

IMPACT OF CORPORATE GOVERNANCE PRACTICES ON EARNING PER SHARE IN MANUFACTURING SECTOR

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ABSTRACT

The Indian government has enacted a framework for the corporate governance for the services and manufacturing companies. SEBI has guidelines for the investors and it ensures that companies need to maintain all the best practices. Accounting standards is an autonomous body that helps in financial management Agreement of standard listing could be implemented by the corporate sector for bringing improvement in organisational practices. Corporate governance is a platform for companies that are helpful for administering effective corporate practices. In order to ensure maximisation of profit there is a need of effective corporate governance practices.

This paper studies the impact of good corporate governance practices on performance of firm in form of Earning per Share. The sources used for collecting data include books, magazines, journals, periodicals, publications and annual report of companies.

Key Words: Corporate Governance, Earning per Share

INTRODUCTION

Effective corporate governance can be enabled by corporate firms by improving performance and attracting capital. These aspects can be helpful for the corporate governance to win the confidence of investors. Practices of corporate governance can be conducted by self-regulation. Globalisation and liberalisation are two essential business practices that could be maintained and sustained by improvement in governance practices. Good governance principles include following an ethical business code of conducts.

An investor needs to challenge prevalence attitude towards the corporate governance and initiate the establishment of a positive image in the society. Globalisation has completed an Indian manufacturing company applies to follow stand business practices. Guidelines of the international stock exchange can be followed for the creation of a hierarchical

system (Grosman *et al.* 2015). Capital market can recognise companies with high market value. Well-managed code of conducts by the corporate sector can be helpful for getting an advantage in the globalised world. As suggested by Anisul *et al.* (2014), transparency in the corporate sector helps in understanding the truth. The context of corporate governance can be easily understood by applying adequate, timely and accurate disclosure of crucial information.

Transparency can be considered as the foundation of corporate governance. Transparency can further be improved by the publishing of relevant information in the newspaper. There is a certain code of conducts by SEBI. The code of conducts includes an optimum combination of non-executives and executive directors (Silva *et al.* 2017). Independent directors are the basis of

corporate governance. Corporate governance board generally consists of both independent and dependent directors. Corporate governance generally deals with procedures, rules and laws and it can be said that corporate governance is highly influenced by the functioning of the existing political system.

As recommended by Eteokleous *et al.* (2016), corporate governance reforms in the present scenario are highly recommended for the corporate sector. Management system transparency can be enhanced by the implementation of the financial institution.

Rapidly growing Indian economy is attracting major foreign investment, and it gets important for corporate leaders to improve competitive advantage. Board of directors are the key to effective corporate governance and there is a need for professionally-acclaimed and excellent executives and non-executive directors for bringing improvement in corporate leadership strategy. In order to secure better functioning of the non-executive directors, the company can consider the option of reward. Rewarding for the successful achievement could play very significant role in motivating stakeholder of the business organisation (Eteokleous *et al.* 2016). The corporate board need to report the key issues to the higher authority. The key issues include a plan of annual operation, and also updated long-term plan. Overhead charges, manpower and capital budgets are also included in corporate governance aspect. Internal auditing is a sensitive aspect of the corporate sector and internal audit oversee thefts of resources. A serious or fatal accident can be prevented by exposure to external sources of the company.

LITERATURE REVIEW

Gupta and Sharma (2014) investigated that a strong relationship between the board of directors and firm performance with the help of the shareholders. Moreover, it was found

that the proportion of the non-executive directors has a marginal negative relationship with the firm performance value. In this regards, it has been analysed that non-executive director is not significantly related to the performance of the firm. Moreover, it is seen that the non-executive director is unaware of the firm performance. Though the corporate governance might seize the board independence yet it creates better opportunities for the performance of the firm. Moreover, in some studies, it has been seen that the firm performance is not affected by board independence or non-executive director rather it depends on the internal policy of the company.

