Corporate Governance and Firm Performance in India

Abstract

In this dissertation, we combine the two predominantly used theories in corporate governance, agency and resource dependency theory, to study the association between board characteristics and firm performance. Using a sample of listed top Indian firms, which form a part of BSE 200 index for the period 2002 to 2012, we find that no single theory fully explains the relationship. First, we study the recession period and explore whether the board characteristics are related to firm performance taking into consideration the endogeneity of relationship between corporate governance, capital structure and firm performance using simultaneous system of equations. We find that board score, comprising various board parameters, had a positive and significant effect on firm performance during the recession and the recovery period.

Secondly, given the prevalence of family run businesses in India, we investigate the impact of family firms on the relationship between firm performance and board characteristics. In family firms, we find a negative effect of board structure on firm performance compared to non-family firms. Family management was not found to significantly effect firm performance compared to professionally managed firms. Higher proportion of family ownership and family representative directors did not show any significant impact on the firm performance. Having a higher proportion of independent directors, larger board size or an independent chairman does not appear to mitigate this negative relationship between family firms and firm performance.

Thirdly, we conduct a sector specific study with a sample of listed IT sector firms. After controlling for firm specific factors, we found that the nonduality has a positive effect on performance only when the chairman is independent. Board size also had a positive and significant relationship with firm performance. However, board independence, board meeting and board attendance was not found to be associated with firm performance.

In summary, this study lends new insights on corporate governance specific to the Indian markets having a majority of family businesses. This study implies that the role of the board of directors is not only to mitigate the agency issues but also to steer the corporations during times of market disruptions like the recession period.

Keywords: Corporate Governance, Board of Directors, Recession, Firm Performance, Agency Theory, Resource Dependency Theory