“A Study of Value Relevance of Corporate Governance and its Impact”.

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Abstract

**Introduction**: In the present age of stiff competition across the globe, organizational effectiveness is dependent on how well they are utilizing the available resources. Corporate governance helps not only in Effective utilization of human resource but also in directing and controlling the organization. Though the corporate governance is known as a mechanism or system, by which companies are directed and controlled. In other words effective corporate governance may result in efficient operation and effective performance of the Organizations. Corporate Governance makes it very clear what are the rights and responsibilities of different stakeholders, participants, employees in the Corporation. It helps in providing effective structure which set and pursue their objectives. Another important aspect of the governance which is largely seen in the corporate is the nature and extent of accountability monitored. This research paper has discussed the value of the corporate governance in the corporate efficiency and effectiveness and also impact on Executive Compensation.

**Purpose:** The main aim of this paper is to examine the value relevance of corporate governance in organizational effectiveness and also to study its impact on overall Performance.

**Methodology:** Primary as well as secondary data will be used for this paper. Primary Data will be collected using a structured self-administered questionnaire. Using convenient sampling 50 full time executives were chosen as the study respondents. Secondary data has also been used in this research from Journals, Magazines, Research Papers, Reports, Magazine, Newspapers, websites etc.

**Practical Implications**: This study will contribute knowledge about Corporate Governance and its value in the organizational efficiency and development. This will also share the knowledge about the impact of corporate governance on having effective executive compensation practices in the organizations for better control, supervision and performance as well.

**Key Words:** PGC and BPR, Corporate Governance, Stakeholders, Corporations, CEOs, Quality Standards, Regulators, [CLERP 9](http://en.wikipedia.org/wiki/CLERP_9)

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**Introduction:**

Corporate governance refers to the system by which corporations are directed and controlled. The governance pattern in any organization and corporate house refers to the system of rights and responsibilities among different participants in the corporation. These participants can be Member of Board of directors, Senior Executives, Shareholders, Creditors and other Stakeholders. The Governance Structure clarify and specifies the rules and procedures for making decisions in corporate matters. In other words the Corporate Governance is a mechanism which help corporations to set and pursue their aims and objectives.

In the last decade the world has experienced collapses of high-profile companies and corporations. Some of the scandals include U.S., these include [Enron Corporation](http://en.wikipedia.org/wiki/Enron_Corporation) and [MCI Inc.](http://en.wikipedia.org/wiki/MCI_Inc.) (formerly WorldCom). Their demise is associated with the [U.S. federal government](http://en.wikipedia.org/wiki/U.S._federal_government) passing the [Sarbanes-Oxley Act](http://en.wikipedia.org/wiki/Sarbanes-Oxley_Act) in 2002, intending to restore public confidence in corporate governance. Comparable failures in Australia are associated with the eventual passage of the [CLERP 9](http://en.wikipedia.org/wiki/CLERP_9) reforms. Similar corporate failures in other countries stimulated increased regulatory interest (e.g., [Parmalat](http://en.wikipedia.org/wiki/Parmalat) in Italy). (Source: )

The corporate governance practices have experienced paradigm shifts in its designing and implementation. With the passage of time and situations in the corporate world the professionals and research have developed different models of corporate governance across the globe. For example the Anglo-American "model" has attempted to emphasize the interests of shareholders. The coordinated or [Multi-stakeholders Model](http://en.wikipedia.org/wiki/Multistakeholder_Model) associated with Continental Europe and Japan also recognizes the interests of workers, managers, suppliers, customers, and the community. A related distinction is between market-orientated and network-orientated models of corporate governance. Some of the world famous model of corporate governance include the Continental Europe in Germany and Netherland, SEBI Committee on Corporate Governance in India. In United States, corporations are directly governed by state laws, while the exchange (offering and trading) of securities in corporations (including shares) is governed by federal legislation.

**Objective**

The main objective of this Research Study is to examine the value relevance of corporate governance in organizational effectiveness and also to study its impact on overall Performance.

