakeholders prefer to deal with companies with better disclosure of information reflected in their corporate governance performance. (Dr. Supriti Mishra). This study will provide an analysis of the Indian BSE listed Group ‘A’ Top five company’s relationship between corporate governance mechanisms and firm performance. The study takes into account the endogenous nature of the relation between governance and firm performance. Instead of considering a single measure of governance, several governance measures are considered in the study. Further, the observed findings are pertinent for future discussion, policy-makers, corporate boards, executives and other stakeholders.

Objectives of the Study:—
The present article has been planned with the specific objective i.e. to examine the relationship between corporate governance and firm’s performance of selected listed companies in BSE.

Plan of Analysis:—
Way back looking into the history of business, the biggest financial scandals in Europe, USA and Pakistan, for example, Parmalat (in Italy), Enron, World Com (in USA), Northern Rock (in UK) and Crescent Investment Bank (in Pakistan) and many other financial scandals then we can come to a conclusion that the root cause for all these
cases is the same i.e. role of board of directors, various committees and ownership composition of those companies. All these business world surprises have encouraged us to analyse the reasons for such failure of corporations which were considered as the icon of success in the market.

The top five BSE listed group ‘A’ companies according to their market capitalization and simultaneously which are supposed to be a role model to the entire Indian economy in terms of Corporate Governance Disclosure Practices have been given a greater scope for the present study.

Scorecard:-
A checklist containing 116 items is been prepared based on the Standard &Poor model. Further the checklist has been modified on the basis of the report of SEBI on corporate governance. An attempt has been made to club up these 116 items into various broad dimensions namely company’s philosophy on corporate governance, board of directors, audit committee, remuneration of directors, Nomination Committee and means of communication.

For the purpose of analysis, Equal weightage method has been adopted. This method has been used as this is free from the personal biasness of the respondents. Score 1 has been assigned to a company for following a particular item and 0 for otherwise.

Governance Parameters:-

Scores

| Parameter                  | Score |
|----------------------------|-------|
| Corporate Governance       | 4%    |
| Philosophy                 |       |
| Board Matters              | 1%    |
| Audit Committee            | 33%   |
| Remuneration Committee     |       |
| Nomination Committee       | 22%   |
| Communication              | 21%   |
|                              | 19%   |

Tools of Analysis:-

TOBIN Q:-
The previous works have, “examined the association between corporate governance and firm performance using Tobin’s q as a proxy for firm performance (Hermalin and Weibach, 1991; Yermack, 1996; Hovey et. al., 2003; Beiner et. al., 2008; Sarkar and Sarkar, 2008). In their study, Natarajan Balasubramanian et. al., (2009) have examined whether there is any interrelationship between governance and performance of Indian firms quantifying performance with market-based measure Tobin’s q”. Some articles have used accounting and market measure to gauge the performance. In the study, Bhagat and Bolton (2008) “investigated the impact of corporate governance on operating performance of U.S. firms using ROA and Tobin’s q as performance indicators to analyse whether good corporate governance leads to higher stock returns and enhances firm value”.

ROA (Return on Assets):-
Return on assets (ROA) is an “indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment”.
The high Return On Assets (ROA) will be good for the company. Value Return on Assets (ROA) high would indicate that the company is able to generate profits relatively high value assets. Investors would like the company to
the value of Return on Assets (ROA) is high, as companies with Return on Assets (ROA) which is capable of producing high levels of corporate profits is greater than the Return on Assets (ROA) is low.

“Return on Assets (ROA) is a financial ratio used to measure the degree to which the assets have been used to generate profits. The greater Return on Assets (ROA) shows that the better the company's performance, because of the greater rate of return on investment. (Mohd. Heikal et,al, 2014)”

**ROE (Return on Equity):**
Return on equity (ROE) is the “amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested”. It states that the higher the ratio Return on Equity (ROE) will increase the profit growth. Return on Equity (ROE) indicates the profitability of own capital or often referred to as business profitability. (Mohd. Heikal et,al, 2014)

**Data Analysis and Interpretations:**
Well presided companies are more reliable compared to companies with ineffective CG mechanism. Effective CG mechanisms shield better resource allocation and management, raising the return to capital. Companies with the highest rankings in good governance practices have highest financial performance (Supriti Mishra et,al). CG influences the development and functioning of capital markets and endeavors a strong leverage on resource allocation. In an era of increasing capital mobility and globalization, it has also become an important framework condition affecting the industrial combative and economies (Claudiu G. BOCEAN et,al.). Here an attempt made to study the CGD’s impact on financial performance of the companies using above explained variables:

