

Role Of Corporate Governance Professionals’ On Firm Value



CS. Azhaguraja N, Malabika Deo

Abstract: This piece of study is designed to analyse the socio economic profiles of the corporate governance professional’s opinion on the impact of CG (Corporate Governance) on FV (Firm value) from the angle of their socio economic profile. The study considered 90 company secretaries as Corporate Governance Professionals and elicited their opinion on the aspect of Corporate Governance and Firm value, with the help of semi-structured questionnaire circulated through Google forms. After implementation of the Companies Act 2013 we have completed nearly five years. Now this is the time to see how far the socio economic characteristics of professionals influence the FV? The socio economic variables were represented by Gender, Age, Educational Qualification, Profession and Experience etc., and for the purpose of Firm value an average value of Turnover, paid up capital, net worth, EPS and Return on Investments were considered. The study found significant difference between opinion based Socio-economic factors (age and profession) and impact of CG on FV, and the remaining socio economic factors were not found significantly differentiating their impact on firm value.

Key words: Board Process, Board Structure, CG Companies, CG Professionals, Shareholder value enhancement, Transparency & Disclosure.

I. INTRODUCTION

The continuous corporate failures all over the world fundamentally communicates that, a well-established corporate governance system implemented by conscious corporate governance professionals will not allow the company to go on failures. Though the Government takes various steps in strengthening the legal system by bringing drastic amendments in Governance related enactments, it is in the hands of the corporate governance professionals to incorporate such amendments in their respective companies. Since the corporate governance professionals possess a fiduciary position between the owners and the company management, the stakeholders of the company depends on the corporate governance professionals to safeguard their interest and effecting smooth functioning of the company. In line with this, Indian Government has replaced the Companies Act 1956 with Companies Act 2013,

by providing more emphasise on the corporate governance system and the professionals responsible for corporate governance. A significant number of studies have proved “an optimistic impact between corporate governance systems and Firm value i.e., Firm with good corporate governance system could earn better profit than the firm without a corporate governance system or inefficient corporate governance system. It has been more than five years of implementation of Companies Act 2013; this paper brings out the impact of corporate governance with that of FV by consideration financial indicators such as Turnover, Paid-up capital, Net worth and Return on Assets through socio economic profiles of corporate governance professionals (Company Secretary).

II. CORPORATE GOVERNANCE PROFESSIONALS

As International Finance Corporation (IFC) rightly said that, the company secretary, more than an employee (KMP), plays the role of a professional, applying his/her professional skills in assisting the company management for effective implementation of various rules and regulations with highest integrity.

The PM of India in his address at the Golden Jubilee year of ICSI said, “The Corporate culture in India is decided by the way the Company Secretary Professionals dispose their duties and responsibilities”.

III. REVIEW OF LITERATURE

Corporate Governance though an old concept evolved from Arthashastra, gaining its importance from the enactment of Indian Companies Act 2013. The existing literatures classify the CG into different categories namely Index based (Gompers, P., Ishii, J., & Metrick, A. 2003¹; Beiner, S., Drobetz, W., Schmid, M.M. & Zimmermann, H., 2006²), rating based (Bauer, R., Guenster, N., & Otten, R. 2004³; Drobetz, W., Schillhofer, A., & Zimmermann, H. 2004⁴; Renders, A., Gaeremynck, A., & Sercu, P. 2010⁵). The following authors have studied the relationship of different CG variables with firm value and it is summarises as follows (Ararat, M., Black, B. S., & Yurtoglu, B. B. 2017⁶) aimed at constructing an extensive corporate governance index for Turkey based companies and predicted the profitability of the firm. The data for construction of the index was collected by way of secondary source. The authors found that the higher the TCGI predicts the profitability of the company. (Roy, 2014⁷) studied the association between corporate governance variables with two significant proxies of financial indicators namely market to book value ratio (MTBVR) and return on equity (ROE).

