

IMPACT OF CORPORATE GOVERNANCE DISCLOSURE POLICY ON FIRM PERFORMANCE ON SENSEX LISTED 30 COMPANIES

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Abstract “Corporate governance (CG) is a key element for improving economic efficiency and growth as well as enhancing investors’ confidence. Effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for proper functioning of a market economy” (Naidu, 2018).

This study examines the relationship between different indices of CG mechanism of SENSEX listed 30 companies over the period of seven years starting from Financial Year (FY) 2011-12 to FY 2017-18 and impact of disclosure policies on firm performance. This study is a conclusive research initiated on two dimensions: (i) Exploratory research, (ii) Causal effect. The result showed that Only the Disclosure policy and no other index of CG has significant impact on ROE and RoCE. Whereas it does not have any significant impact on Price to Book value of the selected firms. This study supply useful information for companies about improving the corporate governance policies in the future by understanding what amount of information to make available to shareholders about policies and practices of the company.

Keywords: Corporate Governance, Clause 49, Board Structure, Disclosure policies, Firm Performance, CG-Practice Index

INTRODUCTION

Corporate governance generates effective apparatus that offer incentives and inception to indemnify that decisions made by management reflect the best interest of company and of its shareholders. Yet continued wrong doing within and outside of corporates haunts the country and come in limelight shortly and each time in a different incarnation.

The fraud at Punjab National Bank (PNB) done by Nirav Modi (global diamond jewellery house) and Mehul Choksi (owner of Geetanjali group) reignited the question whether the CG norms practice is necessary for governance of Indian firms? “There is no question there is a lot of work to be done in the corporate governance arena in India. This includes not only the state-run companies, but also the private companies. India is not alone, this is true globally. One of the reasons we are focused on governance is precisely this, there is so much work to be done” (Mobius, 2018).

“On paper, India has among the most stringent regulations in the world for corporate governance. Unfortunately, in practice, returns to the minority shareholders depend on the benevolence of the promoter. If the promoter needs to return to the equity markets and adequately weighs the shadow of the future, minority shareholders receive informal protection” (Kumar, 2018).

India has been adopting the best international practices, but their implementation has remained problematic and questionable. Recently, the Kotak committee led by Uday Kotak came up with recommendations with an aim of improving corporate governance in listed companies. Key recommendations of committee are: the appointment of a lead independent director in case of non-independent chairperson, better interaction between the board and management, disclosure of skills of directors, and enhancing related party disclosures.

Nowadays, it is fundamental for the corporates to put forward their disclosure policies to the shareholders in variety of ways. Corporates need to comply by the rules and regulations of mandatory and non-mandatory norms standards set by clause 49 of SEBI, 2014. This act was passed to regain the lost confidence of general public after the frauds and embezzlement practiced back to back by companies like Satyam Computers, Telgi scam and Bhansali scandal.

It has been reported with such several instances that poor CG and lack of transparency leads to financial crisis of the firms. “The Director Identification Numbers, or DINs, of those on boards of companies who haven’t complied with certain disclosure norms by the 15 September deadline are being

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deactivated, the ministry of corporate affairs said today” (Prasad, 2018).

This study examines the relationship between different indices of CG mechanism; its compliance by SENSEX listed 30 companies over the period of seven years starting from FY2011-12 to FY2017-18 and impact of disclosure policies on firm performance. So that it can prove as useful insights for the firms and regulators for better CG practices.

Clause 49 of SEBI, 2014 have given CG practice norms which are the most updated norms till now.

Clause 49, SEBI, 2014

Clause 49 of Listing Agreement stated by Securities Exchange Board of India in 2014 describes the issue of Corporate Governance and inscribe the standards under which the Companies are directed to work. It elaborates the issues of CG and lays down the norms under which companies should operate.

However, CG concept is defined in many ways as it covers enormous range of activities and interests. CG have some principles and based on these principles, clause 49 has provided some parameters which are expected to be followed by companies.

