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IMPACT OF CORPORATE GOVERNANCE DISCLOSURES ON THE FINANCIAL PERFORMANCE OF PUBLIC DEPOSITS ACCEPTING HOUSING FINANCE COMPANIES IN INDIA

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Abstract

It is standard worldwide that good Corporate Governance disclosure is essential for the effective and efficient management of any organization. Non-Banking Financial Institutions such as Housing Finance Companies (HFCs) are no exceptions, and there has been increasing demand for transparency in the functioning of these HFCs. This research is an attempt to examine the connection between the corporate governance disclosures and financial performance by providing rankings to the selected HFCs in India, which are transparent in their disclosure of information for the benefit of the stakeholders. The empirical analysis was performed on top five public deposits accepting Housing Finance Companies such as CANFINHOMES Ltd, HDFCLTD, LICHFL Ltd, and GICHFL, REPCOHOMES Ltd, which are registered under the National Housing Bank and listed on the National Stock Exchange between the periods 2012-2021. A corporate governance score (CG score) was calculated on parameters such as SEBI Act Clause 49 Listing Agreement. The corporate governance score for the following HFCs are considered as independent variables while Return on assets(ROA), Return on equity (ROE)are considered as dependent variables to measure the financial performance. The firm size of these HFCs were considered as controllable variable. Kendall's coefficient ranking method was considered to arrive at the rankings, Fixed Effect Regression Model Analysis was performed to study the relationship. The major findings were that HDFCLTD stood first in the list for following the clause 49 regulations in disclosure of information. Secondly it was noted that there was no significant relationship existing between corporate governance disclosure and Return on Assets, while it was noted that there is insignificant relationship between Return on Equity and corporate governance disclosures. The results also indicate that there lies positive and significant relationship between firm size and Return on Assets. To conclude, the impact of corporate governance on the financial performance may vary from one industry to another.

JEL Classification:-G34, L25

Keywords-: Corporate Governance Disclosure, Clause 49 of the Companies Act, Housing Finance Companies (HFC), National Housing Bank (NHB), Reserve Bank of India (RBI).

Background

Corporate Governance since its inception was considered crucial for enhancing the long-term value of stakeholders in the business environment. It was also very prominent in the development and functioning of economies and employs a strong influence on resource allocation, which impacts the performance of firms. Corporate governance has attracted research worldwide in recent decades (Mandal& Al-ahdal, 2018). Well established and better performing companies are being impacted due to lack of effective corporate governance. The economic welfare of a nation is the

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reflection of the performance of their companies. According to OECD (2004) "Principles of Corporate Governance identifies that an effective corporate governance system can lower the cost of capital and encourage firms to efficiently use resources by supporting growth". Good corporate governance disclosure is a preferred feature of a relaxed market that ensures foreign and domestic capital flow for enhanced economic development. This is because it upsurges investor confidence and goodwill, safeguards transparency, fairness, responsibility and accountability. The implication of the corporate governance disclosure has ascended because of the increasing involvement of the noncompliance of financial reporting standards and accountability by board of directors and management of corporate inflicting heavy losses to the investors. Financial performance in a larger sense refers to the degree of the financial objectives being accomplished in the case of finance risk management Yameen, M, et al (2019). So, it determines the results of a firm's policies and operations in monetary terms. Most importantly good corporate governance will appeal to more investors to invest in a company because it focuses on the ways to better protect their investments.

2. Literature review

In India, Corporate governance ideas began after the second half of 1996 very much due to economic liberalization and deregulation of industries and businesses. As a controller of the Securities and Exchange Board of India (SEBI) had set out to seek equity capital for financial expansion. That gave scope in bringing reforms into corporate governance and based on which many initiatives have been unveiled in India. Corporate governance need evolved due to partition of management from the ownership and that of their firm's financial performance. A firm need to emphasize on their economic and social aspect of their business. So, it must be fair-minded with producers, shareholders, customers etc. The performance of the firm can be reviewed from their financial statements which are prepared by the company. Basically the accomplishment of the firm is measured through their financial performance which is analyzed through different tools and techniques. These indicators brings out the performance of the company and reveals the earning aspect of their company. Good number of studies have been carried out on different aspects of corporate governance and its influence on the financial performance for instance, Shikha Mittal Srivastava and Anjala Kalsie 2018 examined the study of corporate governance mechanisms and firm performance with empirical indication of panel data from 178 non-financial Enlisted companies covering a period of 8 yrs. Multiple regression analysis was performed using pooled ordinary least square regression and panel data regression models – fixed effect model and random effect model. The outcomes of the study found that the impact of board size and board composition on the firm performance measures through Tobin's Q and ROE was negative. The board independence is positively and significantly related to firm performance measures. The findings revealed that ownership strength has a positive and significant impact on firm performance.

