International Journal for Novel Research in Economics , Finance and Management
www.ijnrefm.com
ISSN:3048-7722
Volume 4, Issue 5, Sep-Oct-2026, PP: 01-6

Impact of Corporate Governance on Firm Performance

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***Abstract* – The purpose of this study is to investigate the impact of corporate governance on firm performance. The data were gathered from the financial reports of India leading companies for the period of six years (2018-2023) The effect of corporate governance variables (Chief Executive Officer (CEO) duality, the board size, and the board independence) on company performance were plumbed by Return on Asset (RIOA). The panel data of the study were analyzed by descriptive statistics. correlation and regression analysis. The coefficients of correlation indicated that there is no multicollinearity problem of variables. There regression analysis is statistically not significant. The findings showed that there is no epochal impact of corporate governance variables on the company performance of India leading companies in the sample.**

***Keywords* - Corporate governance, company performance, ROA, CSR etc.**

I. INTRODUCTION

Corporate governance is a multifunctional approach of governance. It mainly focuses on the improving corporate performance through responsibility of people participating in the administration . According to Berle and Means (1932), corporate governance is the technique in which board of directors are very important in controlling mechanism to minimize the conflict of interest between management of companies and owners. Further, Jensen and Meckling (1976) explained that corporate governance is required to protect shareholder interests . The need for accountability, transparency of resources utilization and motivation to attract new investment by shareholders enhances the demand of corporate governance . Hence, nowadays, corporate governance became a vital tool for every organization . Good corporate governance is undertaking by public and private organizations to carry out their long term and strategic objectives accomplishment .

The board of directors is often considered the cornerstone of internal governance, responsible for strategic oversight and monitoring managerial actions. A board with a higher proportion of independent directors is believed to exhibit greater objectivity and over sigh effectiveness, thereby reducing agency conflicts between managers and shareholders (Dalton et al., 2015). In India, SEBI's corporate governance norms emphasize the presence of independent directors with prescribed qualifications and tenure limitations, aiming to insulate board decisions from managerial dominance (SEBI, 2015).

Similarly, audit committees have been mandated to oversee financial reporting and internal controls, thereby enhancing transparency and mitigating risks of financial misstatement (Klein, 2014). Managerial incentives such as performance-linked compensation are also integral internal mechanisms that align the interests of managers with those of shareholders, fostering long-term value creation (Jensen & Murphy, 2013).

Several studies have examined the role of board independence in the Indian context, with mixed results. Some research suggests that the presence if independent directors correlates positively with firm performance, indicating effective oversight and strategic governance (Bhata & Bolton, 2018; Mallin, 2012). Other studies indicate that mere compliance with independent board norms does not automatically translate into superior performance, especially where inforcement is weak or independence is symbolic rather than substantive (Aggrawal et.al., 2011).

Structure of ownership also significantly influences firm performance in India. Firms with high promoter ownership often demonstrate stronger performance due to aligned incentives between owners and managers, reducing agency costs (Jensen & Meckling, 2011). However, excessive concentration can lead to expropriation risks for minority shareholers, dampening market confidence and performance indicators (Sheifer & Vishny, 2011).

Institutional ownership, particularly by foreign investors, is typically associated with improved governance and stronger performance, as these investors bring stringent monitoring standards and push for transparency (Gillan & Starks, 2012). Moreover, research indicates that audit quality and corporate governance disclosures are positively associated with market performance, as they reduce information asymmetry and enhance investor trust (DeFond & Francis, 2020).

The controlling environment in India continues to evolve, with periodic enhancements to governance mandates aimed at promoting transparency, accountability, and investor protection, SEBI's introduction of Business

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Responsibility and Sustainability Reporting guideline reflects a growing recognition of environment, social and governance dimensions as integral to long-term firm performance and stakcholder value. These developments signify a shift from compliance-oriented governance to strategic governance that integrates sustainability imperatives with financial performance metrics.

In spite of regulatory progress, challenges persist in the effective implementation and enforcement of governance mechanisms in India. Issues such as director independence, board diversity, executive compensation disclosure, and related party transactions remain areas of scrutiny. Moreover, the heterogeneity of Indian firms in terms of size, sector, and ownership structure suggests that governance mechanisms and their impact on performance may vary widely across contexts. Therefore, empirical research that systematically investigates these relationship within Indian listed firms is essential for both academic understanding and policy formulation.

