Study on the Impact of Corporate Governance on Financial Performance and Sustainability in the Era of Globalization

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ABSTRACT:

The concept of corporate governance relates to the procedures and practices that are implemented to run a company in such a way that its objectives are achieved. It is the mechanism and process to control and direct a business enterprise, which would result in appropriate balancing of the varied interests of the stakeholders and that of the organization. The most important thing in public sector corporate governance is the performance aspect, and the conformance aspect is equally important. The study concentrates on the impact of corporate governance on financial performance related to the public sector, and public sector corporate governance is essential to improve service quality.

Corporate governance has emerged as one of the most important aspects of modern business management, particularly in the era of globalization. The rapid integration of economics, financial markets, technologies, and business activities across countries has created new opportunities as well as challenges for corporations. They are expected not only to generate profits and enhance shareholder wealth but also to maintain transparency, accountability, ethical standards, and longterm sustainability. Effective corporate governance provides a framework through which companies are directed, controlled, and monitored, thereby promoting responsible decisionmaking and protecting the interests of shareholders and other stakeholders.

Corporate governance broadly refers to the system of principles, practices, policies, and mechanisms through which a company is managed and controlled. It establishes the relationship among the board of directors, management, shareholders, and other stakeholders. Key elements of corporate governance include board composition, board independence, board diversity, leadership structure, audit committees, transparency, disclosure practices, and shareholder rights. A welldesigned corporate governance mechanism can reduce agency conflicts, improve managerial accountability, strengthen internal controls, and enhance the credibility of corporate disclosures.

KEYWORDS:

Corporate Governance, Public Governance, Financial Performance, Transparency.

Introduction:

Corporate governance caught the attention of researchers during 1998 with the Confederation of Indian Industry publishing the desirable voluntary code. SEBI made headway in the field of corporate governance by formulating the firstever formal regulatory framework for listed companies on corporate governance in Feb 2000 under clause 49 of the Listing Agreements. These regulations were framed based on the suggestions of the Kumar Mangalam Birla Committee Report 1999. These regulations were amended in October 2004 based on the proposals of the Narayana Murthy Committee Report 2003. The Ministry of Corporate Affairs formulated guidelines on corporate governance for voluntary adoption by the corporate sector in Dec 2009. The latest revised Companies Act of 2013 has got provisions relating to corporate social responsibility to be adhered to by corporates.

Though concrete evidence does not substantiate the relationship between good governance and creation of value of an organization, there is strong evidence in the past to affirm the destruction of good values by bad corporate governance.

Financial Performance:

Financial performance can be termed as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It is also referred to as the general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance can be measured using proxies like profitability, return on equity, liquidity, solvency, and all these can be extracted from the financial statements. Financial performance represents the economic effectiveness of a business organization and is an important indicator of its success. Measures such as Return on Assets

(ROA), Return on Equity (ROE), earningsrelated indicators, and Tobin's Q are commonly used to assess financial performance. Good corporate governance can influence financial performance by improving managerial efficiency, reducing financial and operational risks, preventing misuse of corporate resources, and facilitating better strategic decisions. Consequently, companies with effective governance mechanisms may achieve better profitability, market valuation, and longterm financial stability.

Review of Literature:

1. Neelam Bharadwaj and Batani Raghavendra Rao (2014) have found that the majority of companies studied are merely complying with mandatory requirements and disclose information required by the revised clause 49, while a few companies such as Bajaj Auto, Infosys, Dr. Reddy, etc., are disclosing information beyond the mandatory levels required in clause 49.
2. Jatinder Kaur (2014) has found that various committees constituted under the corporate governance mechanism play a vital role in enhancing the performance and competitiveness of banking companies and act as a clear path for achieving business excellence.
3. Abhay Raja and Hitesh Shah (2014) found that the two variables of durability and presence of blockholders significantly impact financial performance while all other variables of corporate governance exert an insignificant impact on financial performance.

