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# Impact of Corporate Governance on Financial Performance of Select Companies During the Post-Reform Period: An Empirical Study

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**Abstract:**

**Introduction**

The topic that is intended is focused on the impact of the corporate governance on financial performance during the post reform period.

**Research background**

The current research is based on the post-reform period where it shows how the new period has been affecting the financial performance of the selected leading companies in India. The gap in literature would be covered in this present work of research.

**Methodology**

In this chapter, the research has been design using ***descriptive design*** following ***interpretivism philosophy and inductive approach. Secondary qualitative*** data has been taken from the empirical studies.

**Result and discussion**

Financial leverage and profitability have turned out to be bad negatives in Indian company's Sustainability disclosure of companies. Several industries has been negatively impacted rest has been benefited in the context of corporate governance.

**Conclusion**

The companies that are chosen are mentioned below. A research on the background has been conducted. And a conclusion in discussed on the improvement.

**Keywords:** Corporate governance, financial performance, financial leverage and profitability**.**

# Chapter 1: Introduction

## Research Background

The study focuses on the following companies. The following departments are retail, construction, aviation, hospitality, healthcare, manufacturing and entertainment. The following companies that are selected are Reliance Retail, L&T, Air India, IHCL, CIPLA, TATA, and Eros International Media respectively. Reliance retail is one of the popular Indian retail companies. Like any other company Reliance Retail was also hit by the covid wave (relianceretail.com, 2012). The revenue of the company has declined by 17 % in the month of June. Covid had hit even successful companies like L and T. The Q2 net profit of the construction company L and T had declined by 45 per cent during the pandemic. With the flying restriction, Air India suffered in the covid. They had a net loss for the first time in seven years. Covid had an impact on the hotels for tourists. The occupancy of rooms had declined by 38 per cent for IHCL. A pharmaceutical company like Cipla lost their profit by 33 cents from the disruption of covid (Cipla.com, 2014). Similarly, other companies face loss during the wave of a pandemic by incorporating governance.

## Rationale

The rationale emphasizing the current research work is that in the post-reform period there have been many changes in the policies on which the companies run in India. Corporate governance is a system based on whose policies the companies are run in India. They follow the directions and policies of corporate governance to run their companies. The current issue, which is being highlighted in this research work, is how these newly formulated policies post-reform period is having an impact on these selected Indian companies. This also emphasizes the present framework of the systems formed by corporate governance being implicated by the post-reform period and how this is impacting the current functionality of the selected Indian companies.

## Aims and Objectives

### Aim

The present research aims to show the impact of corporate governance on the financial performance of Indian companies during the post-reform period.

### Objectives

- To depict the current background of the selected Indian companies
- To show the current policies of the corporate governance systems post-reform period

- To evaluate the impact of corporate governance on the financial performance of the selected Indian companies in the post-reform period

**Research Questions**

RQ1. What is the current background of the selected Indian companies' post-reform period?

RQ2. What are the current policies of the corporate governance systems post-reform period?

RQ3. What is the impact of corporate governance on the financial performance of the selected Indian companies in the post-reform period?

## **Chapter 2:** Literature Review

### The Relationship between Corporate Governance and Financial Performance

In India, corporate governance plays a vital role in checking the prospects of the companies running in India and influencing their economic prospects to decrease the risk for the investment personnel and improvise the financial outcome of the company. Palniappan (2017) suggests that this helps them in drawing the attention of the novel investors in the governance to improve the situation of leading companies.

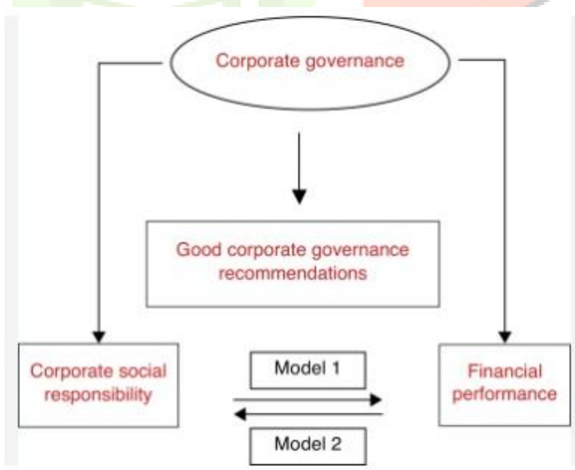


**Figure 2.1: Conceptual Framework of Corporate Governance**

(Source: Palniappan, 2017)

The companies like TATA, L & T, Eros International, Reliance, and so on, run their growth prospects in their directions and this should not be hindered by the shortage of funds. Other research evidence (Sanan and Yadav,

2011) shows that the body of corporate governance takes on the responsibility of reducing its risk of going bankrupt in the future by keeping its funds flowing.

