



# CORPORATE GOVERNANCE IMPACT ON REAL ESTATE FIRMS

Ponaka Himaja, Deepak Shyam

Pes University

## ABSTRACT:

This paper tries to find connection between the corporate governance regulations and the real estate organisations. It identifies the pivotal role regulations play for real estate companies. Against the backdrop of a rapidly evolving landscape of real estate, uncertainties, technological disruptions, and changing societal expectations, The findings emphasise the diverse ways in which corporate governance influences real estate companies. Examining the existing literature and the collected data, the research highlights the importance of resilient governance in guiding them in turbulent times and ensuring their adaptability and strategic decision making. The paper talks about responsible business practices by integrating ESG into corporate governance practices. By enhancing corporate governance practices, it will remain resilient and responsible during times of challenge and opportunity. This paper finally provides its findings by conducting a multiple regression analysis on the data sample. The findings clearly indicate a positive relationship between both of them.

**KEY WORDS:** corporate governance, real estate companies, resilience ,stake holder engagement .

## INTRODUCTION:

### WHAT IS CORPORATE GOVERNANCE ?

Corporate Governance regulations are the set of guidelines , procedures, and practices based on which a company is managed or controlled . Main principles of corporate governance include transparency, fairness, responsibility and the risk management practices.it usually involves balancing the interests of all stake holders in the company. There are 4p's in corporate governance i.e people ,processes, performance ,purpose.

The real estate sector became the pioneer of economic development and global prosperity. Today, it shapes present-day cities and communities. As it evolved, it became compulsory to understand the underlying mechanisms of the sector. To identify, there are many facts that drive the sector. Among them one is corporate guidelines. The era of real estate, market fluctuations, and stakeholder expectations, corporate governance emerged as a key to settling the chaos and providing a way to endure success. This paper focuses on the governance practices present in the real estate sector. These governance practices are helping the companies

maintain their reputation, resilience, and access to capital. The pivotal elements that enhance the attractiveness of real estate companies are transparency in financial reporting, ethical conduct, and compliance with regulatory practices. Corporate governance went beyond the regulatory practice and reached the stage of guiding real estate companies in meeting their success.

In recent times, corporate governance has undergone many transformations, like globalisation, technological changes, and changes in the tastes of consumers. Amidst the chaos, corporate governance became a critical factor in driving real estate companies towards organisational success. The implications of the governance standards are felt in the real estate sector, where large capital investments, long project cycles, complex financial structures, and strategic decision-making call for careful monitoring and calculated risk-taking.

## REVIEW OF LITERATURE:

- In this paper whether corporate governance practices are needed for the performance of REIT'S or not is checked .it took a sample of around 50,000 companies which has a low payout ratio is checked .In this significant positive relation is found between corporate governance as well as many variables. (Bauer,2010)
- In this paper, impact of corporate governance structures at IPO of REIT'S. It was found that companies with higher governance practices have higher valuations .it has a sample of 107 REITS. (Hartzell, Kallberg, G, Liu, & H, 2008)
- According to author , capital structures as well as board hierarchy is examined to identify the connection between corporate governance, structure of ownership and capital structure. The results found that capital structure is influenced by board size, and size of the organisation . (Feng, et al., 2020)
- According to author, It is found that the degree to which corporate structures have the connection between direct and indirect real estate in China . from the research it is found that 1994-2008,main land listed had weaker links than Hong Kong one's. (Chau, et al., (2010).)
- According to author, it is found that real estate companies in U.K have capital structures, are more impacted through corporate governance regulations. Another one such observation is that real estate companies which has greater board sizes , are opting for less leverage in the capital structure. (Brenni, (2014).)
- According to author, it is found that the significance of corporate governance and the internal audit have significant impact on real estate sector. These two factors have significant impact and are positively related with the sustainability in real estate industry. (Koutoupis, (2022))
- According to author ,(2017) found that corporate governance practices and risk performance of companies has influence on performance of the REIT'S .This study tries to find out the risk the company faced .To find the risk in the REIT's leverage ratio, profitability ratio etc is considered. (Kamarulzaman & F, (2017).)