Sanda et. al (2011) studied on 89 Nigerian firm listed in Nigerian Stock Exchange. The result analysed a strong positive relationship between independent board of directors and firm's performance. The results are in consistent with **Nyamongo, E.M. & Temesgen K. (2013)** that board independent proud to have the strongest influence over the strategies.

O'Connell, V. & Cramer, N (2010) who also found that higher proportion of outside directors have a positive impact on firm performance.

Brethdot; S, et. al (2012) who conducted a study on a sample of 355 observations from 199 Canadian listed companies. In this study partial least square analysis were used. The result suggested that there is a negative relationship between percentage of independent directors in the board and firm's net book value or income.

Cramer (2010) et. al. They analysed in their study that board size have significant relationship with the performance of the firm.

Guest M. Paul (2009) studied 2746 firms listed in U.K. The study examined that board

size has a strong negative impact on profitability, Tobin Q and share returns.

Chaug L.C. Meador and Kumar A.S. (2010) have investigated the relationship between the financial performance and corporate governance for Indian firms. Alternative hypothesis regarding board structure and financial performance were found. It was also found that large board size enhanced the financial performance by creating better opportunities and more resources. **Lu. W. et. al. (2012)** studied the effects of corporate governance on airline performance and explored the relationship between operating performance and corporate governance in 30 airlines companies operating in U.S. The efficiency of the airlines was evaluated from the application of two-stage Data Envelopment Analysis. The results of the analysis showed that board size has the significant positive relations to performance of the firms.

OBJECTIVES OF THE STUDY

1. To analyse the impact of Corporate Governance Practices on Earning per Share in manufacturing sector.

COLLECTION OF DATA

The present study is completely based on secondary data. The study period for analyzing the corporate governance practices and firms performance in manufacturing and service sector firm is selected firm the year 2007 to 2016. The governance data was collected from the annual reports and corporate governance reports of the companies and performance related data was collected with the help of PROWESS data base.

TECHNIQUES USED FOR ANALYSIS THE DATA

For analyzing the data the descriptive statistics, Anova analysis and regression

model was used for meeting the objective of the study.

$$EPS = C + \Omega BS_t + \Omega BM_t + \Omega BI_t + \Omega CEO_t + \Omega CSR_t + E_t$$

Where

- C = Constant or Intercept of multiple regression equation.
- Ω = OHM sign, Coefficient of explanatory variable.
- E_t = Error term or Residuals
- BS_t = Board size at time t.
- BM_t = Board meeting at time t.
- BI_t = Board Independence at time t.
- $CEO_{Duality}_t$ = CEO duality at time t.
- CSR_t = Corporate Social responsibility at time t.
- EPS = Earning per share at time t.

Descriptive Statistics

The descriptive statistical analysis of variables (dependent and independent variables) are presented here in the context of data collected from manufacturing sector firms in the form of minimum, maximum mean and standard deviation. Independent variables are: Board Size, Frequency of Meeting Board Independence, CSR and Duality of CEO. Dependent variable is: Earning Per Share.

Table 1: Descriptive Statistics of Corporate governance practices and Earning per Share in Manufacturing Sector Firms

	N	Minimum	Maximum	Mean	Std. Deviation
Earnings Per Share	300	-356.600	160.000	3.30361	4.5170400
Board Size	300	11.000	35.000	2.10000	4.983585
Frequency of Meeting	300	.000	117.000	2.98233	16.139198
Board Independence	300	4.000	64.000	1.60500	1.610818
CSR	300	.000	43.730	.89503	4.214114
Duality of CEO	300	1.000	2.000	1.83333	0.373301

These data make evident that in the case of manufacturing sector firms, the mean value and standard deviation value is high of Board Size and Frequency of Meeting, signifying that these two practices of corporate governance are highly resulting and effective for firms in manufacturing sector. Furthermore, the above data make evident that in the case of manufacturing sector firms, the mean value and standard deviation value is high of Earnings per Share.

