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## Impact of corporate governance on Indian securities markets– An analytical study of mid-cap firms

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### Abstract

After a wide range of development of different laws, circulars, rules, regulations in the Indian corporate world, at present the consciousness on corporate governance are increasing in a high pace. A giant portion of national income, employment opportunities, foreign investment, etc. depends on the India securities markets. A company can gain a large portion of funds from these markets. Most of the investors always follow the annual reports before purchasing any company's security. So it is necessary to publish healthy annual reports in an appropriate Corporate Governance (CG) regime. This paper highlighted a low range of positive impact of CG in Indian securities markets on the basis of mid-cap companies in India.

**Keywords:** Corporate Governance (CG), Securities Markets, Share Price, and Market, Capitalization.

### 1. Introduction

According to the OECD principle, it is proof that an appropriate practice of CG has established well coordination between potential investors and the firm. In this mechanism our country can get a healthy economic growth in the capital market. The OECD principles in this respect emphasized a special attention regarding rights, responsibilities, and obligations and also provide such principles through which an organisation runs smoothly. So in this way the confidence level will hike in the mind of investors and they can capture a major portion of the growth of a country. (OECD, 2004: 24) <sup>[6]</sup>. Securities and Exchange Board of India (SEBI) published different rules of disclosure norms, including clause 49 of the listing agreement and under this clause SEBI has discussed about Board duality, different committees of the Boards, CEO/CFO certifications, audit reports, secretarial audit reports, corporate governance responsibility committee etc. (SEBI, 2012:5-7) <sup>[11]</sup>.

So it is observed that a well-established firm can gain a good portion of financial resources through securities in any capital market after fulfilling proper practices of CG disclosure mechanisms. In this way a firm can reach a peak position in long-term and it can maintain a good and healthy relationship among different internal as well as foreign stakeholders and the company. A good practice also increased a high value of market share of the company. For the purpose of wide -spread the development of social and cultural environment of companies, CG structure workout a well responsibilities.

### 2. Review of literature

A detail study of good portion literature always welcome for the purpose of increasing conceptual matter about the development of a good article, this article also takes help from different viewpoints of different authors. Many authors opined their view about the relationship between corporate governance and securities markets. Some of them are discussed below:

Using indices of various corporate governance parameters, few of them affects stock prices like, financial disclosure, shareholder rights, and remuneration of Board members. This result has directed that not all the corporate governance parameters influenced shareholders mind in japan. (Rob Bauer, 2008:249-250) <sup>[8]</sup>

In a good article, the authors concluded that investors can rely upon the corporate governance score for the prediction of the share price of the company. Here the author has used CG score as independent variable and taken share price at the end of the financial year of the company as its dependent variables. The author also used multiple regression model to draw the conclusion. (Ergin 2012:64-67) <sup>[2]</sup>.

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The authors found in their manuscript that the firms with director stock option plans have higher market value ratios and profitability and the authors concluded that a positive stock market reaction lies when the firms announce stock option plans for their directors rather than CG (Fich, 2004:2229-2254) [3].

In the empirical study of timeliness disclosures of corporate governance norms, it is observed that the authors used market capitalization as a base of choosing the size of firms from BT-500 companies (Poonam Mahajan, 2008:48, 58) [7]. Chaghadari explained through empirical analysis that no relationship between CEO duality and firm performance. Here the author used 1 or 0 score system, multiple regressions with two equations and Pearson correlation for their analysis (Chaghadari, 2011: 485-486) [1].

Gul, Sajid, Razaq, Afzal stated that agency cost can be reduced with large numbers of directors and institutional ownership. The authors selected sample on the basis of market capitalization and model used Pearson's correlation, multivariate regression for their analysis (Sajid Gul, 2012: 271-275) [10].

Krafft, Yiping Qu and Jacques-Laurent Ravix stated in their project that CG score is much more affected in stock price of firms. They have formed CG score of 55 different issues of CG divided into eight categories. They classify companies into different related industries and models used correlations, regression which includes only two variables one is dependent variable, namely, stock price (Jackie Krafft, 2013:16-25) [4].