**Research Methodology**

**Data Collection:**

In Research studies two methods are used for data collection i.e. Primary and Secondary. The Primary data are those which are collected afresh and for the first time are happen to be original in character. The Secondary data on the other hand, are those which already been collected by someone else and which have already been passed through the statistical process**.( Source: Kothari CR, Research Methodology”, Wishwa Prakashan, 2nd Edition, pp-117)**

The present study involves the data collection and data analysis of 50 firms in Delhi Region during the period of last six months i.e.(March to August, 2013). The Researchers have tried individual models to test the Hypothesis. Research Team has conveniently selected 50 companies for this research to have primary data in the form of their opinion and views on value relevance of corporate governance and its impact on on the organizational performance. Secondary data has also been used in this research from Journals, Magazines, Research Papers, Reports, Magazine, Newspapers, websites etc. Data collected from various sources was tabulated, processed, analyses and interpreted to achieve the objectives of the study.

**Literature Review**

Though large number of Research work has been done at international level. Some of the literature review pertains to value relevance of corporate governance and also indicates their impact on the organizational performance are referred as under:-

Shleifer and Vishny, 1997 have emphasised that Corporate Governance provides a framework to ensure suppliers of corporate finance to achieve a return on their investment. Agrawal and Chadha, 2005, Beasley 1996, avidson et al., 2005, Klein 2002, Vafeas, 2005 have indicated that the Board of directors and Audit Committee are two important internal corporate Governance mechanism established tomonitor managers’ behaviour and ensure the reliability of financial reporting. Fama 1980; Fama and Jensen 1983 based on their studies have found that the probability of earnings management is lower in companies with an independent board or an effective audit committee. In order to align agents’ incentives with interests of principals, diverse governance

mechanisms are built into the agency contracts.

Hanrahan et al., 2004 opined that the Corporations Act enforces continuous reporting obligations on

companies that are disclosing entities, listed companies and some unlisted public companies with

more than 100 shareholders, when certain material events take place regarding the company’s

operations or financial position. The Corporations Act is not only concerned with the disclosure of information, but also with ensuring (as much as possible) the quality of the information If regulation is effective and enhanced corporate disclosure decreases the information asymmetry between managers and shareholders, then earnings quality should improve.

Davidson et al., 2005 has viewed that the composition of a board plays a crucial role in corporate governance mechanisms. The board must ensure the integrity of the corporation’s accounting and financial reporting systems. These systems include monitoring risk, financial control, and compliance with regulations. According to the New York Stock Exchange (NYSE) Corporate Accountability and Listing Standards Committee (2002), an effective board of directors should ensure the validity of the accounting choices made by management and the financial consequences of such decisions.

**Hypothesis**

Hypothesis is a principal instrument in Research and it simply means a assumption or some supposition to be proved or disapproved. The following hypotheses were framed to achieve the objective of this Research Study:-

H1: That Corporate Governance has positive value relevance in the organization.

H2: That Corporate Governance practices has negative impact on overall performance of the

Employees.

**Research Questions:**

Research Questions are the questions or queries formulated tuned to Hypotheses framed keeping in view of objective of the Study. Following questions have been designed to be asked from the respondents:-

Q.1 Do you agree that Corporate Governance has relevancy with value achievement in the Company? Agree Uncertain Disagree

Q.2 Do you agree that corporate Governance practices affect the employees performance positively? Agree Uncertain Disagree

Q.3 Do you agree that corporate Governance practices affect the employees performance negatively? Agree Uncertain Disagree

Q.4 Do you agree that Corporate Governance Practices improve the organizational effectiveness?