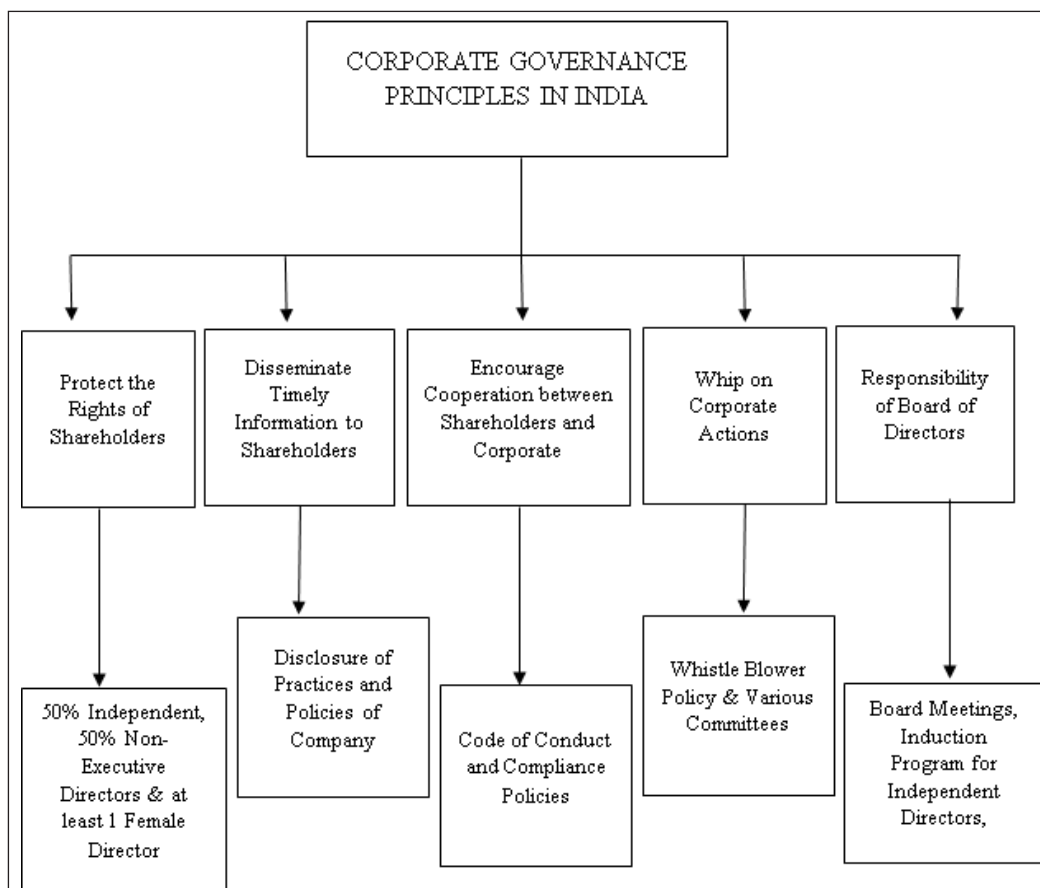


Fig. 1: Conceptual Model of Corporate Governance

LITERATURE REVIEW

Corporate Governance are the ultimate authority with the inherent responsibility for efficiency of the management and the organization. CG mechanism is the mitigating authority for agency problems and safeguarding the interest of the shareholders. Most importantly CG mechanism responsible for regulatory requirements, monitoring, managing conflicts

(Hermalin & Weisbach, 2001). But what is the ideal disclosure information is always a matter of discussion in corporate governance. The researchers have tried to find whether CG mechanism is good for improving the performance of the firm.

According to the agency theory (Jensen & Meckling, 1976) CG increases the supervision on the actions of the directors and decreases the conflicts between the shareholders and the

management. Resource dependence theory (Pfeffer 1973) also advocates CG.

However, many studies reveal a negative relationship on CG and FP (Shungu et al 2014; Ferrer et al 2012; Wu et al 2009). CG may experience lack of cohesiveness in board's actions and decisions and this give negative impacts on firm performance. Yermack, (1996) studied the relationship between the CG and firm values of large US firms, suggests that higher valuations often come from relatively smaller boards. Hermalin & Weisbach (2001) study support CG mechanism for cost cutting. Most of the agency problems can be solved with CG.

