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An Incidence Of Corporate Governance & Investors Protection Measures On Financial Performance Of Selected Companies

***Prof. Tamanna Sharma**

Assistant Professor(Sigma University)

****Dr. Snehal Shah**

Assistant Professor(Sigma University)

Abstract

Good policy of any company on corporate governance is to create higher accountability, transparency and integrity. Corporate governance includes those policies that lead to increase the faith of the stakeholders in particular company. Corporate Governance protect interest of various stakeholders like share holders, creditors, employees etc. The main objective of the paper is to analyse the impact of corporate governance and investors' protection measures on financial performance of selected companies. The researcher has analysed annual reports of selected companies to understand the impact of corporate governance and investors' protection measures on financial performance. Various ratios like Return on equity (ROE), Return on Assets (ROA) and Earnings per share (EPS) Graded Surveillance Measure (GSM) companies and Non-GSM companies have been analysed. The good corporate governance and investors' protection measures built confidence of existing as well as potential investors. The potential of the companies is based on the graded surveillance measure to overcome the situation of the company's financial status as well as the proclaim of the marketing solution and diligence of the financial performance of the investors to secure of their anti-inflationary situations in the observation of the various data findings.

Key Words:

Corporate governance, Investors' Protection measures, Financial Performance, Stakeholders, investors' Interest, GSM (Graded Surveillance Measure), ROA, ROE, EPS

INTRODUCTION:

During last few years many scams have come out in our country that leads to adverse impact on the interest of stakeholders who invest their hard-earned money in the companies. The faith of the investors reduces and they may switch over to some protected or closely control investment avenue or they may not invest at all due to unethical practices. This may lead to adverse impact on economic growth of the country. To build confidence of investors and other stakeholders it is important to adopt transparent, fair and accountable practices by corporates. It may be attained by imposing good corporate governance and various investor protection measures creates value for the stakeholders. Good corporate governance environment creates

value by improving financial performance of corporates because the funds of investors are utilized in a transparent and accountable manner or we can say that the purpose of corporate governance and investors' protection measures are to improve financial performance of organization.

This paper aimed to analyse the impact of corporate governance and investors' protection measures on financial performance of selected companies. Organization can achieve the objective of corporate governance and investors' protection measures through good financial performance. To measure financial performance, we can use various tools, ratios and techniques.

Corporate Governance:

Corporate governance is the set of various actions, laws, processes that administer, control or direct the company and to achieve the objective of shareholders wealth maximization. As we know that ownership and management are separate in a joint stock companies thus, it is important to see that the owner's fund should be utilized optimally. The Government safeguards the interests all stakeholders through competent authorities like SEBI, IRDA, The Companies Act, Ministry of Corporate Affairs etc.

Good corporate Governance can create value for stakeholders by maximizing the wealth of stakeholders. The investors' protection measures are considered as part of corporate governance.

SEBI had in corporate clause 49 for corporate governance and includes provisions relating to I. Board of Director II .Audit Committee III. Remuneration of Director IV. Board Procedure V. Management VI. Share holders and VII. Report on Corporate governance.

Companies Act, 2013 has also provided various provisions regarding corporate governance and corporate reporting.

Investors' Protection Measures:

Investors' protection measures are considered as a part of corporate governance, Corporate governance protect interest of all kind of stakeholders and create value for shareholder by maximizing wealth whereas investors' protection measures ensure the protection of interest of investors who invest in the company but do not participate in the day to day management. Investors' protection measures are key factor that motivate investor to invest in any organization if their interest is not safeguarded then they will not prefer to invest in open market or in any securities of the company.

The objective of setting up of SEBI is to protect the interest of investors in securities and to promote the development of and to regulate the security market. To serve that objective SEBI introduced various investors protection measures like screen-based trading system, dematerialization of securities, T+2

rolling settlement, framed various regulations to regulate intermediaries, issue and trading of securities, corporate restructuring, Graded surveillance Measure etc.