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Ararat et al., (2017) had analyzed the practices that is being followed by Turkish public firms on corporate governance between 2006 to 2012, it was based on hand-collected data covering the vast majority of listed firms. Through which they were able to build a Turkey Corporate Governance Index (TCGI), formed of sub-indices like the board structure, the board procedure, their disclosure pattern, ownership, and the shareholder rights. The study discovered that most firm- specific factors have little impact on firms' governance choices.

Shafie Mohamed et al.,(2016) concentrated on practices that is being followed on corporate governance between top 100 public listed companies in Bursa Malaysia between 2008 to 2012, and the association between corporate governance practices with firm performance was focused. The outcome showed that board size has significantly inadequate no relationship with ROA but it was noticed to be insignificant to ROE. The other finding indicated that there was no connection between board independence and firm performance.

Arora& Sharma (2016) discovered through his study that return on equity and profitability is not related to corporate governance indicators. The authors had suggest that CEO dualism is not related to firm performance measures.

Kalsie and Shrivastav (2016) analyzed the data of 145 non-financial NSE-listed companies for a period of 5 years from 2008 to 2012 to analyze the impact of board size on firm performance using fixed effect, random effect and feasible generalized least square panel regression. Firm performance has been measured using ROA, return on capital employed (ROCE), Tobin's Q and Market to Book Value Ratio (MBVR). The results established that board size has a positive and significant impact on firm performance

Using fixed effect within and least square dummy variable, random effect and feasible generalized least square model, Shrivastav and Kalsie (2015) examined the impact of CEO duality on the financial performance of non-financial listed companies in India for 5 years. The findings found that CEO duality has a negative effect on firm performance supporting the agency theory of corporate governance, Tobin's Q and ROE was used to measure the firm’s financial performance.

In another paper, Shrivastav and Kalsie (2015) found that board composition has a negative and insignificant impact on firm performance measures, Tobin's Q, ROA, ROCE and ROE using pooled ordinary least square (OLS) and random effect model (REM) for a similar set of organizations.

Aggarwal, (2013) has examined the impact of corporate governance on corporate financial performance from Indian context, using a sample of 20 companies listed on S&P CNX Nifty 50 Index. Various tests like – regression, correlation, t-test and F-test have been implemented using secondary data for over a period of two years from FY 2010-11 to FY 2011-12 to study this linkage. The researcher discovered that governance ratings have positive and substantial impact on corporate financial performance.

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Nidhi Bansal & Anil K. Sharma (2016) analyzed the role of audit committee characteristics in addition with other components of corporate governance on improving firm performance. There searchers found a substantial positive association between the board size and CEO-Chairman dual role with reference to the firms performance. However, findings did not disclose any additional effect of audit committee independence and its meeting regularity on the financial performance of Indian firms.

Examining the association between corporate governance and performance for firms listed in National Stock Exchange of India (Nifty 500), Shivani, Jain and Yadav (2017) observed that with larger boards, committees of such board are negatively associated to ROA and Return on Equity (ROE), while, the presence of non-executive directors and whistleblower policy hada positive impact.

Sarkar, Jayati(2012) have made an analysis for 500 large listed companies for the period between 2003-2008; they considered four important corporate governance mechanisms for calculating corporate governance index. Through the index,it was noticed that companies with better corporate governance disclosures and structures gained substantially and higher rates of returns.