## The Impact and Challenges of the Corporate Governance System Influencing the Financial Performance of the Selected Leading Companies in India

The impact of corporate governance is huge when it comes to influencing these leading companies in India and their financial performance in the Indian economy. The string of literature put forward by Narwal and Jindal (2015), suggests that the post-reform period eventually gave a blow to all the leading companies due to the reduced demand and the lockdown period curbed the growth prospects altogether of these companies in the Indian economy.

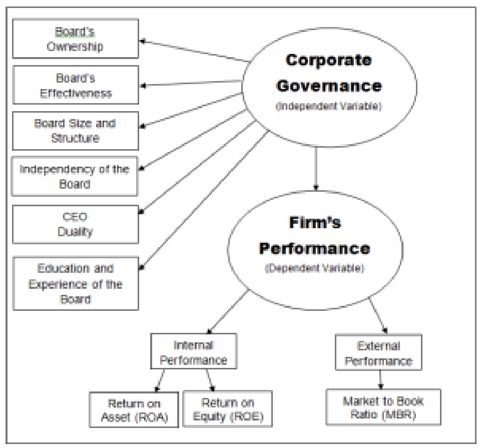


**Figure 2.2: Theoretical Framework of the relationship between corporate governance and financial performance**

(Source: Sarkar *et al.*, 2012)

There was a negative trend running in the markets for these leading companies in India, which eventually led the corporate governance to reformulate the strategies that would improve the financial performance of these leading companies. Sarkar *et al.*, (2012) opined that the main challenge faced by corporate governance was the gap in the economy that was brought on by the long lockdown period during the times of the pandemic, which curbed the financial flow to these companies. According to Goel (2018), corporate governance re-standardized their policies on stakeholders and brought their accounts into a full new system which then helped the crippling situation of these leading companies to rejuvenate their positions in the market.

The research pieces of evidence put forward (Srivastava *et al.*, 2012) in the pre-reform period generally suggest the old policies that were directing these companies. Few research evidence (Goel, 2018) shows what kind of policies has been formed by corporate governance to direct these companies. The present work will answer the research question mainly, how corporate governance has impacted the financial performance in the post-reform period. Current literature work shows an ample amount of gap that was put forward to address the issue of the financial performance of these companies. The most recent research evidence put forward by Goel (2018) shows that corporate governance has the liability to influence the financial performance of these leading companies. The post-reform period had the corporate governance take up new strategic methods to improve the financial performance of these companies in the Indian economy, which would thus re-position them into a growth spiral of promising prospects.

## Theoretical Framework and Definitions of the Variables

Corporate governance is the system or a body of the framework following which the companies in India like Reliance, L&T, TATA, Air India, IHCL, CIPLA, and Eros International Media run their companies according to the directions given by the corporate governance system. In other words, the board where the directors are posted formulates policies based on those directions the companies run in India. According to Gupta and Sharma (2014), the post-reform period, in this context, is generally referred to as the post-pandemic period where the policies have been changed under which the companies were running in India. The research evidence put forward by Yameen *et al.*, *(*2019), depicts the responsibilities that the board handles generally formulating policies, formulating directing instructions, and setting the company's strategic aims. The governance also provides management leaders to implement these policies and directions to immediate effect and to check their progression in India.

## Literature Gap

However, the current literature gap shows that no appropriate or resourceful evidence shows specifically how corporate governance has influenced the financial performance of these leading companies in India and what led them to improve their financial performance post-reform period. Corporate governance is the backbone of these companies that provide novel investors and propose policies to mitigate financial risks that would help these companies to get a new perspective on their performance and how to function in this post-reform period. This period led every firm to chalk out novel policies to stand up again in the economy which would thus be beneficial for the Indian economy as well as to form their new position in the market. The present research would thus address the process of how corporate governance influenced the financial performance of these selected leading Indian companies during the post-reform period.

# Chapter 3: Methodology

## Philosophy

***Interpretivism philosophy*** in the research study is based on developing a specific observation on the naturalist aspect. As opined by Singh and Kansal (2018), this philosophy helps in drafting based on the observation and the interview for the researcher's interest. It allows for analyzing the current state of an Indian company's financial performance.

## Approach

***The inductive approach*** in this research is primarily the beginning phase to develop an empirical observation that is developed through participants' observation. According to Goel (2018), this approach develops a systematic procedure for the evaluation of research objectives. It affirms the underlying policy of corporate governance role in the post-reform period.