Financial Performance:

Financial performance can be defined as the results of the operations and policies of a firm in monetary terms (BusinessDictionary.com, 2013). The financial performance of companies may be influenced by internal managerial decisions (for example the financing of assets) and by external factors (such as a financial crisis). Although managers can exercise control over the internal corporate environment, they have very limited influence over changes in the external environment (Lussier, 2012: 56).

Financial performance refers to the act of performing financial activity. In wider term, financial performance refers to the extent to which financial aims are being accomplished. It is the process of measuring the results of a firm's methods and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time.

Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting records. The goal of such analysis is to determine the efficiency and performance of firm's management, as reflected in the financial records and reports. The researcher attempts to measure the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way; companies are ensuring enough returns to the shareholders to maintain at least its market value.

Graded Surveillance Measures (GSM)

In continuation with various measures already implemented, SEBI and Exchanges, pursuant to discussions in joint surveillance meetings, have decided that along with the other measures there shall be Graded Surveillance Measures (GSM) on securities that witness an abnormal price rise that is not commensurate with financial health and fundamentals of the company which inter-alia includes factors like Earning, Book value, Fixed assets, Net worth, P/E multiple, etc.

Graded Surveillance Measures was introduced by SEBI on 23rd February, 2017.

Objectives of Graded Surveillance Measures (GSM)

1. Alert and advise investors to be extra cautious while de-aligning the securities and
2. Advice market participants to carryout necessary due diligence while dealing in these securities.

Stage wise Surveillance actions are listed below under GSM

Stage	Surveillance Actions
I	Transfer to Trade for Trade with price band of 5% or lower as applicable.
II	Trade for Trade with price band of 5% or lower as applicable and Additional Surveillance Deposit (ASD) of 100% of trade value to be collected from Buyer.
III	Trading permitted once a week (Every Monday) and ASD of 100% of trade value To be collected from Buyer.
IV	Trading permitted once a week (Every Monday) with ASD of 200% of trade value To be collected from Buyer.
V	Trading permitted once a month (First Monday of the month) with ASD of 200% of trade value to be collected from Buyer.
VI	Trading permitted once a month (First Monday of the month) within upward movement in price of the security with ASD of 200% of trade value to be collected From Buyer.

REVIEW OF LITERATURE :

Knut J. Michelberger (2017) concluded that the study provides empirical evidence that main elements of the German corporate governance system are irrelevant for shareholders and other stakeholders or are even against their interests. It has been concluded from the results of the quantitative and qualitative data analysis.

Faizul Haque and Thankom G. Arun (2016) investigated the effect of the firm-level corporate governance on market, as well as accounting-based financial performance of a firm. This study finds that a group of foreign and locally reputable firms not only comply with the existing out-of-date regulatory provisions, but also voluntarily adopt better governance practices. The evidence confirms the prediction of the agency theory in that corporate governance quality is positively associated with firm valuation.

Hisnol Jamali, Sutrisno T, Imam Subekti Prihat Assih (2015) found that the system of corporation which proxy by the individual shareholding whether it is direct or indirect through the effort efficiency cannot increase the performance of corporation financial which measured with ROA and Tobin Q. The practice of social responsibility of corporation as the corporation's concern for the environment and society can increase the business efficiency and operational performance of corporation (ROA) the study further found that Financial performance of corporation can be increased by the practice of social responsibility of companies and business efficiency.

G. Madan Mohan and Marimuthu (2015) have established that an emphasis on corporate governance may or may not have a telling effect on financial performance of a firm. However, if a firm has two

different persons as its Chairman and Managing Director, its performance might have an upsurge. Similarly, existence of promoters in board may also enhance the financial performance of firms. Promoters possess higher degree of interest in the growth and prosperity of the firm as they treat the firm as their own child. Hence, more promoters in the board will definitely enhance the performance of a company.

