TEST Engineering & Management

January - February 2020
ISSN: 0193 - 4120 Page No. 15669 - 15673

A Study on the Influence of Corporate Governance Practices on Organisational Performance

Dr. A. Shameem
Professor
AMET Business School
AMET (Deemed to be University

Dr. J. Rengamani
Professor
AMET Business School
AMET (Deemed to be University

Article Info
Volume 82
Page Number: 15669 - 15673
Publication Issue:
January-February 2020

Article History
***Article Received**: 18 May 2019*
***Revised**: 14 July 2019*
***Accepted**: 22 December 2019*
***Publication**: 28 February 2020*

Abstract
Corporate governance is concerned hence with the processes by which corporate entities and particularly limited liability companies could be governed. In short it deals with the exercise of power over the direction of the enterprise, the supervision of executive action, the acceptance of duty to be accountable, and the regulation of the corporation within the jurisdiction of the State in which it operates. ownership structure and the relationship between ownership structure and organisational performance is an area which is yet to be studied especially in the Indian context. This study attempts to identify the various aspects of corporate governance practices as adopted by manufacturing firms in Chennai and to know the influence of corporate governance practices on overall organisational performance of such chosen firms.The results of the study has shown that those above the age of 50 and employed as Chartered Accountants have shown highest level of agreement on corporate governance practices influencing overall organisational performance**.**

Keywords: *Corporate governance, compliance, risks, organisational performance*

I. Introduction

Human society needs be to governed especially whenever power is being exercised with the intention of directing controlling and regulating social activity in order to ensure that it does not affect the legitimate interests, of people at large. Corporate governance is concerned hence with the processes by which corporate entities and particularly limited liability companies could be governed. In short it deals with the exercise of power over the direction of the enterprise, the supervision of executive action, the acceptance of duty to be accountable, and the regulation of the corporation within the jurisdiction of the State in which it operates. Primarily corporate governance is concerned with the board of directors, its structure, style; and processes, their relationships and roles, the linkages and activities, as well as the roles of company's members, auditors and others.

II. Review of Literature

Garvey an Swan (2014) believe that governance of an organisation helps in understanding the administrative capability of the top management with respect to contracts entered into on behalf of the organisation. It is also pointed out that the question of governance becomes more important when such contracts are not complete in every sense.

On the other hand Shleifer and Vishny (2009) are of the opinion that corporate governance refers to the manner in which the various suppliers of funds of a corporation could be assured about getting a reasonable return on such investments. On the other hand Caramanolis- Cötelli (2016) believe corporate governance to refer to the way in which the corporation has made allocation of equity among

January - February 2020
ISSN: 0193 - 4120 Page No. 15669 - 15673

eh various inside stakeholders and outside stakeholders.

John and Wicks (2015) definition being more comprehensive sates corporate governance should deal with the mechanisms by which the various stakeholders of a corporation are able to exercise control over insider stakeholders including the management to ensure that their interest are safeguarded,

Need for the Study

In India, in line with the long felt need for bringing about reforms in the internal corporate governance framework, different aspects of the same have seen vast changes in the near past. However, it is seen that there is dearth of research at the firm level regarding the various corporate governance practices which could ultimately influence the overall organisational performance. Apart from this it is seen that ownership structure and the relationship between ownership structure and organisational performance is an area which is yet to be studied especially in the Indian context. The contextual settings of developed countries where such studies have been conducted differ vastly from the Indian context and therefore the results given by such studies cannot be generalized without paying attention to the various contextual idiosyncrasies. Therefore there is a vacuum in academic literature on corporate governance, especially with respect to the influence of corporate governance on organisational performance in India.

Objectives of the Study

- To identify the various aspects of corporate governance practices as adopted by manufacturing firms in Chennai.
- To know the influence of corporate governance practices on overall organisational performance of such chosen firms.

III. Methodology

The methodology adopted for the study was such that the research design was descriptive in nature. The tool used for collecting primary data was a questionnaire which was formulated keeping in mind the broad objectives of the study. The sample included for the study were professionals who were directly or indirectly responsible for corporate governance related work in their respective organisations. The sample size was limited to 110 such professionals drawn from different sectors of the economy and the sampling technique was snowballing technique in order to ensure right category of people were included for the study.