- According to author, This research understands the relationship between governance practices and volume of trade and stock prices for 62 Egyptian publicly traded companies between 2007 and 2014. Strong governance has a considerable influence on prices of shares, but not transaction volume based on the study. The findings highlight how crucial it is for Egyptian companies to enhance corporate governance in order to improve value and disclosure policies. (Mohamed, Elewa, & M., (2016).)
- According to Author, this study examines how its value and performance in the real estate industry are affected by shareholder-oriented corporate governance, using data from 111 US real estate companies between 2014 and 2018. The results indicate a favourable impact, highlighting the significance of efficient governance frameworks in luring investments and improving operational efficiency within the sector. (Morri, Anconetani, R, Pistritto, & L, (2023))
- According to Author, Existing literature underlines the impact of corporate governance on the of business in the Property, Real Estate, and Building Construction industries. Interestingly, return on equity (ROE) and return on assets (ROA) are directly in relation with female directors, and the compensation committee only has an impact on ROA. (Mohamad & W, (2017))
- According to Author, Corporate governance quality and CSR disclosures. this study examines the connection between CSR and corporate governance by enhancing relationships with the stake holders .The research found out that the organisations having better corporate governance ratings belong to larger profile industries and have high leverage . (Chan, C, Watson, Woodliff, & D., (2014))
- According to Author, this paper focuses on highlighting risk control through corporate governance .the research finds out that the composition of risk and compensation committees have same directors then ,the risk control is becoming difficult. (Tao, B, Hutchinson, & M., (2013).)
- According to author, Amanah Raya REIT with risk factor and macro economic factors towards profitability is checked. This study provides information on internal and external, to which return on assets, return on equity, on other various ratios (Muslih, M, Sirait, Simanjuntak, & F, 2020)
- According to author Good corporate government (GCG) brings transparency, accountability, responsibility, independence ,fairness, to the company management .This study found out that independent board of directors has no significant impact on financial performance. (Alamsyah, F., Yulianti, & Y., (2022).)
- According to the author ,real estate ownership with corporate governance influences of of the firms.it has a sample size of 228,in which they found that positive effects of real estate ownership and the stock market returns .The stock market of those countries are also favourably subjected to share holder voting. (Sing, F, Sirmans, & F, (2008))

#### **OBJECTIVES OF THE STUDY:**

- To investigate the affect of corporate governance on real estate companies.
- To assess how corporate governance incorporate ESG practices into it.
- To understand the relationship between corporate governance and stake holder engagement.

**RESEARCH METHODOLOGY:**

In this research a google form is floated to collect primary data to find out the impact of corporate governance on real estate companies. Using a 5 pointer Likert scale the data is analysed and multi linear regression is performed.

**DATA ANALYSIS:**

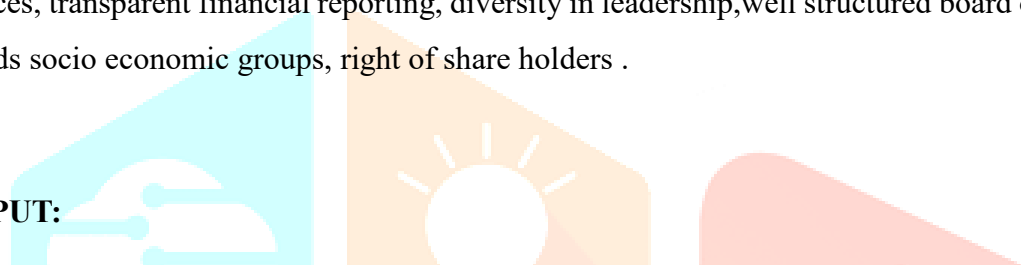
H0: There is no connection between corporate governance practices on real estate companies.

H1: There is connection between corporate governance practices on real estate companies.

**DEPENDENT VARIABLE** - corporate governance

**INDEPENDENT VARIABLE**-Environment and social impact assessment, engagement with local communities, strategic planning process, proactively adapt to regulatory changes, effective risk management practices, transparent financial reporting, diversity in leadership,well structured board of directors, contribution towards socio economic groups, right of share holders .