Sources of Data:

Data may be collected from Annual reports of Companies, BSE/NSE disclosures, SEBI filings, Sustainability/ESG reports, Company websites, CMIE Prowess, Screener, and other recognized financial databases.

Objectives of the Study:

- To assess the prevalence of the relationship between corporate governance and financial performance of public sector companies.
- To assess the impact of corporate governance on financial performance and sustainability in the globalized era.
- To examine the corporate governance practices followed by selected Indian companies.
- To analyze the impact of corporate governance mechanisms on

corporate sustainability.

- To investigate whether globalizationrelated factors influence the relationship between corporate governance and corporate performance.

Methodology:

The research is descriptive in nature, based exclusively on secondary data, collected from journals, online data, and books. Corporate governance is considered to be very important and a condition for sustainable economic growth of any country. The need for corporate governance has arisen because of the increasing concern about the noncompliance of standards of financial reporting and accountability of boards of directors and management of corporates inflicting heavy losses on investors.

In India, SEBI realized the need for good corporate governance and for this purpose appointed several committees such as the Kumar Mangalam Birla Committee, Naresh Chandra, and Narayana Murthy Committee.

Need for the Study:

1. Increasing importance of corporate governance: Effective governance is essential for transparency, accountability, and protection of stakeholder interests.
2. Changing concept of corporate performance: Corporate success is increasingly evaluated through both financial and nonfinancial indicators.
3. Growing importance of sustainability: ESG and sustainability considerations have become important for companies, investors, and other stakeholders.
4. Impact of globalization: Globalization has increased international competition, foreign investment, and exposure to international governance standards.
5. Investor decisionmaking: Investors increasingly consider governance quality and sustainability performance while evaluating companies.

Hypotheses of the Study:

The following null hypotheses may be formulated:

- H01: There is no significant relationship between corporate governance and financial performance of selected companies.

- H02: Corporate governance mechanisms have no significant impact on Return on Assets (ROA).
- H03: Corporate governance mechanisms have no significant impact on Return on Equity (ROE).
- H04: Corporate governance mechanisms have no significant impact on marketbased financial performance.
- H05: There is no significant relationship between corporate governance and sustainability performance.

Scope of the Study:

The study can focus on Indian listed companies selected from major sectors of the Indian economy.

Geographical Scope:

The study will be confined to listed companies selected from major sectors of the Indian economy.

Period:

A study period of 20152025 may be considered, subject to availability and consistency of data.

Findings, Suggestions, and Conclusions:

1. The complexity arises in public sector corporate governance as there will be a more complex relationship between those with primary accountability responsibilities as opposed to the private sector.
2. The problem that is currently faced by firms is a lack of appreciation of various dimensions of corporate governance and their impact on financial performance.
3. In India, companies raised capital from the market at a high valuation of their shares by projecting a wrong picture of the company's performance.
4. There is increasing awareness and consensus among Indian investors to invest in companies which have a record of observing practices of good corporate governance.

The findings can be useful to corporate managers, board members, investors, regulators, policymakers, researchers, and other stakeholders in developing governance strategies that balance profitability with sustainable and responsible business practices.

Suggestions:

1. Corporate governance framework must be tailored to each organization, as there are different needs between one and another organization.
2. Personal elements such as leadership, integrity, and commitment are to be applied for effective public sector corporate governance.
3. Nonpersonal elements like accountability, integration, and transparency must be adhered to by the public sector for effective corporate governance.

Conclusions:

It is evident from the study that good corporate governance practices must be effectively implemented and enforced preferably by selfregulation and voluntary adoption of an ethical code of business conduct and if necessary through relevant regulatory laws and rules framed by the Government or its agencies such as SEBI, RBI.

The effective implementation of good governance practices would ensure investors' confidence in corporate companies which will lead to greater investment in them ensuring their sustained growth.

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Conflict of interest:

The Authors have no conflict of interest to declare that they are relevant to the content of this article.