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The study revealed that the corporate governance variables had a strong association with market to book value ratio and return on equity is influenced

by the CG factors. (Zabri, S. M., Ahmad, K., & Wah, K. K. 2016⁸) examined the CG practices among the Malaysian public listed companies through the descriptive and correlation analysis. The study pointed out that mixed relationship exists between corporate governance practices and firm performance, i.e., the variable Board structure had a positive relationship with return on asset (ROA) and negative relationship with return on equity (ROE). (Di Bernardino, 2016⁹) pointed out that, uncertain relationship between mixed ownership structure and access to strategic resources through resource dependency theory. Firsthand information was collected for achieving the said objectives from National register of firms. The author concluded that, a GC variable such as CEO duality and academic-researcher being in the board doesn't influence the firm performance. (Rose, 2016¹⁰) inspected the status of disclosure practices by Danish listed firms and same is compared with the firm performance such as Return on Asset and Return on Equity. The study accomplished that the soft law can achieve the quality CG practices especially with respect to comply or explain and at the same time stringent penalty provisions for non-compliance firms also helps the Danish firm to adhere the National Code of CG. (Sheikh, N. A., & Khan, M. I. 2016¹¹) tried to establish the relationship between the firm value and the Governance indicators such as excess cash, board size, board independence, CEO duality and insider ownership. The study was carried out to the non-financial firms of Karachi stock exchange for a period of four years from 2008-12. It was found that there is a positive relationship between firm value and internal governance indicators. (Akbar, S., Poletti-Hughes, J., El-Faitouri, R., & Shah, S. Z. A. 2016¹²) studied 435 UK based non-financial listed companies for tenure of ten years ranging from 1999-2009. By investigating the relationship of firm performance by considering (Tobin Q and Return on Asset) and CG variables such as Board of Directors and Committees, the study pinned that, above mentioned CG variables doesn't influence on the UK based firm performance. (Nweke, E., & Bavuudorj, E. 2014¹³) attempted to test the impact of private ownership on Mongolian based firms' CG practices. To achieve the above objective the authors had collected questionnaires from seventy (population 320 companies). The study identified that there is significant impact on the CG practices with respect to private ownership Mongolian based companies. (Brahmbhatt, M., Patel, R., & Patel, S. 2012¹⁴) advocated that the select Indian public and private sectors banks (BOI, SBI, ICICI and Axis Bank) were adhering the mandatory CG provisions. The above objective was realized with the help of mixed data (primary & secondary). The researcher found that though select Indian banks follow the mandatory CG provisions but the non-mandatory CG provisions are not followed by the same banks. (Steven Kaplan et al., 2012¹⁵) focused on the Executive (CEOs) pay and their performance. Generally the executives are paid in a two ways (1) Grant date value (2) Realized or actual pay. The executive pay with respect to non-public company, lawyers, Investment related

service providers etc., is significantly higher than the executive pay of public companies, one of the reasons for the difference is market driven executive compensation. CS. Azhaguraja. N, & Malabika Deo. (2019)¹⁶ studies the role of the CG professionals on the CG companies by considering the socio economic profiles (Age, Education, Profession, Experience etc., the study concluded by saying that there is different between CG companies (Clustered) and their CG professionals.

IV. METHODOLOGY

The present study is based on data collected through semi structure questionnaire constructed with the help of expert opinion and also considering ICSI Corporate Governance Award Questionnaire 2018 as a base questionnaire seeking the response in five point scales. With the help of Google Forms, 90 responses were received from the Corporate Governance Professionals (Company Secretaries) of India. For the purpose of interpretation, the paper used tools like percentage analysis, cross tabulations, simple average and Chi-Square analysis, Analysis of Variance (ANOVA) etc. The variable Firm Value was calculated by taking an average of five financial proxies of the firm namely Turnover, Paid up capital, Net worth, EPS and Return on Investment. The socio economic variables such as Gender (Male & Female), age (20-30, 31-40, 41-50 and 51-65), Educational Qualifications (single, double and triple professional qualification), Profession (Practice, Employment and others) Experience (less than 5 years, 5-10 years and More than 10 years) were considered.