Another study taken up by Subramanian (2006) had identified discrepancies in disclosure patterns of financial information and governance attributes. A sample of 90 companies from BSE 100 index, NSE Nifty had been considered. The data was gathered from the annual reports of the companies for the financial year 2003-04 and with respect to disclosure, a score had been developed. The study followed Standard & Poor's "Transparency and Disclosure Survey Questionnaire" while accumulating the data. The study finally concluded that "There were no differences in disclosure pattern of public/private sector companies with reference to their financial transparency and information as far as was concerned."

Similarly, K.C. Gupta (2006) recognized the differences in Corporate Governance practices of few local companies' from the automobile industry. The data with respect to governance practices had been extracted from the annual report of the companies for the year 2004-05. The study "did not notice any significant variations of actual governance practices from Clause 49."

Jayati Sarkar, Subrata Sarkar (2010) have developed a Corporate Governance Index for 500 large listed firms in India between the periods 2003 to 2008. The research analysis shows that good governance practices are rewarded by the market, which offers an added incentive for companies to carry out governance reforms.

ArijitSen, (2011) had established the extent to which Indian listed companies disclose their corporate governance. It was concluded that there is a substantial scope for improvement in the corporate governance disclosure practices and the size of the company which was considered has a significant factor of disclosures.

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Objectives of the Study:

The general objective of the study was to investigate implications of Corporate Governance on financial performance with references to listed Housing finance companies by

1. First providing a rank based on corporate governance disclosure Index (CGDI) to the selected HFC's followed by

2. Finding out the correlation between corporate governance disclosure score and the financial performance of the selected HFC's.

3. Data and Methodology:

The Major Five Housing Finance Companies listed in the National Stock Exchange under the equity segment and are very active as of March 2021 were considered as a sample for the study. The study period considered was for ten years from 2011-12 to 2020-21

Sample Selection: A Non-probability (purposive) sampling procedure was followed. With all the selected Housing Finance Companies listed in NSE. The criteria used for selection was Deposit-Taking Companies.

Table 1. List of housing finance companies

S no	Name of the housing finance company
1	Can Find Homes Ltd
2	Housing Development Finance Corporation Ltd
3	Repco Home Finance Ltd
4	Life Insurance Corporation Housing Finance Ltd
5	General Insurance Corporation Housing Finance Ltd

Data: The corporate governance details were obtained from the annual reports. The subject matter of the annual reports were analyzed using the content analysis technique an unweighted approach was employed for the study. As per the unweighted disclosure approach, a firm is scored 1 for disclosing an item in the annual report and 0 if it does not disclose. According to Dr.S.Gayatri (2015), the net score of a company was arrived by adding all the individual scores of various sub-dimensions. The maximum score a housing finance company can obtain would be 100 in case all the items were disclosed.

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A corporate governance disclosure index (CGDI) was calculated using the following formula, which was followed by Bhuiyan and Biswasiv (2007), Dr.Laila(2014) in their research paper.

Corporate Governance Disclosure Score is calculated by an aggregate of all the corporate disclosure parameters followed by respective companies

CGDI=CGDS of the respective Company/ Maximum Possible Score*100

In this paper the maximum possible score is 100 refer Annexure 1

The value of CGDI ranges between 0 and 100. The maximum score reflects best disclosure practices followed by the company, and the minimum score reflects weak practices. CGDI indicates the disclosure or reflection of an item in their annual report.

Statistical tools

Kendall's coefficient of concordance was used to determine the degree of association among several (k) sets of ranking of N objects or individuals when there was a perfect agreement, than w =1.When maximum disagreement exists, w = 0. The ranks of the five HFCs over the period ten years were taken and tested for concordance.

Kendall’s coefficient w =12S/(m^2(n^3-n)-mt

HYPOTHESIS

1. Null Hypothesis: There is no significant impact in the ranking of the sample HFCs over the five years.

2. Alternate Hypothesis: There is substantial impact in the ranking of the sample HFCs over the five years.

3.1 PART-1

Results:

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Table No 2- Kendall's Coefficient on Ranking the Five Banks.