Roy and Pal (2017), in their study of adoption of CG practices is associated with the firm ownership and capital structure by developed a relative disclosure CG Index used twenty parameters emanating from published annual reports found that Firm's performance (ROA) has positive association with CG and there exists an association between ROA, ownership structure variables and debt equity ratio.

In another study, Kumar et al (2015) has analysed extent to which the BSE 100 listed firms followed the corporate governance guidelines that were mandatory for the firms to adopt found that 73% of the companies in the sample abide by all the regulations of the corporate governance. In other objective, they analysed the effect of corporate governance on the profit, return on equity and return on capital employed of the company and on company's profitability. Stepwise regression analysis was used as technique. They analysed that with the revision of corporate governance guidelines in terms of scope of independent directors, whistle-blower policy, disclosure requirements and many more, other firms are also working towards achieving better scores and thus churning more profits.

Ever since the CG compliance by public listed companies have been made mandatory, corporate governance studies have gained momentum. Innumerable studies have investigated relationship between good CG and firm performance. Similar study on the topic came into light with variables considered as firm performance measures like Return on Equity (ROE) and Price to Book ratio (PB ratio) and corporate governance characteristics which include board composition, board size and CEO duality. The study for analysis used panel data OLS regression model for a sample of 30 firms quoted in the Bombay Stock Exchange concluded that the CG factor, namely CEO duality and board size has a significant negative impact on firm performance whereas board composition revealed no significant impact on firm performance and the CG impacts on firm performance may vary from one industry to another which is another area that can be examined (Mohan & Chandramohan, 2018).

Zabri and Ahmed (2015) in their study on corporate governance practices among Top 100 public listed companies in Bursa Malaysia and the relationship between corporate governance practices with firm performance provide useful information for policy makers or regulators in improving the corporate governance policies in the future and also helps in increased understanding on the relationship between corporate governance practices and firm's performance.

RESEARCH METHODOLOGY

This paper is based on conclusive research having two dimensions: (i) Exploratory research- in this paper have prepared six Indices of corporate governance on basis of ranking of companies over the period of seven years of study, (ii) Causal effect- this paper is aspiring to find out the effects of corporate governance indices on firm's performance (ROE, ROCE and P/BV).

Objective of the Study

- To prepare six Indices of Sensex listed 30 companies on the basis of CG norms practice as per clause 49 of SEBI, 2014 over the seven years under study (FY 2011-12 to FY 2017-18).
- To verify the credibility of six sub-categories of CG (i) BS, (ii) AC, (iii) NRC, (iv) DSCL (v) NED and (vi) ID, through correlation matrix.
- To study the impact of six indices of corporate governance on firm performance (i) all six indices as independent variable, and (ii) Individual index as independent variable.

Sample Selection

Secondary data is collected from the annual reports of the SENSEX listed 30 companies which were at pinnacle on SENSEX in year 2016, for seven years: FY 2011-12 to 2017-18, from the websites of the companies.

CG Parameters and Firm Performance Indicators

Board structure, Audit committee, Nomination and Remuneration committee, Risk management committee, Disclosure policy, proportion of Independent directors and proportion of non- executive directors are used as corporate governance variables and P/BV, ROCE, and ROE as measures of firm performance. Six indices of CG norms are created vis-à-vis: (i) BS index: it consist 11 parameters of CG related to board structure compliance, (ii) AC index: it consists of total

9 parameters of CG related to audit committee compliance, (iii) NRC index: having 3 parameters of CG which comply by the nomination and remuneration committee, (iv) DSCL index: that have 10 parameters of CG related to disclosure policies, (v) NED index: a parameter related to proportion of non-executive directors in board of directors, and (vi) ID index: a parameter related to proportion of independent directors in board of directors of the company.