| Year    | ROE  | ROA  | Tobin Q | CGD |
|---------|------|------|---------|-----|
| 2005-06 | 55.5256 | 31.5497 | 1.28492 | 65  |
| 2006-07 | 38.3945 | 141.133 | 1.21853 | 69  |
| 2007-08 | 22.7876 | 120.621 | 1.20514 | 74  |
| 2008-09 | 23.735  | 109.321 | 1.18117 | 69  |
| 2009-10 | 35.7686 | 94.667  | 1       | 71  |
| 2010-11 | 46.3317 | 63.5188 | 1.09618 | 73  |
| 2011-12 | 53.2061 | 25.1567 | 1.66848 | 73  |
| 2012-13 | 65.3298 | 24.4634 | 1.72825 | 70  |
| 2013-14 | 97.8404 | 28.5443 | 2.28696 | 68  |
| 2014-15 | 101.353 | 26.9505 | 2.33369 | 73  |

**Source:** Researchers Compilation

The above table clarifies that TCS has got the higher percentage of ROA in 2006-2007 i.e. 141% which show the higher return on assets and effective utilization of the assets. Followed by that in the year 2007-2008 and 2008-2009, the company has bagged again higher returns on the asset. And from there on the ROA value has seen lot of ups and downs with huge percentage variation. When it comes to the recent past i.e. 2014-2015, the value is showing up 26.95% which is very low and proves the ineffective utilization of Assets.

Speaking of ROE, TCS has shown variability in terms of returns. In the year 2005-2006 ROE value is 55 %, in 2006-2007 the value has decreased to 38 % from there on the company has seen tremendous ups and downs of ROE value which clarifies that company doesn’t have sustainable return on the equity. But during the recent past i.e. 2011-12, 2012-2013, 2013-2014 and 2014-2015 the company has shown a gradual increase in the ROE value, which gives a fair outlook of company’s returns on equity.

Here Tobin’s Q is above 1 from 2005-06 to 2014-15 except for 2009-10 which means that the firm is worth more than the cost of its assets. Because Tobin's premise is that firms should be worth what their assets are worth, anything above 1.0 theoretically indicates that a company is overvalued.

When all the above parameters are compared with CGD scores which can conclude that ROE, Q and CGD scores proportionately increasing whereas ROA and CGD are inversely proportional.
The above table shows the existence of poor linear correlation between CGD and ROA and, CGD and Q value which is not significant. Whereas a weak downhill linear negative relationship between CGD and ROE. Further there is a strong correlation between Q value and ROE which is generally expected.

Table No 3: CGD and Financial Performance of Infosys Company

| Year   | ROE   | ROA   | Tobin Q | CGD |
|--------|-------|-------|---------|-----|
| 2005-06 | 13.7999 | 36.3293 | 0.91808 | 89  |
| 2006-07 | 8.66783 | 85.957  | 1.00161 | 91  |
| 2007-08 | 13.2273 | 33.8918 | 0.99277 | 93  |
| 2008-09 | 15.6294 | 33.1357 | 0.99506 | 91  |
| 2009-10 | 20.3462 | 32.6745 | 1.11444 | 93  |
| 2010-11 | 20.2902 | 26.0598 | 1.02129 | 95  |
| 2011-12 | 22.528  | 26.1093 | 3.25505 | 94  |
| 2012-13 | 27.8258 | 22.2979 | 3.17018 | 94  |
| 2013-14 | 31.8741 | 21.1862 | 1.17801 | 93  |
| 2014-15 | 17.7596 | 19.339  | 1.30897 | 97  |

Source: Researchers Compilation

The above table signifies the fact that Infosys has got the highest percentage of ROA in the year 2006-2007 i.e. 85 % which show the higher return on assets and effective utilization of the assets. Followed by that in the year 2005-2006, 2007-2008 and 2008-2009, the company has bagged again higher returns on the asset. And from there on the ROA value has seen lot of downs with huge percentage variation. When it comes to the recent past i.e. 2014-2015, the value has deteriorated to 19.339% which is very low and proves the ineffective utilization of Assets.

Speaking of ROE, Infosys has shown variability in terms of returns. In the year 2005-2006 ROE value is 13.799 %, in 2006-2007 the value has decreased to 8 % from there on the company has seen tremendous ups and downs of ROE value which clarifies that company doesn’t have sustainable return on the equity. But during the recent past i.e. 2011-12, 2012-2013 and 2013-2014 the company has shown a gradual increase in the ROE value, which gives a fair outlook of company’s returns on equity but in the year 2014-2015, the ROE has again diminished to 17.75%

Here Tobin’s Q is above 1 from 2005-06 to 2014-15 except for 2005-2006, 2007-2008, which means that the firm is worth more than the cost of its assets. Because Tobin’s premise is that firms should be worth what their assets are worth, anything above 1.0 theoretically indicates that a company is overvalued.

When all the above parameters are compared with CGD scores which can conclude that ROE, Q and CGD scores proportionately increasing whereas ROA and CGD are inversely proportional.