Agree Uncertain Disagree

Q.5 Do you agree that there is a positive association between executive directors’ share ownership and earnings management? Agree Uncertain Disagree

Q.6 Do you agree that Corporate Governance helps AuditCommittee Effectiveness and Earnings Management? Agree Uncertain Disagree

Q.7 Do you agree that corporate Governance practices have negative impact on overall performance of employees? Agree Uncertain Disagree

Q.8 Do you agree that corporate Governance practices have negative impact on overall performance of Organization? Agree Uncertain Disagree

**Data Analysis and Interpretation:**

The collected data was tabulated, edited and interpreted, which is as under:-

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| --- | --- | --- | --- |
| **Question No.** | **Agree** | **Uncertain** | **Disagree** |
| Q.No.1 | 45 | - | 05 |
| Q.2 | 43 | 03 | 04 |
| Q.3 | 00 | 02 | 48 |
| Q.4 | 44 | 02 | 04 |
| Q.5 | 42 | 04 | 04 |
| Q.6 | 40 | 08 | 02 |
| Q.7 | 20 | 02 | 28 |
| Q.8 | 00 | 00 | 50 |

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| Q.1 | Do you agree that Corporate Governance has relevancy with value achievement in the Company? | |
|  |  | Response |
|  | **Agree** | 45 |
|  | **Uncertain** | 0 |
|  | **Disagree** | 5 |
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| Q.2 | Do you agree that corporate Governance practices effect the employees performance positively? | |
|  |  | Response |
|  | **Agree** | 43 |
|  | **Uncertain** | 3 |
|  | **Disagree** | 4 |
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| Q.3 | Do you agree that corporate Governance practices effect the employees performance negatively? | |
|  |  | Response |
|  | **Agree** | 0 |
|  | **Uncertain** | 2 |
|  | **Disagree** | 48 |
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| Q.4 | Do you agree that Corporate Governance Practices improve the organizational effectiveness? | |
|  |  | Response |
|  | **Agree** | 44 |
|  | **Uncertain** | 2 |
|  | **Disagree** | 4 |
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| Q.5 | Do you agree that there is a positive association between executive directors’ share ownership and earnings management? | |
|  |  | Response |
|  | **Agree** | 42 |
|  | **Uncertain** | 4 |
|  | **Disagree** | 4 |
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| Q.6 | Do you agree that Corporate Governance helps AuditCommittee Effectiveness and Earnings Management? | |
|  |  | Response |
|  | **Agree** | 40 |
|  | **Uncertain** | 8 |
|  | **Disagree** | 2 |
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| Q.7 | Do you agree that corporate Governance practices have negative impact on overall performance of employees? | |
|  |  | Response |
|  | **Agree** | 20 |
|  | **Uncertain** | 2 |
|  | **Disagree** | 28 |
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| Q.8 | Do you agree that corporate Governance practices have negative impact on overall performance of Organization? | |
|  |  | Response |
|  | **Agree** | 0 |
|  | **Uncertain** | 0 |
|  | **Disagree** | 50 |
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|  | Hypothesis |  |

**Hypothesis Testing:**

**H1: That Corporate Governance has positive value relevance in the organization.**

Hypothesis one that corporate governance has positive value relevance in the organization was tested with the responses received from the sample. As 90 per cent of the respondents have viewed that Corporate Governance has positive value relevance in the organization hence it is **ACCEPTED.**

**H2: That Corporate Governance practices has negative impact on overall performance of employees**

In response to Second Hypothesis that Corporate Governance practice has negative impact on overall performance of the employees 40 per cent of the respondents have responded that corporate governance has negative impact on overall performance of the employees while 4 per cent were uncertain and 56% of the respondents have disagree that corporate governance practices has negative impact on the performance of employees. Hence this Hypothesis is **REJECTED.**

**Recommendations:**

If the Corporate Governance Practices are regularized in right spirit then it can play corrective action in accomplishing the organizational goals. The Corporate Governance practice should help the board of directors with legal authority to take strict action i.e. hire and fire and compensate the management and also safeguards invested capital. The Board of Directors should have regular meetings to discuss potential problems to be identified.

The Companies through corporate governance should pay attention to internal control procedures and internal auditors so that policies are implemented in its right spirit by Board of Directors, Audit Committee to achieve its objectives.

Corporate Governance practices should focus on reliable financial reporting, operating efficiency, and compliance with laws and regulations.

The Corporate Governance Practices should not only concentrate on the strict compliance of various policies but also give due weight-age for motivation of stakeholders which include employees. Company should implement motivational schemes such as performance based remuneration, cash or non-cash payments and other benefits.

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