

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE: AN INVESTIGATION OF RELATIONSHIP

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ABSTRACT

Since there are inconsistencies and lack of uniformity in the corporate governance literature to support the persistence of significant relationship between corporate governance and financial performance we have conducted this study to further investigate the relationship between corporate governance and financial performance. To study the relationship between corporate governance and financial performance, we have measured them separately in two parts to find out the answer to our basic research question – “Is there any positive significant relationship between Corporate Governance and Financial Performance. In the first part of our research work, we have measured the status of the corporate governance of selected 200 companies for a period of 13 years i.e.1999-2000 to 2012-2013 by using CG-Index developed by us on the basis of compliance to clause 49 of listing agreements. In the second part of our research work, we have measured the status of the financial performance of selected 200 companies with help of widely used financial performance indicators viz. Tobin’s Q (measure of firm value), ROE & ROA(measures of investment returns) and Z-Score (measure of financial distress). In order to study the degree or strength of relationship that may exist between the indicators of corporate governance (independent variables) and financial performance indicators (dependent variables) we have done the analysis and interpretation our data with the help of correlation analysis. The research finding says that there is statistically no significant relationship between corporate governance and financial performance.

KEY WORDS: Corporate Governance, Financial Performance, Clause 49, Firm Value, Investment Returns, Financial Distress, Tobin’s Q, ROE, ROA, and Altman Z score.