So from the above literature review the study observed that the authors are using panel data by stock exchanges, used closing stock prices, book value per share, etc. as dependent variables in the hands of firm performance. The existing literatures show a positive relationship between corporate governance and firm performance on the basis of few years' data. The reviewers are using data on the basis of developed countries. However, there will be a wide literature gap that the period of study is not so long; fewer of them used CG scores. So, these studies have a lot of limitations and for these limitations there will be a lot of scope for further research. So the study has selected Indian companies i.e. on the basis of developing countries and provided a concrete relationship of CG and firm securities.

**3. Objective**

To examine the impact of corporate governance on market prices of selected firms in Indian securities markets.

**4. Methodology and Data**

**4. A. Types of manuscript**

Type of the current manuscript is an empirical nature. It has investigated the relationship between CG and share price of firms on the basis of relevant statistical tools. This study has used quantitative technique to calculate CG score.

**4. B. Sample selection**

The panel data set covers a twelve year period from 2002-2003 to 2013-2014 and the study selected a sample of first 17 mid-cap companies listed in BSE as on 31.03.2014 on the basis of market capitalization rs.1000 crore or more as on 31.03.2014.

**4. C. Data Sources**

In this article the study has collected data from secondary sources. CG score has calculated from the annual reports of

selected companies during 2002-03 to 2013-14, which are extracted from websites of companies and a Prowess database of Centre for Monitoring Indian Economy (CMIE). Adjusted closing market prices of equity shares have extracted from Capital Line corporate database.

**4. D. Variable selection**

On the basis of reviews of earlier research works following variables are identified by this study:

**A. Corporate Governance Variables (Independent variables)**

**Table 1: CG Variables**

Sl.No.	CG Variables	% Out of Total Score
1.	Board of Directors Disclosure (BOD)	19.18%(14/73)
2.	Corporate Governance Committee Disclosure (CCD)	35.62%(26/73)
3.	Disclosure and Transparency (DTA)	27.40%(20/73)
4.	General Disclosure (GDE)	17.80%(13/73)
Total		100.00%(73/73)

Sum total of different CG sub variables divided into four main CG variables, (Joshi, 2010:196).

**B. Indian securities markets variable**

Adjusted closing market price of equity shares as on 31.03.2003 to 31.03.2014. (Dependent variable)

**4. E. Data analysis technique**

This article used sum functions of MS-Excel to find out the total score of CG of all the selected companies from 2002-03 to 2013-14 respectively. For calculating CG score this article formulated the following sub parameters on binary system, i.e. 'yes' or 'no' criteria and gave "1" if yes otherwise "0" as weight. (Ergin, 2012:64-67) [2].

**4. F. Model of research and statistical tools**

The study used Karl Pearson coefficient of correlation, multiple regression model. The model specifies as follows:

$$C_{it} = \beta_0 + \beta_1 D1_{it} + \beta_2 D2_{it} + \beta_3 D3_{it} + \beta_4 D4_{it} + \mu_{it}$$

Where;

$C_{it}$  = MP i.e. Adjusted closing market price of equity shares of selected firms i at time t.

$D1_{it}$  represents BOD for firm i at time t.

$D2_{it}$  represents CCD for firm i at time t.

$D3_{it}$  represents DTA for firm i at time t.

$D4_{it}$  represents GDE for firm i at time t.

And  $\mu_{it}$  = Error term.  $\beta_0$  is the unsystematic predictable constant component or the estimated constant I= 1 to 17 firms; t-2002-2014.

Beta coefficients will be tested at 5%, 1% level of significance with respective d.f. The correlation-regression is made on the basis of SPSS software and Microsoft-Excel software packages. This article used one dependent variable, namely, market price (MP) and others are independent variables i.e. CG variables (Saibaba, 2013:50, 54) [9].

**4. G. Selection of sample companies**

Here, the study has chosen sample of first seventeen mid-cap companies on the basis of availability of data in the database according to study period, whose market capitalizations are Rs.1000 crore or more as on 31.03.2014 and fit into mid-cap criteria of BSE.