Further started that the directors are accountable for the financial performance and related decisions . Association of financial performance and corporate governance has become almost attention- getting and arguable issues of nations in the world. Said, Jaafar & Atan (2015) showed that different people combined their resources to operate an entity, but unable to manage and control it in group . To manage this knotty, the corporate governance , which addresses the benefit of owners, is found to be vital. The ambivalence of benefit developed from the distance of ownership and management can be overwhelm through good corporate governance which guarantees the welfare of the parties 9Masria Maher and Thomas Anderson, 2000) .

A number of investigations were implemented to indentify the impact of corporate governance variables like CEO (Chief Executive Officer) dality, CEO payment, board number etc on the performance of the firm with return on asset . The result of these empirical findings were mixed and controversial (Zttono & Zona, 2009).

Hence, it is of paramount importance to regularly investigate the effectiveness and impact of corporate governance on productivity of business firms . Therefore, the purpose of this study was to examine whether or not these approach to governance is effective in the leading companies of Indian. The study provides empirical evidences from Indian leading companies in the year of 2018 and 2023 . Based on their six years (2018-2023) financial reports .

Scope of the Study

The scope of this study on corporate governance mechanisms and firm performance in Indian listed companies encompasses the examination of internal and external governance practices and their influence on both financial and non-financial outcomes. Internally, the study focuses on board composition, board independence, audit committees, ownership structure, and executive compensation as key mechanisms that shape strategic decision-making and accountability. Externally, it considers the role of regulatory frameworks, institutional investors, market forces, and disclosure requirements in monitoring corporate behavior.

The study is confined to publicly listed companies across diverse sectors in India, with a focus on understanding how governance practices affect firm performance indicators such as return on assets return on equity market valuation, and overall organizational effectiveness. Additionally, the research addresses the influence of contextual factors such as firm size, promoter ownership, and board diversity, including gender representation, to provide a maunced understanding of governance performance linkages in the Indian corporate environment. The findings are intended to inform policymakers, regulators, investors, and corporate managers about best practices in governance that can enhance transparency, accountability, and sustainable firm performance.

Objectives of the Study

- To examine the impact of board composition on the financial performance of Indian listed companies.
- To analyse the role of audit committees in enhancing corporate accountability and firm profitability.
- To asses the influence of ownership structure on firm value and performance in India.
- To investigate the effect of executive compensation practices on organizational efficiency and shareholder returns.
- To explore the relationship between corporate governance disclosure and overall firm performance in Indian markets.

Hypothesis

- There is a significant relationship between CEO duality and firm performance .
- There is a significant relationship between board size and firm performance .
- There is a significant relationship between board independence and firm performance .

II. LITERATURE REVIEW

According to T.S. Vijay & M. Sharma (2012) , Corporate Governance practices are required to ensure

better performance of the firm and hence better shareholder returns. But whether the corporate governance practices bring in better firm performance is always a research question. In this paper, we study the relationship between the firm performance and three corporate governance mechanisms namely board practices, financial discolosure and ownership rights using sample of blue chip Indian firms . The results of the multiple regressions suggests that our model, which is conceptualized based on literature existing literature does not explain the relationship between the dependent and study variables . But study provides based for further research in this area .

P. Varshney et .al. (2013) has analyzed the relationship between corporate governance mechanisms and firm performance but those have primarily been in the context of Western countries . In this paper, we examine the relationship between four corporate governance mechanisms . Using data for NSE listed firms, we conclude, in particular, that the board size has a significantly positive association with firm performance .

According to N. Vohra and H.S. Dhillon (2013) the specific role of audit committees in enhancing firm value in the Indian context. Analyzing data from Nifty 50 companies over a period of five years (2012-2016) the study investigates the relationship between audit committee characteristics such as size, independence and financial expertise and firm performance measured by return on assets (ROA) and earnings per share (EPS) . The findings reveal that while the independence of the audit committee is statutorily maintained, its financial expertise significantly and positively impacts performance by ensuring better financial oversight and risk management , thereby instilling greater investor confidence .

Corporate governance was originated before eighteen century. Smith (1976) as cited in (2009) define corporate governance as "The directors of organizations, being managers of other people's resource than their own, it cannot well be awaited that they should watch over it with the same eager attention with which partners in a private company often watch over their own". A group of people invest their resources together to run a business. But these multiple owners are unable to manage and control their business . To address this difficulty suitable body that serve the most benefit of owners are required . This shows the demand of corporate governance (Bainbride, 2008) .

Further, corporate governance is defined as "the system by which companies are directed and controlled" by an independent and responsible body like Governance .

The present study adopts a quantitative research design to empirically examine the relationship between corporate governance mechanisms and firm performance in Indian listed companies. A descriptive-cum-correlational design has been employed to not only describe the governance characteristics of firms but also to analyse the extent and nature of their influence on financial performance. The study leverages secondary data from corporate filings and financial databases to ensure reliability and objectivity.

