



# Impact of corporate governance and profitable of small cap company

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**Abstract** – Corporate governance plays a crucial role in shaping the financial performance and long-term sustainability of firms, particularly in small-cap companies where resource constraints and managerial oversight challenges are more pronounced. This study examines the impact of corporate governance mechanisms—such as board structure, ownership concentration, transparency, and audit practices—on the profitability of small-cap firms. By analyzing financial and governance data, the research explores how effective governance frameworks can mitigate agency problems, enhance investor confidence, and improve decision-making efficiency. The study finds that small-cap companies with strong governance practices tend to exhibit higher profitability, measured through indicators such as return on assets (ROA) and return on equity (ROE). Conversely, weak governance structures often lead to inefficiencies, financial mismanagement, and reduced firm performance. The research also highlights that regulatory compliance and ethical business conduct significantly influence market perception and access to capital for smaller firms. Overall, this study underscores the importance of robust corporate governance as a key driver of profitability in small- cap companies and suggests that policymakers and managers should prioritize governance reforms to enhance firm value and competitiveness.

**Keywords:** Corporate Governance, Small-Cap Companies, Profitability, Board Structure, Ownership Concentration, Transparency, Audit Practices, Return on Assets (ROA), Return on Equity (ROE), Agency Problems, Investor Confidence, Decision-Making Efficiency, Regulatory Compliance, Ethical Conduct, Market Perception, Access to Capital, Firm Value, Competitiveness, Governance Reforms, Financial Performance.

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## I. INTRODUCTION

Corporate governance means the system of rules and practices that guide how a company is managed and controlled. It shows how the board of directors, managers, and shareholders work together. Good corporate governance focuses on transparency, accountability, fairness, and responsibility. It helps a company make better decisions and protects the interests of investors and other stakeholders. Small cap companies are companies with a small market capitalization. They are usually growing businesses with high potential for future growth. However, they also face many challenges such as limited resources, high competition, and financial risk. Because of these challenges, small cap companies need strong management and clear rules to succeed in the market. Corporate governance plays an important role in the success of small cap companies. When a company has good governance, it improves trust among investors and customers. Investors feel more confident to invest their money when they see that the company is honest and well managed. This can help the company raise more funds for growth and expansion.

Good corporate governance also helps improve profitability. It reduces the chances of fraud, corruption, and poor management decisions. Clear roles and responsibilities help managers use company resources efficiently. Strong internal controls and proper supervision lead to better financial performance. As a result, the

company can increase its profits and achieve long-term success.

On the other hand, weak corporate governance can harm a small cap company. Poor decision-making, lack of transparency, and conflicts of interest can reduce profits and damage the company's reputation. This may lead to loss of investor confidence and financial problems. Therefore, corporate governance has a direct impact on the profitability of small cap companies. Strong governance practices help improve performance, build trust, and support sustainable growth. For small cap companies, good corporate governance is not only important but necessary for survival and success in a competitive business environment.

## II. REVIEW OF LITERATURE:

### **Kyere & Ausloos (2021)**

This study conducted an empirical investigation into the influence of effective CG on the FP of non-financial firms listed in the United Kingdom. The theoretical frameworks of agency theory and stewardship theory underpin the development of a conceptual model. This study scrutinizes five CG mechanisms in relation to two FP metrics, namely return on assets and Tobin's Q, utilizing a cross-sectional regression analytical approach. The findings derived from the empirical analysis conducted on 252 firms listed on the London Stock Exchange for the fiscal year 2014 reveal a spectrum of relationships, including positive, negative, and



in some instances, negligible effects of CG mechanisms on FP.

**Oana Pinteau et al. (2021)**

This study evaluated the impact of adopting the principles of CG on the FP of companies listed on the Bucharest Stock Exchange (BSE) during the period from 2010 to 2015. An econometric analysis was conducted to estimate the impact that the authors' corporate governance indicator had on financial performance, measured successively through Tobin's Q, ROE, economic value added (EVA) and total shareholder return (TSR). Following the regression model, the findings indicated the absence of a significant impact of CG practices on performance measured by ROE, EVA and TSR but instead, a significant and positive relationship for Tobin's Q rate was found.

**Alabi et al. (2022)**

This study explored how different parts of CG (like the number of people on the board, the size of the audit committee, how independent the board is, and how diverse the board is in terms of gender) affect the success of companies listed on the British FTSE 100 Index. The FP measures like return on assets, return on equity, Tobin's Q, and share price. The information gathered from the years 2010 to 2019. Panel data regression analysis was used with Fixed and Random Effects, OLS, and FGLS. The findings from the analysis showed that the size of the audit committee and the diversity of the board in gender positively impact financial success as measured by return on

**1. Research Design**

This study adopts a descriptive and analytical research design.