Data Analysis and Interpretation

Table 1 : Demographics of the Sample

Age	**Percentage**	**Exp. in present position**	**Percentage**
Below 30	5.5	Below 5 years	22.7
30 – 40	59.8	5-10 years	48.9
40 – 50	26.6	Above 10 years	28.4
Above 50	8.2	Total	100.0
Total	100.0	**Total experience**	**Percentage**
Designation	**Percentage**	Below 10 years	28.6
Chartered Accountant	29.8	10-15 years	40.7
CFO	35.9	15-20 years	12.3
Company Secretary	17.5	Above 20 years	18.4
Company Lawyer	16.8	Total	100.0
Total	100.0		

Hypothesis I

Null Hypothesis: There is no significant difference between age and level of agreement on corporate governance practices influencing overall organisational performance

Table 2: ANOVA for significant difference between age and level of agreement on corporate governance practices influencing overall organisational performance

Constructs of Corporate Governance	**Age in years**				**F value**	**P value**
	Below 30	**30 – 40**	**40 – 50**	**Above 50**		

January - February 2020
ISSN: 0193 - 4120 Page No. 15669 - 15673

Structure and responsibility of Board of Directors	28.17 (5.58)	32.11 (4.11)	33.35 (4.89)	35.17 (4.74)	13.884	<0.001**
Compliance related to risks and control	11.17 (3.36)	13.59 (2.90)	14.05 (2.95)	15.08 (4.05)	8.655	<0.001**
Compliance with secretarial practices	10.42 (2.78)	13.41 (2.95)	13.99 (3.31)	15.44 (3.79)	13.483	<0.001**
Disclosure of information onRelated Parties Transactions (RPT)	14.08 (3.22)	16.89 (3.43)	17.48 (3.83)	19.33 (4.10)	11.052	<0.001**
Reliability audit report	18.71 (4.64)	22.97 (4.25)	22.38 (4.05)	23.83 (4.10)	8.619	<0.001**
Extent of Corporate social responsibility	9.96 (3.20)	13.39 (3.06)	13.97 (3.40)	15.64 (3.99)	15.687	<0.001**
Overall organisational performance	27.83 (11.84)	35.76 (6.45)	35.88 (6.53)	39.44 (6.88)	13.970	<0.001**

Note : 1. The value within bracket refers to SD
*2. ** denotes significant at 1% level.*

With the probability value being less than 0.01, null hypothesis is rejected at 1% levelof agreement on corporate governance practices influencing overall organisational performance.Hence it can be concluded that there is significance difference between age and level of agreement on corporate governance practices influencing overall organisational performance. It is also obvious that those who are above the age of 50, have a higher level of agreement as compared to other age groups.

Hypothesis II

Null Hypothesis: There is no significant difference between designation and level of agreement on corporate governance practices influencing overall organisational performance

Table 3: ANOVA for significant difference between designationand level of agreement on corporate governance practices influencing overall organisational perform

Constructs of Corporate Governance	Designation				F value	P value
	Chartered Accountant	Chief Finance Officer	Company Secretary	Company Lawyer		
Structure of Board of Directors	33.31 (4.32)	33.41 (4.30)	30.65 (4.67)	30.89 (5.07)	10.994	<0.001**
Compliance related to risks and control	13.52 (3.37)	13.70 (3.24)	13.57 (2.50)	14.15 (3.01)	4.697	<0.001**
Compliance with secretarial practices	14.56 (3.23)	13.71 (3.29)	12.45 (2.82)	12.66 (3.07)	9.627	<0.001**
Disclosure of information on RPT	18.05a (3.68)	16.91 (3.78)	16.75 (3.64)	16.12 (3.36)	5.101	0.002**
Reliability of audit reporting	23.81 (4.00)	23.77 (4.07)	20.92 (3.93)	20.01 (4.07)	22.997	<0.001**
Corporate social responsibility	14.36 (3.25)	13.85 (3.22)	12.69 (3.45)	12.31 (3.50)	8.198	<0.001**
Disclosures and reporting	37.36 (6.46)	36.67 (5.03)	33.81 (8.55)b	32.43 (9.22)	10.818	<0.001**

Note : 1. The value within bracket refers to SD
*2. ** denotes significant at 1% level.*

With the probability value being less than 0.01, null hypothesis is rejected at 1% level of agreement on corporate governance practices influencing overall organisational performance. Hence it can be concluded that there is significance difference between designation and level of agreement on corporate governance practices influencing overall organisational performance. It is also obvious that those who are designated as Chartered Accountants have a higher level of agreement as compared to other age groups.

Published by: The Mattingley Publishing Co., Inc.

TEST Engineering & Management

January - February 2020
ISSN: 0193 - 4120 Page No. 15669 - 15673

This shows that designation which depends upon in turn on the educational qualification of the respondents influences their level of agreement with respect to the aspects influencing corporate governance practices influencing overall organisational performance.

The mean values of Company Secretaries is less than the score of CFOs and Chartered accountants but higher than that of Company Lawyers.