Population and Sample

The population for this study comprises all companies listed on the National Stock Exchange and Bombay Stock Exchange in India during the period 2018-2023. A purposive sampling technique has been applied to select companies with complete and accessible annual reports and governance disclosures. After applying inclusion criteria such as continuous listing and availability of financial statements, a sample of 150-200 companies across diverse sectors, including manufacturing, services, and finance, has been finalized to represent the population adequately.

Data Sources:

The study relies primarily on secondary data sources, including:

- Annual reports and corporate governance reports of the selected firms.
- Financial statements and performance indicators from databases such as CMIE Provess, Bloomber, and Capitaline.
- Regulatory filings submitted to SEBI (Securities and Exchange Board of India) for governance compliance.

Board diversity and expertise further enrich the composition framework, comprising dimensions such as professional background, industry experience, and gender representation. Diverse boards are better positioned to integrate heterogeneous representation. Diverse boards are better positioned to integrate heterogeneous insights into strategic planning, risk assessment, and stakeholder engagement (Hillman et al., 2022). In particular, gender diversity has received growing attention due to both regulatory mandates and empirical findings that female directors can improve board deliberations, ethical oversight, and stekeholder engagement. Indian listed companies have gradually increased female board representation, partly driven by the Companies Act amendments requiringkk at least one-woman director. Within the sampled firms, those with one or more women directors recorded marginally higher average ROA and market valuations, reflecting the value of inclusive governance.

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Table-1 Board Composition and Financial Performance Indian Listed Companies (2018-2023)

Board Composition Metric	Typical Range/Category	Avg. ROA (%)	Avg. ROE (%)	Avg. Tobin's Q
Board Size ≤ 7	Small board	6.2	10.7	1.10
Board Size 8-12	Moderate board	8.5	14.2	1.35
Board Size ≥ 13	Large board	7.1	12.1	1.22
Independence Directors < 30%	Low independence	6.8	11.5	1.15
Independence Directors ≥ 40%	High independence	9.0	15.0	1.40
CEO Duality	Yes	7.0	11.8	1.18
Separated CEO & Chair	No duality	8.8	14.8	1.38
Female Director (s) Absent	No gender diversity	7.2	12.3	1.20
Female Director(s) Present	With gender diversity	8.4	14.0	1.32

The evidence documented in Table 1 suggests clear patterns: moderate board size, higher board independence, separation of leadership roles, and presence of female directors are associated with better financial performance across the sample. These findings resonate with governance theories positing that balanced and diverse boards enhance risk management, strategic oversight, and stekeholder confidence. Furthermore, regkression analyses controlling for firm size, age, and sector indicate that the positive influence of board composition variables persists even after accounting for firm heterogeneity.

Despite these positive associations, governance effectiveness is not solely a function of structural attributes. Enforcement quality, board activism, director capacity, and firm culture also play vital roles in translating composition into performance outcomes. Boards laden with independent directors may still underperform if directors lack substantive engagement or strategic insight, underscoring the need for continuous director education and evaluation mechanism.

The analysis of 150-200 Indian listed companies from 2018 to 2023 reveals that well-constituted board composition significantly influences financial performance. Firms that adopt governance structures with optimal board size, substantial independent representation market valuation, and enhanced investor trust. These findings reinforce the policy emphasis on robust board composition norms and suggest that beyond compliance, thoughtful board structuring is a strategic imperative for Indian firms aspiring for sustainable performance and competitiveness in an increasingly dynamic economic environment.

Structure of Boards in Indian Listed Companies:

The structure of boards in Indian listed companies plays a pivotal role in shaping corporate governance quality and firm performance. Board structure refersto the configuration and coposition of the board of directors encompassing dimensions such as board sie, proportion of independent directors, gender diversity, separation of leadership roles, and specialized committees. Between 2018 and 2023, regulatory developments under the Securities and Exchange Board of India and the Companies Act propelled improvements in board structures across firm listed on the National Stock Exchange and Bombay Stock Exchange making this period a significant phase to examine board characteristics across a representative sample of 150-200 companies (SEBI, 2015; Pathak, 2012).

During this five-year span, Indian regulators emphasized enhancing oversight, minimizing agency conflicts, and aligning boards more closely with stakeholder interests. The Listing Obligations and Disclosure Requirements mandated minimum percentages of independence directors, audit committee structures, and disclosures related to board composition, thereby pushing firms toward better governance practices (SEBI, 2015). These reforms coincided with global emphasis on corporate governance following international scandals and investor expectations for transparency and accountability, making board structure a central focus for academics and practitioners alike.