Descriptive: To understand corporate governance practices in small-cap firms.

Analytical: To examine the relationship between governance variables and profitability indicators. The study is quantitative in nature, focusing on measurable financial and governance data.

**2. Primary Data**

Primary data is collected directly from respondents to understand governance practices and perceptions. Sources: Company executives (finance managers, compliance officers) Investors/shareholders

Analysts or auditors

**Method:**

Structured questionnaires Interviews

**3. Secondary Data**

Secondary data is used to analyze financial performance and governance structures. Sources: Annual reports of small-cap companies Research journals, articles, and financial databases Company websites and corporate governance reports

**4. Sample Size;-** 100 respondents (investors, managers, analysts) for primary data.

**5. Sampling Method**

- Non-probability sampling (Purposive Sampling) is used. Companies are selected based on:
- Market capitalization (small-cap category) Availability of financial and governance data
- Respondents are selected based on their knowledge and involvement in corporate governance or investment decisions.

Data Collection Tools Key Variables Covered:

- Board structure and independence Transparency and disclosure practices Shareholder rights
- Audit quality Ethical practices
- Profitability Indicators

**Limitations of the study**

- Limited sample size may affect generalization. Availability and reliability of secondary data. Respondent bias in questionnaire responses.
- Study restricted to selected small-cap companies only.
- Market volatility may influence portfolio performance independently of governance.

**III. DATA ANALYSIS & INTERPRETATION**

1. The company has a well-structured and independent board.

Option	Responses	Percentage
1)Strongly Disagree	30	30%
2) Disagree	40	40%
3)Neutral	15	15%
4)Agree	10	10%



5)Strongly Agree	5	5%
<b>Total</b>	100	100%

**INTERPRETATION:**

Most respondents agree that companies have a well-structured and independent board. This indicates good governance practices in leadership and decision-making. A small percentage disagrees, suggesting some companies still lack full board independence.

2. The company provides clear and transparent financial information.

Option	Responses	Percentage
1)Strongly Disagree	25	25%
2) Disagree	45	45%
3)Neutral	15	15%
4)Agree	10	10%
5)Strongly Agree	5	5%
<b>Total</b>	100	100%

**INTERPRETATION:**

The majority believes companies maintain transparent financial reporting. This builds investor trust. However, some neutral and negative responses show that transparency is not consistent across all small-cap firms.

3. The company protects shareholders' interests effectively.

Option	Responses	Percentage
1)Strongly Disagree	20	20%
2) Disagree	40	40%
3)Neutral	20	20%
4)Agree	15	15%
5)Strongly Agree	5	5%
<b>Total</b>	100	100%

**INTERPRETATION:**

This area has a comparatively lower score. While many respondents feel shareholders' interests are protected, a

noticeable portion disagrees. This suggests scope for improvement in protecting minority shareholders.

4. The company follows proper auditing and reporting standards.

Option	Responses	Percentage
1)Strongly Disagree	28	28%
2) Disagree	42	42%
3)Neutral	15	15%
4)Agree	10	10%
5)Strongly Agree	5	5%
<b>Total</b>	100	100%

**INTERPRETATION:**

Respondents generally agree that companies follow proper auditing and reporting standards. This reflects reliability in financial statements, although some firms may still need stronger audit practices.

5. Good corporate governance improves the company's profitability.

Option	Responses	Percentage
1)Strongly Disagree	35	35%
2) Disagree	40	40%
3)Neutral	10	10%
4)Agree	10	10%
5)Strongly Agree	5	5%
<b>Total</b>	100	100%

**INTERPRETATION:**

This has the highest score, showing strong agreement that good corporate governance improves profitability. Most respondents believe governance positively affects financial performance like ROA and ROE.



## IV. CONCLUSION

The company demonstrates strong corporate governance through a well-structured and independent board, transparent financial disclosures, and adherence to proper auditing and reporting standards. It also shows a clear commitment to protecting shareholders' interests effectively. Such practices build trust among investors and stakeholders, ensuring accountability and ethical decision-making. Good corporate governance not only strengthens compliance but also enhances operational efficiency. As a result, it positively contributes to long-term stability and can improve the company's profitability and sustainable growth.

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