## Design

***Descriptive design*** in study enables to development of desirable detail required for events. As referred by Bouquillion (2020), this design allows to development of an uncomplicated detailing of the research study. It enables us to derive the impact of corporate governance on financial stability during post-reform periods.

## Data collection

***The secondary data collection method*** *a*llows a draft of the research based on the existing data to determine the objective of the research. As stated by Kumar et al. (2021), this method serves data from academic sources based on primary research findings. It helps in analyzing the influence of corporate governance on the financial status of Indian companies.

## Data analysis

***The qualitative methods of data analysis*** allow for a review of the existing source from several varieties. As mentioned by Singh and Kansal (2018), this method allows getting the primary interview on the basis of available data. It allows to development of interpretations on drafting the post-reform consequence on Indian company financial performance.

## Ethical consideration

**Research ethics** in the secondary qualitative method are required for journal accessibility. As opined by Goel (2018), maintaining ethics allows the research to progress in the field of research in an appropriate way. It has been raised that, this research has used data sensitivity, data confidentially, privacy, research quality and journal-accessible permission.

## Chapter 4: Result & Discussion

### Findings

| **Author** | **Article name** | **country** | **Study setting** | **Study design** | **Population and sampling** | **Result and outcome** | **Extracted area** |
|---|---|---|---|---|---|---|---|
| Sanan and Yadav, (2011) (1) | Corporate governance reforms and financial disclosures: a case of Indian companies | India | *Securities and Exchange Board of India* (SEBI), | Empirical design | 49 | Corporate governance reforms have been actively helping to moderately influence the level of the financial disclosure | Result |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Dhamija *et al.* (2014) (2) | The impact of corporate governance on the financial performance: A study of nifty companies. | India | State-owned enterprises | Empirical design | 90 | The second variable has negative financial leverage increases the borrowing burden | Conclusion |
| Locke and Duppati (2014) (3) | . Financial performance in Indian state-owned enterprises following corporate governance reforms | India | Hospitality | Empirical design | 49 | A positive impact has been obtained from the statistical analysis of corporate governance reforms | Conclusion |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Singh and Kansal (2011) (4) | Voluntary disclosures of intellectual capital: An empirical analysis. | India | pharmaceutical companies | Empirical design | 20 | Intellectual capital disclosure reveals that its collaboration with the employee's competence thereby reflects the seven companies in corporate governance. | Discussion |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Goel (2018) (5) | Implications of corporate governance on financial performance: an analytical review of governance and social reporting reforms in India | India | Aviation companies | Empirical design | 38 | Two reform has been analyzed (FY 2015–16 as Period 2) and (FY 2012–13 as Period 1) in the new norms corporate governance performance (CGP) index has been effectively used to measure the Indian company's financial performance which reveals an integrated framework that effectivel | Conclusion |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Bouquillion (2020) (6) | Industrial and Financial Structures of Over-the-Tops (OTTs) in India. | India | Entertainments media companies | Empirical design | 20 | Entertainment media has been experiencing conflict in during the post-reform due to the OTT platform. The result depicts the negative influence of audio-visual OTT on the television industry. | Result |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Kumar *et al.* (2021) (7) | Factors influencing corporate sustainability disclosure practices: empirical evidence from Indian National Stock Exchange. | India | Tata | Empirical design | 75 | Corporate governance, in identifying the financial performance in the firm industry draft through statistical means reflects a negative association o with equity and developing a supporting through improving corporate governance. | Result |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Palaniappan (2017) (8) | Determinants of corporate financial performance relating to board characteristics of corporate governance in Indian manufacturing industry: An empirical study. | India | Manufacturing companies | Empirical design | 275 | Global initiative reports reveal that the positive influence of corporate governance has been depicted from financial leverage. However, financial leverage and the profitability have turned out to bed negative in Indian companies | Conclusion |

## Analysis

Corporate governance is responsible for the effects that depict understanding in developing the legal framework. As opined by Sanan and Yadav, (2011), finance performance after the post-reform for analyzing the financial marketing of the Confederation *of Indian Industry*, discloser practice has been effectively ruling the economy of

India. To determine the corporate governance of the ***Securities and Exchange Board of India*** (SEBI), it is determined that corporate governance reforms have been actively helping to moderately influence the level of financial disclosure. Henceforth, it is analyzed that effective reform strategies and legal reinforcement are required to increase the financial reporting quality.