Nadia Mans-Kemp (2014) observed negative association between CGS (corporate governance score) and TSR (total share return), it seemed as if corporate governance compliance is, to a certain extent, not properly understood or appreciated. However, if more shareholders come “on board” by realizing and appreciating the possible benefits associated with sound corporate governance compliance, such as positive risk-adjusted returns, the need to legislate corporate governance compliance in future could be avoided. Directors, managers and stakeholders should realise that sound corporate governance compliance is essential and not optional to firms’ long-term success.

Priyanka Aggarwal (2013) found that all the correlation coefficients (R) are positive and approximately close to 50%. Thus, there is positive correlation between corporate governance and corporate profitability. All the beta (b1) values are positive. Thus, governance rating has positive impact on corporate profitability. Further, she finds that only p-value in case of Return on Sales (ROS) is significant at 5% level of significance, since .021 is less than .05. Thus, Governance rating of company has a significant impact on ROS, but not on other three profitability measures. Overall, she concludes that corporate governance has positive but not significant impact on corporate profitability.

Research Gap

Many studies have been conducted on corporate governance and investors’ protection measures but no study in this area has been conducted using Graded Surveillance Measures (GSM) and its impact on financial performance of shortlisted companies. Thus, the researchers have made an attempt to explore this method to study an impact of corporate governance and investors’ protection measures on financial performance of selected companies listed on BSE.

Research Methodology:

Importance/Rationale of the Study

Now a day’s many types of scams related to stock market come out, internal trading and window dressing are the example relating to such kind of scams. To protect interest of investors, SEBI introduced various frameworks to control the abnormal price rise which is not commensurate with financial health and fundamentals of the companies. Thus, there is a need to analyse various surveillance measures of SEBI.

Problem Statement

The aim of the paper is to analyze the impact of investors' protection measures and corporate governance on financial performance of selected companies.

Objectives of the Study

The objectives of the study are as under.

- ❖ To develop conceptual framework of corporate governance, investors' protection measures and financial performance.
- ❖ To study previous important researches on corporate governance and investors' protection measures.
- ❖ To analyze the impact of corporate governance and investors' protection measures on financial performance.
- ❖ To provide suggestions to improve corporate governance and investors' protection.

Scope of the Study:

Research will be undertaken to study the impact of investors' protection measures on financial performance of selected companies listed in BSE.

Area of study is restricted to only those companies which are short-listed/selected wherein various investors' protection measures are applicable.

Hypothesis

On the basis of theory and literature review and keeping in view the research objectives, two hypotheses have been formulated as follows:

H0₁: There is no impact of GSM on financial performance.

H0₂: There is no impact of financial performance for short listing of companies under GSM.

Type of Research Design

This research applies the descriptive research.

Sources of the Data

Secondary data has been collected from various research papers, doctoral thesis and other documents like notification/circular/annual report etc.

Sample Size

Total 10 pharmaceutical companies are selected for the study. Out of which 5 companies are selected from list of companies shortlisted under GSM by BSE. Another 5 companies are selected which is not shortlisted under GSM by BSE.

Sampling Units

Companies shortlisted under GSM and companies which are not shortlisted under GSM.

Method of Data Collection

The mode of data collection is secondary data.

Secondary Data

For the purpose of data analysis following BSE list pharmaceutical companies has been selected:

GSM Companies	Non-GSM Companies
1. Crestchem Ltd(AnnualReports, 2014-15to 2017-18)	1. Anuh PharmaLtd(AnnualReports, 2014-15 to 2017-18)
2. KabraDrugsLtd(AnnualReports, 2014-15 to 2017-18)	2. BrooksLaboratoriesLtd(Annual Reports, 2014-15 to 2017-18)
3. KamronLaboratoriesLtd(Annual Reports, 2014-15 to 2017-18)	3. GennexLaboratoriesLtd(Annual Reports, 2014-15 to 2017-18)
4. Venmax Drugs and Pharmaceuticals Ltd(AnnualReports,2014-15to2017-18)	4. VistaPharmaceuticalsLtd(Annual Reports, 2014-15 to 2017-18)
5. Welcure Drugs&PharmaceuticalsLtd (AnnualReports,2014-15to2017-18)	5. WockhardtLtd(AnnualReports, 2014-15 to 2017-18)

Annual report for the four financial years is selected for the purpose of study. For the collection of data, selected financial years are 2014-15, 2015-16, 2016-17 and 2017-18further the financial years are divided in two categories viz. before GSM and after GSM.Data for the year 2014-15 & 2015-16 are grouped as before GSM data and data for the year 2016-17 & 2017-18 are grouped as after GSM data.