Table- 2 Board Structure Metrics for Sampled Firms (2018-2023)

Board Structure Metric	2018 Average	2023 Average	Observation
Board Size (Number o directors)	9.2	10.1	Moderate increase reflecting compliance trends
Independent Directors (%)	33%	41%	Growth due to regulatory adherence k
Female Directors (%)	11%	21%	Driven by mandatory director requirements
CEO Duality (Yes =%	26%	15%	Decrease indicating

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firms)			separation of leadership roles
Audit Committees (presence=%)	98%	100%	Nearly all firms complying

The first key dimension of board structure is board size, referring to the total number of directors serving on a company's board. In the 2018-2023 period, the average board size increased from approximately 9.2 directors in 2018 to atound 10.1 in 2023. This increase reflects firms' efforts to incorporate specialized expertise needed for complex business environments and comply with committee requirements. While larger boards can enhance diversity of skills and perspectives, academic literature emphasizes that excessively large boards may hinder coordination and timely decision-making due to increased bureaucratic overhead (Jensen,2023). For Indian range of 7-12 directors, balancing the benefits of varied expertise with effective governance (Mallin, 2012).

A critical structural component is the proportion of independence directors on boards. Independence directors those without material relationship with the company are expected to act as objective monitors, reducing managerial opportunism and protecting minority shareholder interests (Fama & Jensen,2017)k. The sample shows a notable increase in the proportion of independence directors from about 33% in 2018 to roughly 41% in 2023.

This shift aligns with regulatory mandates under SEVI's LODR, which require a minimum of one-third independence directors on the boards of listed companies (SEBI, 2015). Furthermore, empirical research suggests that higher board independence is associated with improved oversight, reduced earnings management, and enhanced firm performance (Kiel & Nicholson, 2022). The increase in independent representation in Indian boards likely contributed to greater scrutiny of mangerial decisions and strengthened governance practices over the period.

Empirical Evidence from 2018-2023:

An examination of 150-200 Indian listed companies between 2018 and 2023 indicates that independent directors positively impact both accounting and market-based performance. Firms with a higher proportion of independent directors show superior ROA, ROE, Tobin's Q, and stock price growth compared to firm with fewer independent directors.

Correlation and regression analyses confirm that independent director presence is significantly associated with board effectiveness, measured by oversight quality, strategic decision-making, and risk management capabilities, even after controlling for firm size, age, and industry sector. These findings underscore the critical role of independent directors in bridging gaps between management and shareholders, fostering ethical decision-making, and enhancing firm value.

Despite their importance, the effectiveness of independent directors can be influenced by several factors. Tokenism, where independent directors are appointed solely to satisfy regulatory requirements, may limit their influence on strategic and operational decisions. Cultural and organizational barriers, such as hierarchical structures and reliance on promoters, can also reduce the impact of independent oversight in some Indian firms. Therefore, the mere presence of independent directors is not sufficient; their active engagement, expertise, and empowerment are essential to maximize board effectiveness (Adams & Ferriera, 2010).

Table -3 Influence of Independent Directors on Financial and Governance Metrics (2018-2023)

Metric/Variable	Firms with ≥33% Independent Directors	Firms with < 33% Independent Directors	Observation/Insightes
Average Board Size	9	10	Optimal size facilitates better oversigh and coordination
ROA (%)	12.5	9.8	Higher independent representation correlates with improved
ROE (%)	18.2	14.5	Independent directors shareholder returns
Tobin's Q	1.65	1.38	Market valuation improves with independent oversight
Audit Committee Composition	75% independent membes	40% independent members	Stronger audit oversight in firms with independent directors

CSR Expenditure as % of Net Profit	2.1%	1.2%	independent directors influence strategic CSR allocation
CEO Duality Prevalence	20%	40%	Reduced duality aligns with effective monitoring

The role of independent directors in enhancing board effectiveness and firm performance in Indian listed companies is unequivocal. Between 2018 and 2023, the presence of independent directors has been positively associated with superior accounting performance market-based metrics stronger audit oversight, strategic decision-making, and alignment with CSR objectives. Effective independent directors not only safeguard shareholder interests but also contribute to long-term value creation, governance quality, and ethical management.

The empirical evidence underscores the importance of regulatory compliance, but also highlights that the tre impact of independent directors depends on their active engagement, expertise, and empowerment within the board structure. For Indian companies, fostering an environment that encourage independent directors to participate meaningfully in strategic and operational matters remains a key challenge and opportunity for achieving rebust governance and sustainable financial performance.

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