Table No 4: Correlation Matrix

|       | ROE   | ROA   | Tobin Q | CGD |
|-------|-------|-------|---------|-----|
| ROE   | 1     |       |         |     |
| ROA   | -0.68839 | 1     |         |     |
| Tobin Q | 0.500528 | -0.30904 | 1     |     |
| CGD   | 0.409311 | -0.52396 | 0.325365 | 1   |

The above table shows the existence of negative linear correlation between CGD and ROA and, positive correlation between CGD and Q value which is significant. Whereas a strong correlation relationship between CGD and ROE and also between Q value and ROE which is generally expected.
Table No 5: CGD and Financial Performance of Reliance Company.

| Year     | ROE     | ROA     | Tobin Q | CGD |
|----------|---------|---------|---------|-----|
| 2005-06  | 6.60031 | 9.87976 | 0.67083 | 64  |
| 2006-07  | 8.57044 | 10.177  | 0.81724 | 77  |
| 2007-08  | 13.3856 | 12.99   | 0.78428 | 78  |
| 2008-09  | 9.72747 | 6.23062 | 0.82929 | 78  |
| 2009-10  | 4.96458 | 6.25803 | 1.20464 | 79  |
| 2010-11  | 6.12657 | 5.79622 | 2.19757 | 77  |
| 2011-12  | 6.80198 | 5.12635 | 1.69493 | 78  |
| 2012-13  | 7.28245 | 4.67129 | 1.19188 | 80  |

Source: Researchers Compilation

The above table signifies the fact that Reliance has got the highest percentage of ROA in the year 2007-2008 i.e. 12.177% which show the higher return on assets and effective utilization of the assets. Followed by that in the year 2005-2006 and 2006-2007, the company has bagged again higher returns on the assets. And from there on the ROA value has seen lot of downs with huge percentage variation. When it comes to the recent past i.e. 2014-2015, the value has deteriorated to 4.67% which is very low and proves the ineffective utilization of Assets.

Speaking of ROE, Reliance has shown variability in terms of returns. In the year 2007-2008 ROE value is 13.38%, in 2008-2009 the value has decreased to 9.72% from there on the company has seen tremendous ups and downs of ROE value which clarifies that company doesn’t have sustainable return on the equity. But during the recent past i.e. 2010-2011, 2011-12, 2012-2013 and 2013-2014 the company has shown a stability in the ROE value, which gives a fair outlook of company’s returns on equity but in the year 2014-2015, the ROE has again increased to 7.28%.

Here Tobin’s Q is above 1 from 2005-06 to 2014-15 except for 2005-2006 to 2008-2009 and 2011-2012, which means that the firm is worth more than the cost of its assets. Because Tobin’s premise is that firms should be worth what their assets are worth, anything above 1.0 theoretically indicates that a company is overvalued.

When all the above parameters are compared with CGD scores which can conclude that ROE, Q and CGD scores proportionately increasing whereas ROA and CGD are inversely proportional.

Table No 6: Correlation Matrix

|       | ROE  | ROA  | Tobin Q | CGD  |
|-------|------|------|---------|------|
| ROE   | 1    |      |         |      |
| ROA   | 0.67974 | 1    |         |      |
| Tobin Q | -0.42869 | -0.58324 | 1      |      |
| CGD   | 0.096211 | -0.38213 | 0.338916 | 1    |

The above table shows the existence of negative linear correlation between CGD and ROA and, positive correlation between CGD and Q value which is significant. Whereas a strong correlation relationship between CGD and ROE and also between Q value and ROE which is generally expected.

Table No 7: CGD and Financial Performance of HDFC Company.

| Year     | ROE     | ROA     | Tobin Q | CGD |
|----------|---------|---------|---------|-----|
| 2005-06  | 2.78086 | 0.01185 | 0.03065 | 54  |
| 2006-07  | 3.574   | 1.25116 | 0.02521 | 55  |
| 2007-08  | 4.48664 | 1.19391 | 0.0272  | 54  |
| 2008-09  | 5.27763 | 1.22496 | 0.02614 | 54  |
| 2009-10  | 10.2317 | 2.10072 | 0.01976 | 53  |
| 2010-11  | 8.43988 | 1.41567 | 0.02438 | 54  |
| 2011-12  | 11.0093 | 1.515   | 0.51581 | 55  |
| 2012-13  | 14.1344 | 1.68018 | 0.13923 | 55  |
| 2013-14  | 17.6703 | 1.72466 | 0.12916 | 55  |
| 2014-15  | 20.3789 | 1.73003 | 0.00453 | 55  |
Source: Researchers Compilation

The above table signifies the fact that HDFC has got the highest percentage of ROA in the year 2009-2010 i.e. 2.10% which show the higher return on assets and effective utilization of the assets. Followed by that all the other years the ROA value is much stabilized to a declined value proving the ineffective utilization of Assets.