**OUTPUT:**



SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.895042
R Square	0.804059
Adjusted R	0.609567
Standard E	0.444736
Observatic	300

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	3.645397	0.836575	4.357528	0.021598	1.98481	5.305985	1.98481	5.305985
X Variable	0.342162	0.10532	3.248786	0.001598	0.55122	0.133104	0.55122	0.133104
X Variable	0.017512	0.100936	0.173499	0.056262	0.217869	0.182844	0.217869	0.182844
X Variable	0.179893	0.126523	1.421825	0.015832	0.431039	0.071253	0.431039	0.071253
X Variable	0.164631	0.112949	1.457574	0.014822	0.388833	0.05957	0.388833	0.05957
X Variable	0.070549	0.1088	0.648423	0.051826	0.145418	0.286515	0.145418	0.286515
X Variable	0.225768	0.110652	2.040341	0.044063	0.006125	0.445411	0.006125	0.445411
X Variable	0.009412	0.106388	0.088468	0.022969	0.220591	0.201767	0.220591	0.201767
X Variable	0.053751	0.110597	0.48601	0.012807	0.165782	0.273285	0.165782	0.273285
X Variable	0.009456	0.108228	0.087375	0.013056	0.205375	0.224287	0.205375	0.224287
X Variable	0.142889	0.106665	1.339611	0.038353	0.068838	0.354617	0.068838	0.354617

**REAL LIFE EXAMPLE:**

PROLOGIS, is a real estate investment trust has successfully implemented corporate governance and contributed to the success of that company .some aspects of corporate governance regulations which PROLOGIS ,included are Board of Independence, Transparency, risk management practices,share holder engagement ,ethical business conduct. Because of these principles it attracted lot of investments, better finance performance ,it retained its position as leader for the longer-term.

**ANALYSIS:**

A multiple regression is performed between the dependent variable and the above stated independent variables. The results shows that, the explanatory power of independent variables on the dependent variables is 0.89, which means that these independent variables impact the dependent variable of up to 89%(approx.).The P- value (significance value is less than 0.05) ,i.e 0.002 ,stating that null hypothesis is rejected .

**IMPORTANCE OF CORPORATE GOVERNANCE PRACTICES:****1.Trust and Transparency**

Transparent financial reporting practices will provide a clear understanding of the company's financial statements and their performance for the shareholders to make investment decisions. With effective communication and transparency, the company can build trust among its investors, creditors, and other shareholders.

**2.Financial stability**

With the help of governance practices, companies will able to identify risks and the measures to mitigate them by disclosing information on market fluctuations, interest rate changes, and other project-related uncertainties.

**3.Capital allocation**

Through capital allocation methods guidelines given by governance, the company will be able to utilize its financial resources in lined with the strategic goals of the organization.

**4.Voting Rights and Participation**

The voting rights and governance procedures protect the rights of the shareholders giving them the ability to vote and take part in important decisions of the organization.

**5.Ethical business conduct**

When operated within the framework of governance, the code of conduct set by the governance will set the standard and expectations for the moral behaviour of the staff.

**6.Strategic Planning processes**

By making sure that strategic planning procedures are created and followed, governance practices help organizations make decisions that are align with their long-term objectives.

## 7.Environmental , Social and Governance (ESG) integration

Companies are encouraged to incorporate ESG practices in its long-term planning that help the company to meet social expectations.

## 8.Government and Environmental Partnerships

A stakeholders engagement involves collaborations and partnerships with environmental groups and authorities that show the company's commitment to society development.

### **FINDINGS:**

- Companies that have followed corporate governance practices have a strong reputation in the sector. Areas like ethical conduct,community engagement, and transparency in financial reporting contributed positively to building trust in the company.
- Companies that have effective risk management practices are more likely to contribute to financial stability. It also helped them manage their finances during economic downturns.
- Following effective social responsibility practices makes it more appealing to investors to make their investment.
- Effective strategic management practices are contributing more to the success of companies as they align with long-term goals and adapt themselves to changes in the market.
- Real estate companies with independent boards contribute to effective decision-making, enhanced accountability, and a positive impact on the company's performance.
- Engaging local communities brings social and economic development to the communities, represents the companies as responsible companies, and enhances their reputation and public trust in them.