Data is collected on 39 parameters of corporate governance practices as per stated in the clause 49 of SEBI, 2014 and for Financial performance, data on 3 parameters of firm performance is also collected. Binary format is used to interpret the data in SPSS. Values assigned as '1 and 0' for every response of 'YES' value and for 'NO' value to maintain the objectivity of data. For firm performance, data is collected for three ratios: the ROE (return on equity), RoCE (return on capital employed) and P/BV (Price on book Value) from moneycontol website.

Techniques Used

In clause 49, there are 39 parameters cleaved into 11 categories of mandatory and non- mandatory norms from which were created 5scores (i) Board Structure score, (ii) Audit Committee Score, (iii) Nomination and Remuneration committee Score, and (iv) Disclosure Practice Score (v) Risk Management Committee Score.

A summative score is taken to prepare six Corporate Governance Practice Indices, (i) Board Structure (BS) Index, (ii) Audit Committee (AC) Index, (iii) Nomination and Remuneration Committee (NMC) Index, (iv) Disclosure Policy (DSCL) Index, (v) Non-Executive Directors (NED) Index, (vi) Independent Directors (ID) Index, based on formula:

$$\text{In which: } \left(\frac{AS}{AT} * 100 \right)$$

AS – Actual Score

TS - Total Score

On the basis of these indices, these 30 selected companies are ranked for all the seven years. A panel data regression with (a) fixed effect and (b) random effect was applied by keeping overall CG practice norms by categorising them into: BS, AC, NRC, DSCL, NED and ID as independent variables, then keeping each individual index as independent variable. Furthermore, Hausman test is applied to test which model is appropriate to study the impact of CG practice on financial performance of the firm by collecting the ROE

(return on equity), RoCE (return on capital employed) and P/BV (Price on book Value) data of 30 companies, which were dependent variables.

MS Excel, SPSS and Eviews helped us to use the statistical tools mentioned above.

DATA ANALYSIS

Pearson Co-Relation

A correlation matrix involves calculating all possible pairs of correlations. The correlation matrix below shows the bivariate Pearson correlation between the 6 indices created vis-à-vis BS, AC, NRC, DSCL, NED and ID index. The diagonal of the table is always a set of ones, because the correlation between variable and itself is always 1. The low degree of correlation amongst them talks about the indices are rightly created.

Table 1: Correlation Matrix of CG Indices

	NED INDEX	ID INDEX	BS INDEX	AC INDEX	NRC INDEX	DSCL INDEX
NED INDEX	1	.400**	.291**	-.049	-.024	-.047
Pearson Correlation						
Sig. (2-tailed)		.000	.000	.477	.730	.496
N	210	210	210	210	210	210
ID INDEX	.400**	1	.171*	-.144*	.077	.061
Pearson Correlation						
Sig. (2-tailed)		.000	.013	.037	.269	.375
N	210	210	210	210	210	210
BS INDEX	.291**	.171*	1	.089	.264**	.493**
Pearson Correlation						
Sig. (2-tailed)		.000	.013	.199	.000	.000
N	210	210	210	210	210	210
AC INDEX	-.049	-.144*	.089	1	.310**	.268**
Pearson Correlation						
Sig. (2-tailed)		.477	.037	.199	.000	.000
N	210	210	210	210	210	210
NRC INDEX	-.024	.077	.264**	.310**	1	.262**
Pearson Correlation						
Sig. (2-tailed)		.730	.000	.000	.000	.000
N	210	210	210	210	210	210
DSCL INDEX	-.047	.061	.493**	.268**	.262**	1
Pearson Correlation						
Sig. (2-tailed)		.496	.000	.000	.000	.000
N	210	210	210	210	210	210

Impact of Overall CG Practice by Categorising 6 Indices and Impact of Individual Index of CG on Financial Performance of Firm

The three indicators of financial performance of the firm vis-à-vis ROE, RoCE and P/BV were treated as dependent

variable and six indices of CG practices were taken as independent variable to run panel data regression with (a) fixed effect and (b) random effect with the help of Hausman test.

The Hausman test is used to differentiate between fixed effects model and random effects model in panel data. In this study, Random effects (RE) is preferred under the null hypothesis due to higher efficiency, while under the alternative, Fixed effects (FE) is at least as consistent and thus preferred.