V. RESULTS AND DISCUSSION

This section discusses the socio economic profile of the corporate governance professionals like gender, age, educational qualification, type of profession and experience were presented in the following table. The results of the association were presented in the consecutive tables.

TABLE- I: SOCIO ECONOMIC PROFILE OF THE CG PROFESSIONALS

| Particulars | | Frequency | Percent |
|---------------|------------|-----------|---------|
| Gender | Male | 48 | 53.3 |
| | Female | 42 | 46.7 |
| | Total | 90 | 100.0 |
| Age | 20-30 | 58 | 64.4 |
| | 31-40 | 18 | 20.0 |
| | 41-50 | 11 | 12.2 |
| | 51-65 | 3 | 3.3 |
| | Total | 90 | 100.0 |
| Qualification | Single | 68 | 75.6 |
| | Double | 17 | 18.9 |
| | Triple | 5 | 5.6 |
| | Total | 90 | 100.0 |
| Profession | Practice | 25 | 27.8 |
| | Employment | 57 | 63.3 |

| | | | |
|------------|--------------------|----|-------|
| | Others | 8 | 8.9 |
| | Total | 90 | 100.0 |
| Experience | Less than 5 years | 60 | 66.7 |
| | 5-10 years | 13 | 14.4 |
| | More than 10 years | 17 | 18.9 |
| | Total | 90 | 100.0 |

Source: self-made Survey circulated through Google form

The above table depicts that, out of 90 respondents 53% were male and 47% were female Corporate Governance professionals. With respect to age of the respondents a majority of the CG professionals falls under the age category of 20-30 years, nearly one-fifth of the respondents were in the age group of 31-40 years, 12% of the respondents belong to the age group of 41-50 and merely 3% of the respondents come under the category of 51-65 years. Educational qualification were divided into three categories namely with single, double and triple professional qualification, a single professional qualification means only Company Secretaryship qualification, double professional qualification includes company secretary with an additional qualification of chartered accountant or Law professionals and triple qualification includes company secretary with two or more than two professional qualifications. Out of 90 respondents more than three-fourth of the respondents had single professional qualification, about 20% of the respondents had double professional qualification and only 5% of the respondents had triple professional qualifications. The socio economic variable "Profession" classified into Practice, Employment and others. Majorities (63%) of the corporate governance professionals were in the profession of employment, around 28% of the professionals are in practice, and 9% of the respondents are in the category of others. With respect to experience of the corporate governance professionals, more than two-third of the respondent were having an experience of less than five years, 19% of the respondents belonged to the category of more than 10 years and about 14% of the respondents were in the category of 5-10 years of experience.

The influence of the above said socio economic factors on the dependent variable "Firm value" proxied by the average value of Turnover, Paid up capital, Net worth, Earning per share and Return on Investment. For the purpose of examining the association between socio economic profiles of corporate governance professionals with firm value, the Chi-Square test was performed.

Table- II: Gender based Impact of CG on FV

| Gender with FV Cross tabulation | | | FV | | | | | Total |
|---------------------------------|--------|-------|----------------|-----------|--------------|--------------|-----------------|-------|
| | | | To some extent | Low level | Middle level | Higher level | To large extent | |
| G E N D E R | Male | Count | 7 | 9 | 23 | 8 | 1 | 48 |
| | | % | 15 | 18 | 48 | 17 | 2 | 100 |
| E | Female | Count | 9 | 9 | 20 | 4 | 0 | 42 |
| | | % | 21 | 21 | 48 | 10 | 0 | 100 |
| Chi-Square value | | | | | | | 2.40 | |
| P value | | | | | | | 0.66 | |

Source: self-made Survey circulated through Google form

The above table infers that, the impact of Corporate Governance on FV, both male CG professionals and female CG professionals consented that there is an average impact of CG on the FV i.e., Male (48%) and Female (48%), 19% male and 21% of female CG professionals consented that, low level impact of CG on FV, 17% of male and 9% of female CG professionals agreed that there is higher level impact of CG on its FV, 15% male and 21% of the female CG professionals stated that, to some extent CG has impacted on the FV. Only one male CG professional agreed that CG to a larger extent impacted on the FV. It is evident that the calculated P value is **0.662** which is beyond the accepted level; hence the null hypothesis "the gender doesn't play any role with respect to impact of corporate governance on FV" is accepted at 5% significant level.