Speaking of ROE, Reliance has shown variability in terms of returns. In the year 2006-2007 ROE value is 13.32%, in 2006-2007 the value has increased to 3.547% from there on the company has seen a gradual growth in ROE value which clarifies that company does have sustainable return on the equity.

Here Tobin’s Q is below 1 from 2005-06 to 2014-15, which means that the firm is worth less than the cost of its assets. Because Tobin's premise is that firms should be worth what their assets are worth, anything below 1.0 theoretically indicates that a company is undervalued.

When all the above parameters are compared with CGD scores which can conclude that ROE, Q and CGD scores proportionately increasing whereas ROA and CGD are inversely proportional.

Table No 8:- Correlation Matrix

|        | ROE     | ROA     | Tobin Q  | CGD     |
|--------|---------|---------|----------|---------|
| ROE    | 1       |         |          |         |
| ROA    | 0.660887| 1       |          |         |
| Tobin Q| 0.192066| 0.145431| 1        |         |
| CGD    | 0.453147| 0.074148| 0.42674 | 1       |

The above table shows the existence of positive linear correlation between CGD and ROA and, positive correlation between CGD and Q value which is significant. Whereas a strong correlation relationship between CGD and ROE and also between ROA and ROE which is generally expected.

Table No 9:- CGD and Financial Performance of ITC Company

| Year   | ROE    | ROA    | Tobin Q | CGD |
|--------|--------|--------|---------|-----|
| 2005-06| 6.11254| 25.2655| 5.90243 | 81  |
| 2006-07| 7.32353| 24.073 | 7.15562 | 85  |
| 2007-08| 8.37913| 22.5538| 7.18009 | 93  |
| 2008-09| 8.80826| 21.0396| 6.11839 | 79  |
| 2009-10| 10.9166| 24.9237| 5.52048 | 84  |
| 2010-11| 6.48471| 27.8968| 4.36757 | 82  |
| 2011-12| 8.00437| 51.764 | 3.57991 | 84  |
| 2012-13| 9.62827| 22.3655| 4.50838 | 82  |
| 2013-14| 11.1796| 56.4836| 3.78026 | 83  |
| 2014-15| 11.9864| 21.7389| 5.59515 | 84  |

Source: Researchers Compilation

The above table stands out the fact that ITC has got the highest percentage of ROA in the year 2013-2014 i.e. 56.48% followed by the year 2011-12 at 51.764% which show the higher return on assets and effective utilization of the assets. Followed by that all the other years the ROA value has lots of ups and downs to a declined value proving the ineffective utilization of Assets.

Speaking of ROE, ITC has shown variability in terms of returns. In the year 2006-2007 ROE value is 6.11%, in 2006-2007 the value has increased to 7.32% from there on the company has seen a gradual growth in ROE value which clarifies that company does have sustainable return on the equity.

Here Tobin's Q is above 1 from 2005-06 to 2014-15, which means that the firm is worth more than the cost of its assets. Because Tobin's premise is that firms should be worth what their assets are worth, anything above 1.0 theoretically indicates that a company is overvalued.
When all the above parameters are compared with CGD scores which can conclude that ROE, Q and CGD scores proportionately increasing whereas ROA and CGD are inversely proportional.

**Table No 10**: Correlation Matrix

|      | ROE    | ROA     | Tobin Q  | CGD    |
|------|--------|---------|----------|--------|
| ROE  | 1      |         |          |        |
| ROA  | 0.135136 | 1      |          |        |
| Tobin Q | -0.19493 | -0.71938 | 1      |        |
| CGD  | 0.053473 | -0.04946 | 0.420485 | 1      |

The above table shows the existence of negative linear correlation between CGD and ROA and, positive correlation between CGD and Q value which is significant. Whereas a strong correlation relationship between CGD and ROE and also between Q value and ROE which is generally expected.

**Conclusion**:  
This study shows a proportional relationship between CGD and financial performance as supported by Balasubramanian et. al. (2009), on a contrary to Masood Fooladi Chaghadari (2011) it shows both positive and negative impact, downward and upward hill impact between CGD and Financial performance an also within the financial performance variables.

This study clearly sees that the disclosure practices of the selected companies have improved year by year though there were some pitfalls in between which exclusively reasons out the negligence of Board matters and committees. Due to the constant increase in governance disclosure practices, the financial performance of the companies has also seen a significant increase.

Since the companies do not belong to a common sector, certain constraints with respect to the comparison of firm’s performance were observed. This reveals the actuality of repercussions between firm value and governance disclosure practices. Furthermore, subsequent researchers can carry out research on this line will throw more light on this significant issue.

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