Years	CAN	HDFC	LIC	GIC	Repco
Rank 11-12	1	1	2	4	5
Rank 12-13	1	1	2	4	3
Rank 13-14	2	1	1	3	4
Rank 14-15	2	1	2	4	5
Rank 15-16	2	1	2	4	5
Rank 16-17	2	1	2	4	5
Rank 17-18	3	1	2	5	4
Rank 18-19	2	1	3	5	4
Rank 19-20	2	1	3	5	4
Rank 20-21	2	1	3	5	4
sum of ranks	19	10	21	43	43
S=∑(Ri-Rbar)2	361	100	441	1849	1849

Kendalls coefficient w =12S/(m^2(n^3-n)-mt

(In the above formula n represents number of housing finance companies and m represents number of years and s represents sum of squared deviations S=∑(Ri-Rbar)2)

W value=**0.6279** .chi-square =31.4, DF=4(n-1), P value=**0.000008**.

From Table 2,it is easily analyzed that p-value 0.000008which when compared is less than 5% of the significance level, so the null hypothesis was overruled, and alternate hypothesis was acknowledged. There is a substantial agreement in the ranking over the ten years as the five-set of rankings are independent. The lowest value reflected among the sum of ranks corresponds to HDFC LTD has complied all the information in their annual reports which is very informatics to their stakeholders, followed is Canfinhomes Ltd,and LICHFL Ltd stood third in corporate governance disclosures.

PART-II

3.2 CORPORATE GOVERNANCE VARIABLES

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ROA is used to measure the operating performance of the firms (Mishra and Kapil, 2017, Akbar et al., 2016; Chauhan et al., 2016; had calculated ROA by taking EBIT to the book value of total assets). ROA explains how efficiently management has used their assets to get better results.

ROE is the measure of financial performance. The existing authors has used ROE as one of the key performance variables (Arora and Sharma, 2016; Chahal and Kumari, 2013; Hart and Ahuja, 1996; Ehikioya, 2009 ;). It is calculated as the ratio of net income by shareholder funds. ROE concentrates on shareholders' returns. A high ROE company can raise more capital internally.

3.2.1 FIRM SIZE is controllable variable.

Corporate governance (CG) scores was computed taking note of corporate governance disclosure practices. The corporate governance score is handpicked from the data compiled from annual reports of the respective companies. The CG scores are assigned based on Clause 49 of the listing agreement.

In India, all the listed companies are required to comply with the Clause 49 listing agreements of SEBI with effect from 1 st January 2006. As per Clause 49, the corporate governance index score is derived based on seven subcomponents like: Board of Directors, Board Committee, Subsidiary Companies, Disclosures, Communication, CEO/CFO Certification, Report on Corporate Governance, and Compliance as described by SEBI.

Table -3 Description of Variables

Particulars	Variables	Formula
Dependent variable	ROA	Net income/total assets
Dependent variable	ROE	Net income/shareholders’ equity
Independent variable	Corporate Governance Score	Corporate Governance Score
Control variable	Firm size	Log of Total Assets

3.3. Econometric Model

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The main advantage of the Fixed Effect Model (FEM) is that it uses within-group variations overtime, and never considers the across-group variation since it may reflect the omitted variable bias.

Further, the study has to account for various control variables that may affect the left-hand side of the equations. The pertinent control variables are considered based on the existing literature. Thus, the following econometric models are proposed for empirical testing.

ROA it = α + β1CGscorei,t + βx firm sizei,t + μi . . . . . . (1)

ROEi,t = α + β1CGscorei,t + βx firm size it + μi . . . . . (2)

Hypothesis

3. To analyze corporate governance has any impact on firm's operating performance (ROA) H_{1}.

4. To analyze corporate governance has any impact on firm’s financial performance of the firm (ROE) H_{2}.

Table No 4- Impact of corporate governance on ROA-Fixed Effect Regression Model

Dependent Variable: ROA

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	11.637[a]	6	1.940	21.796	.000	.753
Intercept	.000	1	.000	.001	.973	.000
CGDS	.004	1	.004	.043	.836	.001
Size of the firm	.333	1	.333	3.738	.060	.080
HFCs_Id	10.206	4	2.551	28.673	.000	.727
Error	3.826	43	.089			
Total	171.295	50				
Corrected Total	15.463	49				

a. R Squared = .753 (Adjusted R Squared = .718

Table No 4 is based on the previous literature, the ROA was used as a proxy for measuring the operating performance (Ehikioya, 2009; Chahal and Kumari, 2013; Chauhan et al., 2016; Arora and Sharma, 2016 and Mishra and Kapil, 2017, Sudershan Kuntluru 2019). It was hypothesized that CG score has a positive impact on ROA. The improved corporate governance disclosures generate better transparency in firm's operations. It also suggests the effective utilization of the assets by management. Good corporate governance effects in better revenue generation and