Table 4 : Pearson Correlation Coefficient between aspects of Corporate Governance Influencing Overall Organisational Effectiveness

Aspects	1	2	3	4	5	6	7
Structure of Board of Directors	1	0.603**	0.561**	0.582**	0.478**	0.546**	0.586**
Compliance related to risks and control		1	0.575**	0.516**	0.498**	0.450**	0.477**
Compliance with secretarial practices			1	0.599**	0.408**	0.524**	0.522**
Disclosure of information on RPTs				1	0.444**	0.504**	0.474**
Reliability of audit reporting					1	0.370**	0.488**
Corporate social responsibility						1	0.470**
Overall organisational Performance							1

*** Correlation is significant at the 0.01 level (2-tailed).*

The correlation coefficient between structure of Board of Directors and compliance with risk and control is seen to be highest at 60.3% degree of positive relationship and the least in case of reliability of audit reporting and corporate social responsibility at 37.0% degree of positive relationship.

Multiple Regression Analysis

In this study, the dependent variable isoverall organisational performance and the independent variables are structure of board of directors, compliances with respect to risks and control, compliances with secretarial practices, disclosure of information with respect to RPTs, reliability of audit reporting and corporate social responsibility. The multiple R value was found to be 0.685, with R square value being 0 .470, F value being 5.276 and P value being less than 0.01.

Hypothesis III

Null Hypothesis : *To verify if all the independent variables in the model considered together, have no causal effect on the dependent variable.*

Table 5: Variables in the Equation

Variables	Unstandardized Coefficients		Standardized Coefficients	t value	P value
	B	Standard Error	Beta		
Constant	2.050	1.877	-	1.092	.275
Structure of Board of Directors- X_1	.501	.076	0.325	6.597	<0.001**
Compliance related to risks & control - X_2	.365	.113	0.158	3.230	<0.001**
Compliance with secretarial practices- X_3	.370	.120	0.167	3.096	.002**
Disclosure of information on RPTs - X_4	-.333	.095	0.172	3.523	<0.001**
Reliability of audit reporting - X_5	.410	.069	0.246	5.945	<0.001**
Corporate social responsibility- X_6	.274	.095	0.130	2.889	0.004**

*Note: ** P is significant at 1% level.*

The value of R^2 = 0 .470 proves that 47% of the variation in the overall organisational performance could be on accounted of the independent variables listed above. This regression model is significant at 1% level. The multiple regression equation of this model is :

Published by: The Mattingley Publishing Co., Inc.

January - February 2020
ISSN: 0193 - 4120 Page No. 15669 - 15673

$$Y = 2.050 + (-)\ 0.501X_{1} + .0.3651X_2 + 0.370X_3 + (-)\ 0.333X_4 + 0.410X_6. + 274X_6$$

Since P value is less than 0.01, the null hypothesis is rejected at 1% of significance. Hence it could be concluded, there is significant difference in the level of agreement with respect to independent variables.

IV. Findings and Conclusion

Respondents who are above the age of 50, have a higher level of agreement on corporate governance practices influencing overall organisational performance. as compared to other age groups.Those who are designated as Chartered Accountants have a higher level of agreement as compared to other age groups. This shows that designation which depends upon in turn on the educational qualification of the respondents influences their level of agreement with respect to the constructs affecting corporate governance.The correlation coefficient between structure of Board of Directors and compliance with risk and control is seen to be highest at 60.3% degree of positive relationship and the least in case of reliability of audit reporting and corporate social responsibility at 37.0% degree of positive relationship. The study has also shown that there is significant difference in the level of agreement with respect to independent variables of corporate governance practices influencing overall organisational performance.

To conclude it may be stated that the only way to ensure control over the board of directors is when they shareholders are active and dominant. It should also be remembered that the value addition brought about by external directors is very much limited and in order to ensure effective corporate governance practices it may be necessary to include more number of outsiders on the Board to be reassure , stakeholders it is good that realizing this is imperative in India the Company Law have been stressing on the fiduciary duty of the Board towards all shareholders of the company.

References

[1] Garvey, G. T., and P. L. Swan 2014 The Economics of Corporate Governance: Beyond the Marshallian Firm, *Journal of Corporate Finance*, 1: 2, 139-174.
[2] Shleifer A., and R. W. Vishny 2009 A Survey of Corporate Governance, *Journal of Finance*, 52: 2, 737-783.
[3] Caramanolis- Cötelli2016 Corporate Stakeholders and Corporate Finance, *Financial Management*, 16: 1, 5-14.
[4] Jones, T. M., and A. C. Wicks 2015 Convergent Stakeholder Theory, *Academy of Management Review*, 24: 2, 206-221.
[5] Rajasekar and BhoopathyBhaskaran (2017) Effect of Corporate Social Responsibilities On Women Board of Directors In Board Rooms of Mechanical Engineering Industries, International Journal of Mechanical Engineering and Technology, 9(11), 2018, pp. 2199-2205.
[6] Shameem and Rengamani (2018) Impact of Organizational Culture and Communication on Employee Engagement in Automobile Firms in Chennai, International Journal of Mechanical Engineering and Technology, 9(7), 2018, pp. 1152–1161.

Published by: The Mattingley Publishing Co., Inc.