**Table 2:** Selected Mid- Cap Companies

Sl.No.	Co. Name	Industry	Market Capitalization (Rs. In Crore)
1	EM (Eicher Motors Ltd.)	Auto - Lcvs/Hcvs Set	16109.63
2	AP (Aurobindo Pharma Ltd.)	Pharmaceuticals	14891.28
3	INGVB (ING Vysya Bank Ltd.)	Banks - Private Sector	11832.22
4	HI (Havells India Ltd.)	Electric Equipment	11607.64
5	IL(Ipca Laboratories Ltd.)	Pharmaceuticals	10661.38
6	GI (Godrej Industries Ltd.)	Personal Care	10573.28
7	IDBI (IDBI Bank Ltd.)	Banks - Public Sector	10497.79
8	HP (Hindustan Petroleum Corporation Ltd.)	Refineries	10489.06
9	P&G (Procter & Gamble Hygiene & Healthcare Ltd.)	Personal Care	10388.34
10	PLNG (Petronet LNG Ltd.)	Oil Drilling & Exploration	10275
11	BS (Bhushan Steel Ltd.)	Steel - Cr/Hr Strips	10267.25
12	NAC (National Aluminium Company Ltd.)	Aluminium	10218.76
13	BI (Britannia Industries Ltd.)	Food Processing	10115.98
14	CG L (Crompton Greaves Ltd.)	Electric Equipment	10046.73
15	EMAMI (Emami Ltd.)	Personal Care	9876.77
16	BFL (Bharat Forge Ltd.)	Castings & Forgings	9816.01
17	TGB (Tata Global Beverages Ltd.)	Tea/Coffee	9272.91

## 5. Analysis and Results

**Table 3:** Total CG Score of Sample Companies

Total CG Score Of Selected Sample Companies												
Co.Name/Year	2002-3	2003-4	2004-5	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14
EM	27	27	27	32	35	41	41	41	43	43	43	49
AP	35	41	41	41	43	43	43	43	43	44	48	48
INGVB	38	38	38	44	44	45	46	46	48	48	48	49
HI	33	34	34	38	37	38	39	43	43	44	44	46
IL	33	33	33	39	42	43	44	44	44	40	40	40
GI	36	41	41	44	44	44	44	45	46	46	46	46
IDBI	24	24	26	31	31	33	33	40	40	40	42	43
HP	35	35	35	38	39	39	39	39	40	45	45	45
P&G	34	34	36	39	39	39	44	44	44	44	44	44
PLNG	10	34	39	40	43	43	43	43	43	45	45	45
BS	28	30	35	35	35	35	35	38	38	38	38	39
NAC	29	33	34	35	37	38	38	39	46	47	47	48
BI	42	44	45	49	51	51	51	51	51	51	51	52
CGL	40	41	41	44	47	47	48	48	49	49	49	50
EMAMI	38	38	40	48	49	49	51	51	52	52	52	53
BFL	32	32	32	32	33	36	36	36	38	38	42	51
TGB	39	39	43	49	49	50	50	51	51	51	51	51

Total Corporate Governance score = BOD+CCD+DTA+GDE

**Table 4:** Adjusted Market Price of Shares of Sample Companies

Closing Market Price Of Equity Shares Of Selected Sample Companies (Indian Rupees)												
CO.NAME/YEAR	2002-03	2003-4	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
EM	69	231.7	310	305.4	247.65	250.45	655.25	1232.2	1475.9	2903.0	4976.7	15103.5
AP	211.65	377	287.15	682.75	679.15	291.35	189.9	958.8	195.9	118.9	145.9	510.85
INGVB	237.1	475	154	142.8	174.35	339.4	129.6	279.45	321.25	355.9	557.75	628.05
HI	115.7	110.6	265.1	543.9	436.5	466.65	144	599.45	371.15	571.85	647.7	929.95
IL	164.3	655.8	301.05	349.15	603.25	608.7	328.95	269.8	301.6	335	526.6	844.8
GI	14.4	45.5	109.25	598.15	161.8	259.35	52.6	140.3	181.7	258.55	295	315.15
IDBI	16.55	58.1	91.15	78.3	77.55	89.05	45.4	115	142.45	104.7	80.25	65.45
HP	294.35	507.6	305.95	322.9	246.7	255.6	269.1	318.45	356.95	303.2	285.1	309.75
P&G	376.95	409.95	570	1104.05	791.35	701.9	751.4	2010.6	1814.5	2235	2528.3	3200.3
PLNG	10	14.75	42.25	55	41.95	70.3	38.85	76	121.35	168.2	135.4	137
BS	24.25	60.7	206.8	184.3	513.65	662.8	398.3	1679.6	437.85	415.6	458	453.3
NAC	70.9	185.15	174.15	293.3	233.15	451.7	214.45	406.35	95.65	54.7	33.15	39.65
BI	500	624.95	883.7	1783.45	1251.3	1349.1	1409.4	1599.5	370.55	592.5	524.3	843.3
CGL	51.4	154.05	433.35	1049.4	199.45	275.15	123.1	261.1	272.95	138.15	93.7	159.7
EMAMI	10	62.15	77.8	173.5	195.95	290.65	204.5	620.65	399.95	403.2	600.9	435.1
BFL	241	733.55	1378.55	444.85	314.95	267.35	98	253.55	346.3	321	204.8	421.6
TGB	189.9	331	524.45	867.95	607.85	824.35	585.65	979.6	97.75	112.05	128	149.9