After performing panel data regression by keeping six indices of corporate governance as independent variables and firm performance indicators as dependent variables, further panel data regression is executed by keeping individual CG practice index as independent variable and panel data regression is applied with (a) random effect and (b) fixed effect. Hausman test is executed to check the appropriate model. But only disclosure policy impact showed significant impact on the financial performance of the firm.

Accordingly, null hypothesis was assumed which stated that individual index of CG practices have significant impact on financial performance of the firm and alternate hypothesis suggested that there is no significant impact of the same on financial performance.

Impact of CG Indices on ROE

H_0 = Random Effect model is appropriate

H_1 = Fixed Effect Model is appropriate

Interpretation: Return on equity (ROE) or return on net worth (RONW) means the amount of net income returned as a percentage of shareholders' equity. It measures profitability of company by revealing how much profit is generated with the money invested by the shareholders.

In fig. 2, Hausman test is applied, H_0 is accepted because significance value in Hausman test is 0.747 which is more than 0.05. This means that random effect model is appropriate.

However, the overall model has R-squared 0.869 which shows that the model is very strong and the independent variables created have significant value and all except the NRC index have negative impact on FP as explained by this model.

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.476795	6	0.7471

Cross-section random effects test equation:
Dependent Variable: ROE
Method: Panel Least Squares
Date: 10/14/18 Time: 14:12
Sample: 2012 2018
Periods included: 7
Cross-sections included: 30
Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	44.18846	12.94602	3.413285	0.0008
ID PERCENT	-0.006276	0.083999	-0.074715	0.9405
NED PERCENT	-0.030710	0.075858	-0.404837	0.6861
BS_INDEX	-0.174187	0.079455	-2.192278	0.0297
AC_INDEX	-0.025224	0.140923	-0.178993	0.8582
NRC_INDEX	0.034756	0.039292	0.884555	0.3776
DSCL_INDEX	-0.085238	0.068799	-1.238946	0.2170

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.869796	Mean dependent var	21.72529
Adjusted R-squared	0.843605	S.D. dependent var	22.61470
S.E. of regression	8.943390	Akaike info criterion	7.374511
Sum squared resid	13917.25	Schwarz criterion	7.948301
Log likelihood	-738.3237	Hannan-Quinn criter.	7.606473
F-statistic	33.21030	Durbin-Watson stat	1.539394
Prob(F-statistic)	0.000000		

Fig. 2: Impact of CG indices on ROE

Dependent Variable: ROE

Method: Panel Least Squares

Date: 10/13/18 Time: 13:55

Sample: 2012 2018

Periods included: 7

Cross-sections included: 30

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	35.62602	4.040122	8.818057	0.0000
DSCL_INDEX	-0.180753	0.051916	-3.481627	0.0006

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.865751	Mean dependent var	21.72529
Adjusted R-squared	0.843251	S.D. dependent var	22.61470
S.E. of regression	8.953519	Akaike info criterion	7.357487
Sum squared resid	14349.62	Schwarz criterion	7.851583
Log likelihood	-741.5361	Hannan-Quinn criter.	7.557232
F-statistic	38.47795	Durbin-Watson stat	1.488178
Prob(F-statistic)	0.000000		

Fig. 3: Impact of Disclosure Policy on ROE

Impact of Disclosure policy on ROE

H_0 = There is significant impact of disclosure policy on ROE.

H_1 = There is no significant impact of disclosure policy on ROE.

Interpretation: In the fig. 3 impact of disclosure policy on ROE, the p value of model is less than 0.05, which is, 0.0006, so the null hypothesis is rejected and conclude that disclosure policies of CG have significant impact on ROE but it have negative correlation or impact on the same point.

The negative correlation means that small amount of change in independent variable have proportionate change in the dependent variable but in opposite direction. So in order to increase ROE, firms must disclose less of their policies and practices.

Since, R^2 of model comes out to be 0.865, this means model is strong and significant.