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in reducing the cost. From the existing literature, Ehikioya (2009) have discovered that there is positive and significant association between corporate governance variable and ROA in the Nigerian context. In the case of India, Chahal and Kumari, (2013), Arora and Sharma (2016) and Chauhan et al (2016) through their research outcomes had reported that corporate governance has a positive influence on the performance. In the present study, the investigational results indicate that corporate governance disclosures score (.836) has positive but does not have a significant impact at 10% significant level on the operating performance of the firms. Hence, the hypothesis (H3) is not confirmed. The control variable size of the firm (0.06) has a positive and significant connection with ROA.

Table No-5 Impact of Corporate Governance on ROE - Fixed Effect Regression Model

Dependent Variable: ROE

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	158.980[a]	6	26.497	2.666	.027	.271
Intercept	2.852	1	2.852	.287	.595	.007
CG SCORE	1.052	1	1.052	.106	.747	.002
FIRM SIZE	15.806	1	15.806	1.590	.214	.036
HFCs	68.584	4	17.146	1.725	.162	.138
Error	427.370	43	9.939			
Total	13770.307	50				
Corrected Total	586.350	49				

a. R Squared = .271 (Adjusted R Squared = .169)

From Table 5, it is certainly examining the impact of corporate governance disclosures on the financial performance of the firms. Based on extant literature, the ROE is used as a substitute for measuring financial performance. It is hypothesized the CG score has a positive impact on ROE. The pragmatic results indicate that the CG score is positive but not statistically significant at (.747) one percent level. This result implies that corporate governance disclosures has a positive impact but not significant on ROE. This finding may be specific to India, which requires further investigation. However, the results align with some existing literature (like Ehikioya, 2009 and Arora and Sharma, 2016). Thus, based on the empirical results, the hypothesis (H4) is not proved. Among the control variables, the size of the firm shows a positive and insignificant impact on ROE (.214) at a ten percent level.

4. Conclusion

The present study was an effort to examine whether corporate governance disclosure practices has any influence on firm performance in India. Unlike most of the existing studies, the corporate governance score (CG score) is calculated based on Clause 49 of listing agreements of SEBI for a period between 2012-2021. In India, compliance to Clause 49 of SEBI is made compulsory since 2006. CG scores data is handpicked based on the disclosures made under corporate governance section of annual reports of Housing Finance Companies. The firm performance was measured taking two alternative ways that is operating and financial performance based on Return on Equity and Return on Assets respectively. The empirical results indicate that CG score has a positive but does not have considerable impact on firm performance. The results advocates that companies complying with regulatory requirements can expect to achieve higher performance. Alternatively, it implies that good corporate governance practices lead to diminished regulator's scrutiny. The results also indicate that CG disclosures have adverse and significant impact on financial performance. This observation may be specific to India which needs further investigation based on the structure and composition of the corporate boards. These findings have implications for policy makers, researchers, managers, analysts and investors in general and those in emerging markets in particular.

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Appendix 1:

CLAUSE 49 OF LISTING AGREEMENT

S no	Disclosure	Score
1	Board of Directors	30
A	Board composition	8
B	Non –executive Directors compensation	4
C	Other provisions to Board	14
D	Code of conduct	4
2	Audit Committee	15
A	Qualified & Independent Audit Committee	3
B	Meeting of Audit Committee	2
C	Powers of Audit Committee	3
D	Role of Audit Committee	3
E	Review of Information by Audit Committee	4
3	Subsidiary Companies	10
4	Disclosures	35
a	Basis of related party transactions	10
b	Board Disclosures	4
c	Public issues, rights issues, Preferential issues.	4
d	Remuneration of Directors	4

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e	Management	9
f	Shareholders	4
5	CEO/CFO Certification	3
6	Report on Corporate Governance	3
7	Compliance by auditors	4
	Total score	100

Source: Securities Exchange Board of India (SEBI), India.