Table- III: Age based Impact of CG on FV

| Age with FV Cross tabulation | | | FV | | | | | Total |
|------------------------------|-------|-------|----------------|-----------|--------------|--------------|-----------------|-------|
| | | | To some extent | Low level | Middle level | Higher level | To large extent | |
| A G E | 20-30 | Count | 13 | 7 | 31 | 7 | 0 | 58 |
| | | % | 23 | 12 | 54 | 12 | 0 | 100 |
| | 31-40 | Count | 1 | 8 | 7 | 2 | 0 | 18 |
| | | % | 6 | 44 | 39 | 11 | 0 | 100 |
| | 41-50 | Count | 2 | 1 | 4 | 3 | 1 | 11 |
| | | % | 18 | 9 | 36 | 28 | 9 | 100 |
| | 51-65 | Count | 0 | 2 | 1 | 0 | 0 | 3 |
| | | % | 0 | 67 | 33 | 0 | 0 | 100 |
| Chi-Square value | | | | | | | 24.3 | |
| P value | | | | | | | 0.02 | |

Source: self-made Survey circulated through Google form

The above table depicts that, the CG professionals were categorized into four groups namely, age group between 20 to 30 years, between 31 to 40 years, 41 to 50 years and between 51 to 65 years. Among these categories a majority of the respondents opined for an average impact of CG on the FV i.e., age group between 20-30 stated that (53%) and age group between 41-50 stated (36%). 44% of the respondents falling in the age group of 31-40 and 67% of the respondent falling under the age group of 51-65 stated low level impact of CG on FV. It is found that the P value for the above Chi-Square test is **0.018** which statistically significant, hence it can be inferred that, "Age factor of the Corporate Governance Professionals significantly differ on their experience on impact of Corporate Governance on FV"

Table- IV: Qualification based Impact of CG on FV

| Qualification with FV Cross tabulation | | | FV | | | | | Total |
|--|--------|-------|----------------|-----------|--------------|--------------|-----------------|-------|
| | | | To some extent | Low level | Middle level | Higher level | To large extent | |
| Q U A L I | Single | Count | 13 | 13 | 34 | 7 | 1 | 68 |
| | | % | 19 | 19 | 50 | 10 | 2 | 100 |

| | | | | | | | | | |
|--------------------------------------|------------------|-------|----|----|----|----|---|-------|--|
| F I C A T I O N | Double | Count | 2 | 3 | 9 | 3 | 0 | 17 | |
| | | % | 12 | 17 | 53 | 18 | 0 | 0 | |
| | Triple | Count | 1 | 2 | 0 | 2 | 0 | 5 | |
| | | % | 20 | 40 | 0 | 40 | 0 | 0 | |
| | Chi-Square value | | | | | | | 7.754 | |
| | P value | | | | | | | 0.458 | |

Source: self-made Survey circulated through Google form

The survey reported that out of 68 CG professional having single professional qualification stated the following namely to some extent (19%), Low level (19%), Meddle level (50%), Higher level (10%) and to large extent (2%). CG professional with double professional qualification opionioned that the impact of CG on the FV is as follows, to some extent (12%), Low level (18%), Meddle level (53%), Higher level (18%). 40% of respondents having more than three professional degrees asserted, on the effect of Corporate Governance to be low on FV. The statistical association between Educational Qualification of the CG professionals and Impact of CG on the FV was tested with the help of Chi-Square analysis. The calculated value is arrived at **7.754** with **insignificant P** value and thus inferred that “educational qualification of the CG professions doesn’t play a significant role with respect to impact of CG on FV.