Impact of CG Indices on RoCE

H_0 = Random Effect model is appropriate

H_1 = Fixed Effect Model is appropriate

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.050333	6	0.9150

Cross-section random effects test equation:
Dependent Variable: ROCE
Method: Panel Least Squares
Date: 10/14/18 Time: 14:15
Sample: 2012 2018
Periods included: 7
Cross-sections included: 30
Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	19.05402	9.384484	2.030375	0.0438
ID_PERCENT	-0.000344	0.060891	-0.005655	0.9955
NED_PERCENT	-0.023286	0.054989	-0.423460	0.6725
BS_INDEX	-0.093861	0.057596	-1.629634	0.1050
AC_INDEX	0.110776	0.102154	1.084407	0.2797
NRC_INDEX	0.004101	0.028483	0.143972	0.8857
DSCL_INDEX	-0.040241	0.049872	-0.806901	0.4208

Effects Specification

Cross-section fixed (dummy variables)			
R-squared	0.907540	Mean dependent var	16.94705
Adjusted R-squared	0.888942	S.D. dependent var	19.45363
S.E. of regression	6.483004	Akaike info criterion	6.731050
Sum squared resid	7313.105	Schwarz criterion	7.304840
Log likelihood	-670.7602	Hannan-Quinn criter.	6.963012
F-statistic	48.79694	Durbin-Watson stat	1.558447
Prob(F-statistic)	0.000000		

Fig. 4: Impact of CG indices on RoCE

Dependent Variable: ROCE

Method: Panel Least Squares

Date: 10/13/18 Time: 13:59

Sample: 2012 2018

Periods included: 7

Cross-sections included: 30

Total panel (balanced) observations: 210

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.50925	2.915590	8.063294	0.0000
DSCL_INDEX	-0.085329	0.037466	-2.277521	0.0239

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.905516	Mean dependent var	16.94705
Adjusted R-squared	0.889681	S.D. dependent var	19.45363
S.E. of regression	6.461386	Akaike info criterion	6.705081
Sum squared resid	7473.162	Schwarz criterion	7.199178
Log likelihood	-673.0335	Hannan-Quinn criter.	6.904826
F-statistic	57.18355	Durbin-Watson stat	1.522300
Prob(F-statistic)	0.000000		

Fig. 5: Impact of Disclosure Policy on RoCE

Interpretation: Return on capital employed (ROCE) is a financial ratio and it measures profitability and the efficiency of a company with which its capital is employed. It is a primary measure of how, a company, efficiently utilizes all available capital to generate additional profits.

In fig. 4 of Hausman test, H_0 is accepted because significance value in Hausman test is 0.9150 which is more than 0.05. This means that random effect model is appropriate.

However, the overall model has R-squared 0.907 which shows that the model is very strong and the independent variables created have significant value and all indices (except the NRC and AC index) have negative impact on FP as explained by this model.

Impact of Disclosure Policy on RoCE

H_0 = There is significant impact of disclosure policy on RoCE.

H_1 = There is no significant impact of disclosure policy on RoCE.

Interpretation: In fig. 5 Impact of Disclosure Policy on RoCE, the p value of model is less than 0.05, which is, 0.0239, so the null hypothesis is rejected and conclude that disclosure policies of CG have significant impact on ROE but it have negative correlation or impact on the same point.

The negative correlation means that small amount of change in independent variable have proportionate change in the dependent variable but in opposite direction. So in order to increase RoCE, firms must disclose less of their policies and practices.

Since, R^2 of model comes out to be 0.905, this means model is strong and significant.

Impact of CG Indices on P/BV

H_0 = Random Effect model is appropriate

H_1 = Fixed Effect Model is appropriate

Interpretation: Price-to-book value (P/BV) is the ratio of market value of shares (share price) of a company over its equity's book value that is the value of assets of a company demonstrated on the balance sheet and is defined as the difference between the book value of assets and the book value of liabilities.

In above illustration of Hausman test, H_0 is accepted because significance value in Hausman test is 0.605 which is more than 0.05. This means that random effect model is appropriate.

However, the overall model has R-squared 0.927 which shows that the model is very strong and the independent variables created have significant value and all indices (except the DSCL and AC index) have positive impact on FP as explained by this model.