Data Analysis:

Following two tables shows the average value of various ratios of companies selected for the study:

1. GSM Companies Average of Ratios

Ratios	Before GSM	After GSM
ROE (Return on equity=Net Income/Shareholders Equity)	-0.0240	-1.1268
ROA (Return on Assets =Net Income /Total Assets)	0.5992	-0.5337
EPS (Earning per share=Net Profit/No. of shares outstanding)	0.2267	-1.1541

2. Non-GSM Companies' Average of Ratios

Ratios	Before GSM	After GSM
ROE (Return on equity=Net Income/Shareholders Equity)	0.1872	0.0119
ROA (Return on Assets =Net Income /Total Assets)	0.0665	0.0135
EPS (Earning per share=Net Profit/ No.of shares outstanding)	11.6393	-7.2921

Mean value of various ratios of GSM companies shows that financial performance of companies shortlisted under GSM have decreased as compared to financial performance before GSM implementation e.g. decrease in ROE is 1.1028, decrease in ROA is 1.1329 and decrease in EPS is 1.3808.

Mean value of various ratios of Non-GSM companies shows that financial performance of companies which are not shortlisted under GSM have also decreased as compared financial performance before GSM implementation e.g. decrease in ROE is 0.1753, decrease in ROA is 0.053 and decrease in EPS is 18.9314.

When we compared the mean value of various ratios of GSM companies with Non- GSM Companies reveals that financial performance of Non- GSM companies are better than companies shortlisted under GSM in both the period i.e. pre and post period of GSM implementation. Only ROA before period of GSM and EPS of After period of GSM are lower in case of Non-GSM companies as compare to GSM Companies. The comparative table is given below:

Ratios	Before GSM		After GSM	
	GSM Companies	Non-GSM Companies	GSM Companies	Non-GSM Companies
ROE	-0.0240	0.1872	-1.1268	0.0119
ROA	0.5992	0.0665	-0.5337	0.0135
EPS	0.2262	11.6393	-1.1541	-7.2921

Findings:

- ❖ Null hypothesis H_{01} has been accepted because there is no impact of GSM on financial performance of GSM as well Non-GSM companies. GSM should be act as moral check on
- ❖ The part of management, and it should affect financial performance positively. On contrary instead increasing financial performance it is decreased.
- ❖ Null hypothesis H_{02} has been rejected because good financial performance can save companies to be shortlisted under GSM. Same is derived from Non- GSM companies' data.
- ❖ Financial performance of GSM companies are lower than Non-GSM companies in both the period i.e. before and after GSM
- ❖ Financial performance of GSM as well Non-GSM companies are decreasing over a selected period of time.

Suggestions:

- ❖ As basic purpose of corporate governance and investor protection is to create value for the investor by safeguarding their interest, management should take sufficient action to do so.
- ❖ So far as GSM is concern management should not disclose certain confidential policies to be implemented or actions to be taken. By doing so they can prohibit abnormal price rise. Further management should take sufficient steps for prevent internal trading etc. that may lead to abnormal price rise.
- ❖ Competent authority who is responsible to safeguard the interest of investor should strict enough to take action against defaulter or found guilty.
- ❖ Management should focus to improve financial performance so, their company not to be shortlisted under GSM.

Conclusions:

From the data analysis it is cleared that there is no impact of corporate governance and investors' protection measures on financial performance of selected companies. Even after imposition of certain investors' protection measures like GSM financial performance has decreased. On the other, it is observed that if company is having good financial performance than there is a less chance of imposition of any investors' protection measures.

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