### **CONCLUSION:**

This research paper is intrigued by the relationship between corporate governance and real estate companies. It recognised the role that governance regulations play in shaping industry as well as their impact on society. The findings of the study touched upon areas like risk management, stakeholder engagement, financial performance, etc. The robust governance structures are enhancing transparency, accountability, and investor confidence within the real estate companies. The integration of ESG with corporate governance became the central theme in real estate monitoring because it aligned with societal expectations and the well-being of communities. By enhancing corporate governance practices, real estate becomes a catalyst for changes in society. Because of corporate governance practices, real estate has played a central role in building the environment and contributing to the prosperity of societies. With the evolution of real estate companies , corporate governance practices will be paramount in ensuring that real estate is resilient and responsible for the global economy. Real estate companies are now urging that corporate governance is not a static concept. It will evolve in tandem with industry dynamics and societal expectations.

## References

- Alamsyah, F., M., Yulianti, &, & Y. ( (2022).). he effect of good corporate governance on the financial performance of property and real estate sub-sector companies listed on the Indonesia Stock Exchange. . *Asian Management and Business Review*, , 90-102.
- Bauer, R., Eichholtz, P., & Kok, N. (2010). Corporate governance and performance: The REIT effect. 1-29.
- Brenni, P. A. ( (2014).). Corporate governance and Capital structure decisions of UK listed real estate companies., . *Corporate Governance*, 42-54.
- Chan, C, M., Watson, J., Woodliff, &, & D. ((2014)). Corporate governance quality and CSR disclosures. *Journal of business ethics*,, 59-73.
- Chau, K., McKinnell, K., Wong, S., Wei, Q, Newell, &, & G. ((2010).). Impact of corporate governance structures on the relationship between direct and indirect real estate in China. *Journal of real Estate portfolio management*, . 9-19.
- Feng, Y, Hassan, A, Elamer, &, & A., A. (2020). Corporate governance, ownership structure and capital structure: evidence from Chinese real estate listed companies. *International Journal of Accounting & Information Management*, 759-783.
- Hartzell, J. C., Kallberg, G, J., Liu, &, & H, C. (2008). The role of corporate governance in initial public offerings: evidence from real estate investment trusts. . *The Journal of Law and Economics*,, 539-562.
- Kamarulzaman, & F. ( (2017).). . The Role Of Corporate Governance And Its Impact On Risk And Firm Performance Of Real Estate Industry: Pavilion Reit.
- Koutoupis, A. G. ((2022)). . INTERNAL AUDIT AND CORPORATE GOVERNANCE IMPACT AT THE REAL ESTATE INDUSTRY IN GREECE AND THE UK. *Aktual'ni Problemy Ekonomiky= Actual Problems in Economics*, , 38-65.
- Mohamad, & W. ( (2017)). The role of corporate governance and its impact on risk and firm performance of real estate industry: Amanahraya Reit.
- Mohamed, W. S., Elewa, &, & M., M. ((2016).). The impact of corporate governance on stock price and trade volume. *International Journal of Accounting and Financial Reporting*,, 27-44.
- Morri, G., Anconetani, R, Pistritto, &, & L. ((2023)). do they impact on operating performance and valuation of real estate firms?. *Journal of Property Investment & FinanceCorporate*

- Muslih, M, Sirait, D. S., Simanjuntak, &, & F, D. (2020). The effect of financing decisions and investment decisions on the performance of property companies, real estate, & building construction registered in Indonesia Stock Exchange moderated by corporate governance and risk management. *south east asia journal of contemporary business*.
- Sing, F, T., Sirmans, &, & F, C. ( (2008)). Does real estate ownership matter in corporate governance? *Journal of property research*, , 23-43.
- Tao, B, N., Hutchinson, &, & M. ((2013).). Corporate governance and risk management: The role of risk management and compensation committees. . , *Journal of Contemporary Accounting & Economics*,, 83-99.