Correlated Random Effects - Hausman Test				
Equation: Untitled				
Test cross-section random effects				
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	
Cross-section random	4.532668	6	0.6050	
Cross-section random effects test equation:				
Dependent Variable: PBV				
Method: Panel Least Squares				
Date: 10/13/18 Time: 14:18				
Sample: 2012 2018				
Periods included: 7				
Cross-sections included: 30				
Total panel (balanced) observations: 210				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.027406	3.137933	1.920820	0.0564
ID_PERCENT	0.004747	0.020360	0.233158	0.8159
NED_PERCENT	0.021008	0.018387	1.142551	0.2548
BS_INDEX	0.018393	0.019259	0.955049	0.3409
AC_INDEX	-0.021647	0.034158	-0.633737	0.5271
NRC_INDEX	0.008386	0.009524	0.880534	0.3798
DSCL_INDEX	-0.029150	0.016676	-1.748051	0.0822
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.927838	Mean dependent var	5.852857	
Adjusted R-squared	0.913323	S.D. dependent var	7.363059	
S.E. of regression	2.167752	Akaike info criterion	4.540063	
Sum squared resid	817.6519	Schwarz criterion	5.113853	
Log likelihood	-440.7067	Hannan-Quinn criter.	4.772025	
F-statistic	63.92165	Durbin-Watson stat	1.698901	
Prob(F-statistic)	0.000000			

Fig. 6: Impact of CG Indices on P/BV

Dependent Variable: PBV				
Method: Panel Least Squares				
Date: 10/13/18 Time: 14:01				
Sample: 2012 2018				
Periods included: 7				
Cross-sections included: 30				
Total panel (balanced) observations: 210				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.126625	0.975958	7.302186	0.0000
DSCL_INDEX	-0.016563	0.012541	-1.320681	0.1883
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.926099	Mean dependent var	5.852857	
Adjusted R-squared	0.913713	S.D. dependent var	7.363059	
S.E. of regression	2.162869	Akaike info criterion	4.516265	
Sum squared resid	837.3626	Schwarz criterion	5.010362	
Log likelihood	-443.2078	Hannan-Quinn criter.	4.716010	
F-statistic	74.77190	Durbin-Watson stat	1.668347	
Prob(F-statistic)	0.000000			

Fig. 7: Impact of Disclosure Policy on P/BV

The positive co-relation explains that any change in independent variable will have the proportionate change in dependent variable and in same direction and vice-versa for negative co-relation. So the variable having negative co-relation with firm performance will have impact on the same.

Impact of Disclosure Policy on P/BV

H_0 = There is significant impact of disclosure policy on P/BV.

H_1 = There is no significant impact of disclosure policy on P/BV.

Interpretation: In the above fig. 7, the p value of model is more than 0.05, which is, 0.188, so the null hypothesis is accepted and conclude that disclosure policies of CG have do not have significant impact on ROE.

The negative correlation means that small amount of change in independent variable have proportionate change in the dependent variable but in opposite direction. So in order to increase P/BV, firms must disclose less of their policies and practices.

Since, R^2 of model comes out to be 0.926, this means model is strong and significant.

CONCLUSION

The findings from the empirical analysis shows that among the six corporate governance variables that the research has focused on: Board structure, Audit committee, Nomination and Remuneration committee, Disclosure policy, proportion Non-executive directors on board of directors and proportion of Independent directors on Board, only the disclosure policies of the firms are having the significant impact on Return on Equity and on Return of Capital Employed, whereas this research paper could not identify any significant impact on Price to Book Value that were selected as indicators of firm performance.

Furthermore, the disclosure practice Sub-Index of CG is having negative coefficient with the financial performance of the firm, which indicates that if companies disclose too much of information regarding their practices and policies then it may hamper the growth of the firm financially. Yet from the perspective of good governance of corporates it is important to disclose some policies of the companies.

Non-disclosure of policies may not make sense for the small firms, but for the voluminous firms it is important not to share too much information. The limitation of this study is that it is unable to find the reasons for the non-disclosure of policies but it can be discovered in further studies.

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