With the help of table 3 and 4 the paper has done the following correlations and regression:

**Table 5:** Correlations among All Variables

		MP	BOD	CCD	DTA	GDE
MP	Pearson Correlation	1	.216(**)	.110	.157(*)	-.008
	Sig. (2-tailed)		.002	.118	.025	.913
	N	204	204	204	204	204
BOD	Pearson Correlation	.216(**)	1	.269(**)	.087	-.048
	Sig. (2-tailed)	.002		.000	.215	.493
	N	204	204	204	204	204
CCD	Pearson Correlation	.110	.269(**)	1	.491(**)	.445(**)
	Sig. (2-tailed)	.118	.000		.000	.000
	N	204	204	204	204	204
DTA	Pearson Correlation	.157(*)	.087	.491(**)	1	.579(**)
	Sig. (2-tailed)	.025	.215	.000		.000
	N	204	204	204	204	204
GDE	Pearson Correlation	-.008	-.048	.445(**)	.579(**)	1
	Sig. (2-tailed)	.913	.493	.000	.000	
	N	204	204	204	204	204

\*\* Correlation is significant at the 0.01 level (2-tailed). \* Correlation is significant at the 0.05 level (2-tailed).

**Table 6A:** Regression (Regression Model)

Model	Variables Entered	Variables Left	Method
1	GDE, BOD, CCD, DTA(a)	.	Enter

a All requested variables entered. b Dependent Variable: MP

**Table 6B:** Regression (Regression Model)

R	R Square	Adjusted R Square
.275(a)	.076	.057

a Predictors: (Constant), GDE, BOD, CCD, DTA

From table 5, this article shows that the dependent variable, i.e. market price depends on the CG parameters in a positive significant way. Here MP is positively significant with BOD, CCD, DTA i.e. 0.216, 0.110 and 0.157 respectively, and it is negatively related with GDE. But the significance level is low, that means the mid-cap based companies are not focusing the corporate governance disclosure norms in well and appropriate manners. So this paper suggests that if any mid-cap company can develop its corporate governance disclosure, particularly Board committees' disclosure and other CG committees' disclosure, then it can get a good economic as well as financial growth, because in this way FDI, FPI, Institutional Investors will attract to invest more funds in Indian companies. From table 6A and 6B we have seen that value of R, R Square and Adjusted R square has a positive value and specially the value of R lies from 0.20 to 0.40. So ultimately the paper has concluded that the CG and securities markets of Indian mid-cap companies have a low range of correlation.

## 6. Conclusion

This paper shows a positive relation exist between corporate governance and Indian securities markets. Finally, it may conclude that the performance of the firm is depending upon CG disclosures norms under clause 49 of the listing agreement on revised companies act. The paper used a single dependent financial variable for measuring the securities markets on behalf of firm performance and four independent variables from corporate governance parameters. This paper also saw that there is a significant positive relation between most of the independent variables of CG parameters and the dependent variable. So from this article we can say that more investment is possible if the Indian cooperates will have to follow a good practice of CG disclosure norms and in this way the growth of our country will increase and national income will also be increased.

Our country may change its economic development like employment opportunities, development of small-scale industries, reduce poverty, and generate a good percentage of education as well as infrastructure through a proper practice of CG norms and investments as a whole.

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