State-owned enterprises have been determined that draft a financial performance during the reformation that frame the legal framework adaptation by the corporate industry (lntecc.com, 2022). The second variable has negative financial leverage and increases the borrowing burden, thus resulting in lowering earnings. It is analyzed that by monitoring the financial performance in the field of financial growth, corporate governance needs to develop a strategic intervention in minimizing the negative leverage. The hospitality industry has drafted an analysis that overrules and has a positive influence on the final performance. IHCL companies have been evident from the spherical studies draft influence of the post-reform unit (Ihcltata.com, 2022). A positive impact has been obtained from the statistical analysis of corporate governance reforms. Therefore, it depicts that regulatory companies have used the resource effectively that promote the reduction in the corporate governance issue that influences the financial performance within the industry.

The pharmaceutical industry has demonstrated the effective influence of Covid-19. Corporate governance in financial performance leads the analysis of the overall effect of Intellectual capital disclosure revealing that its collaboration with the employee's competence thereby reflects the seven companies in corporate governance (Cipla.com, 2022). The analysis reflects that the correlation that is observed through the statistical means has depicted the negative influence and the weak intellectual capital disclosure. Therefore, this India's pharmaceutical company needs to monitor the intangible assets. The aviation industry has recently post-reform in drawing the corporate governance on policy making for financial stability. Air India has been evident in facing a negative impact on its financial performance (Airindia. in, 2020). Two reform has been analyzed (FY 2015–16 as Period 2) and (FY 2012–13 as Period 1) in the new norms corporate governance performance (CGP) index has been effectively used to measure the Indian company's financial performance which reveals an integrated framework that effectively developed a framework only in period 1. However, it is observed that period 2 is not linked with the financial activity of the Indian market.

The media industry has influenced the need for the development of effective corporate governance. Eros international media has been experiencing financial instability. Therefore reform made by corporate governance has influenced the (Eros. in, 2020). Entertainment media has been experiencing conflict in during the post-reform due to the OTT platform. The result depicts the negative influence of audio-visual OTT on the television industry. The analysis reflected that OTT reform has influenced the blocking of streaming that significantly influence the conflict. Therefore, corporate governance needs to b reformed to overcome the issue. As mentioned by Dhamija *et al.* (2014), corporate governance, in identifying the financial performance in the firm industry draft through statistical means reflects a negative association with equity and developing a supporting through improving corporate governance. The analysis reveals that Tobin's Q, ROA and ROE draft had a negative influence on the board size.

Manufacturing tangibles good has been evident in falling into the diverse impact fur to the critical and uncertain hits in India. India has a highly competitive environment that requires the need of reforms. Tata group in India is the leading company that has been overruled due to its strategic movement and effective corporate governance Tata.com, 2022). The financial stability of these companies and the tangible group depict sustainability in the financial performance after the post-reform. According to Locke and Duppati (2014), Global initiative reports reveal that the positive influence of corporate governance has been depicted from the financial leverage. However, financial leverage and profitability have turned out to be bad negatives in Indian company's Sustainability disclosure of companies. Information accumulated from the findings reveals that profitability and financial leverage have a positive influence on corporate strategies. However, in post-reform it is found that legitimacy costs have been effectively lowered. It is understood that involvement in the policy makes is significant in streaming sustainability.

## Chapter 5: Conclusion

The literature review has studied the impact of Corporate Governance on the Financial Performance of the following Companies during the Post Reform Period. The study concludes that in recent forms Indian companies have significant development in corporate governance. it is stated that the objective to make the stakeholders responsible has been achieved. Indian companies need more directors that are independent as the role is becoming successful with significant. When the company will understand its responsibility in the core areas the company then can bring improvement for the development of society. Corporate governance initiatives towards different sectors will make an impact on the companies to abide by the regulations and show their contribution to the environment and society.

Investors have identified the good governance company and this will become an initiative tool for foreigners to get attracted. Government should identify and address issues to enhance the performance standards of the company. Market regulations should be more powerful to get interfered with corruption in India. The place of Indian governance needs to take place on a large scale which includes legal systems and political issues. The following companies should be aware of the benefits of put good strategies and string initiatives to help in enhancing the financial performance also. Although the study has some restrictions, the report can be analyzed on a score basis system. The subjectivity innate has some restrictions in the rating scale. The performance of the governance and the research on financial data are studied for consecutive on to three years. In the future, the research or the study can be extended their data and explore the trend analysis on the relation of the company. The investors working globally will invest a large amount in the sustainability practice which will be beneficial for the stakeholders. The investors in the domestic region can also abide by the same rule and contribute more amounts to the companies that are accepting corporate responsibility.

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