Table- V: Profession based Impact of CG on FV

| Profession With FV Cross tabulation | | FV | | | | | Total | |
|--|-------------|----------------|-----------|---------------|---------------|-----------------|-------|-----|
| | | To some extent | Low level | Mid dle level | High er level | To large extent | | |
| P R O F E S S I O N | Practic e | Count | 3 | 2 | 17 | 3 | 0 | 25 |
| | | % | 12 | 8 | 68 | 12 | 0 | 100 |
| | Employ ment | Count | 11 | 14 | 23 | 9 | 0 | 57 |
| | | % | 19 | 25 | 40 | 16 | 0 | 100 |
| | Others | Count | 2 | 2 | 3 | 0 | 1 | 8 |
| | | % | 25 | 25 | 37 | 0 | 13 | 100 |
| Chi-Square value | | | | | | | 17.9 | |
| P value | | | | | | | 0.02 | |

Source: self-made Survey circulated through Google form

For the purpose of analysis the response was collected from three type of profession namely Practice, Employment and others. All the three professions responded that there was an average impact of CG on the FV namely Practice (68%), Employment (40%) and others (38%). The higher level impact of CG on FV stated by the practice, employment and others are at 12%, 16% and 0% respectively as against impact of CG on FV to large extent stated by the practice, employment and others at 0%, 0% and 12.5% respectively. χ^2 test reveal that, there is a significant difference in the Corporate Governance implanted by different professionals on firm value. Hence it can be inferred that “type of profession does play a significant role with respect to impact of CG on FV.

Table- VI: Experience based Impact of CG on FV

| Experience with | FV | Tota |
|-----------------|----|------|
|-----------------|----|------|

| FV Cross tabulation | | To some extent | Low level | Middle level | High er level | To large extent | l | |
|--|------|----------------|-----------|--------------|---------------|-----------------|------|-----|
| E X P E R I E N C E | < 5 | Count | 12 | 10 | 32 | 6 | 0 | 60 |
| | | % | 20 | 17 | 53 | 10 | 0 | 100 |
| | 5-10 | Count | 2 | 3 | 4 | 3 | 1 | 13 |
| | | % | 15 | 23 | 31 | 23 | 8 | 100 |
| | >10 | Count | 2 | 5 | 7 | 3 | 0 | 17 |
| | | % | 12 | 29 | 41 | 18 | 0 | 100 |
| Chi-Square value | | | | | | | 10.6 | |
| P value | | | | | | | 0.22 | |

Source: self-made Survey circulated through Google form

The study proves that the Corporate Governance professional with the experience of less than 5 years, 5-10 years and more than 10 years of experience have experienced that there was an average level impact at 53%, 31%, and 41% of CG on the FV. Merely one CG professional with an experience of 5-10 years came out with the experience that “CG impacted to a larger extent on the FV”. The statistical association of FV with experience of Corporate Governance professionals was tested with the help of Chi-Square analysis. The results of the above analysis resulted on the P value to **0.224** (statistically insignificant), so the null hypothesis “experience does not play a significant role with respect to FV” is accepted at 5% significant level.

I. CONCLUSION

The recognition of Corporate Governance as one of the most prominent factor affecting the firm value is in the potential phase in any developing country, India is not exception to it. Conceptually CG professionals are at a key position in advising and implementing the good governance practices in their respective firms. Hence the company secretaries being CG professionals must be conscious with respect to adoption of Corporate Governance practices, proper updating and implementation of the required enactments along with the recent amendments etc., The present study is an attempt to examine the socio economic criteria’s of the Corporate Governance professionals on impacting Firm Value. Based on the results of the analysis it was found that the socio economic factors such as Age and Profession are statistically significant which indicates that these two factors differ significantly with respect to impact of CG on FV, and other socio economic factors namely Gender, Educational Qualification and Experience are statistically insignificant, hence it is concluded that the these factors do not differ significantly with respect to impact of corporate governance on FV.

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