Correlation and Regression Analysis

To analysing the relationship between Independent variables i.e. corporate governance practices and firms performance in

manufacturing sector as well as to examined the Impact of Independent

Variables on Dependent variables correlation and Regression analysis was used

IMPACT OF CORPORATE GOVERNANCE PRACTICES (INDEPENDENT VARIABLES) ON EARNING PER SHARE

To analysis the impact of corporate governance practices (Independent variables) on Earning per Share, the multiple Regression model was used.

The correlation and Regression analysis are representing from the following table.

Table 2: Correlation Analysis between Corporate Governance Practices and Earning Per Share

Earnings per share - Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.200 ^a	.040	.024	44.631328

a. Predictors: (Constant), Duality of CEO, Board Size, CSR , Frequency of Meeting, Board Independence

b. Dependent Variable: Earnings per share

Interpretation

In the case of Dependent Variable as Earnings per Share, the Model Summary makes it clear that Adjusted R square is 0.024. It means that

there is a 2.4 % of the impact of the independent variable (Corporate Governance) on the dependent variable (Earnings per Share).

Table 3: ANOVA Analysis of Corporate Governance Practices and Earning Per Share

Earnings per share - ANOVA ^a						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24434.256	5	4886.851	2.453	.034 ^b
2	Residual	585634.903	294	1991.955		
3	Total	610069.159	299			

- a. Dependent Variable: Earnings per share
- b. Predictors: (Constant), Duality of CEO, Board Size, CSR, Frequency of Meeting, Board Independence

Interpretation

The ANOVA table of Regression Analysis, its analyzed that the value of F test is 2.453 with

P value is 0.034. It is less than the significant level 0.05. Hence corporate governance practices significantly affect the earning per share.

Table 4: Coefficients Analysis of Corporate Governance Practices with Earning Per Share

: Earnings per share - Coefficientsa						
	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-21.646	20.760		-1.043	.298
2	Board Size	.432	.555	.048	.779	.437
3	Frequency of Board Meeting	.240	.168	.086	1.428	.154***
4	Board Independence	.588	.269	.138	2.185	.030*
5	CSR	.582	.616	.054	.944	.346
6	Duality of CEO	15.546	7.171	.128	2.168	.031*

* Significant at 5%

** Significant at 10%

*** Significant at 15%

- a. Dependent Variable: Earnings per share

Table 5: Earnings per share - Casewise Diagnosticsa

Case Number	Std. Residual	Earnings per share	Predicted Value	Residual
240	-8.687	-356.600	31.12004	-387.720036
270	-3.701	-134.620	30.54013	-165.160134

- a. Dependent Variable: Earnings per share

Interpretation

The Table shows that the unstandardized (corporate governance practices) coefficients demonstrate that how much the dependent variable (Firms Performance i.e .Earning Per Share of Manufacturing sector) changes with an independent variable when all other unexplaintory variables are less affected.

- The unstandardized coefficient, B, for Board Size was discovered 0.432 by referring the P estimation of the T-Test, We predict that the t-value between Board Size and .Earning Per Share is 0.779 with P Value $0.437 > 0.15$ signifies that there is no significant impact of board size on Earning Per Share.
- The unstandardized coefficient, B, frequency of Board Meeting was found 0.240 by referring the P estimation of the T-Test, We predict that the t-value between frequency of Board meeting and Earning Per Share is 1.428 with P Value $0.144 < 0.15$ signifies that there is significant impact of frequency of board meeting on Earning Per Share.
- The unstandardized coefficient, B, for Board Independence was discovered 0.588 from the t-test ,We found that the t-value is 2.185 with P Value $0.030 < 0.05$ signifies that there is significant impact of board Independence on. Earning Per Share.
- The unstandardized coefficient, B, for Corporate Social Responsibility was found 0.582 by referring the P estimation of the T-Test, We predict that the t-value between Corporate Social Responsibility and Earning Per Share is 0.944 with P Value $0.346 > 0.15$ signifies that there is no

significant impact of Corporate Social Responsibility on Earning Per Share

- The unstandardized coefficient, B, for Duality of CEO was determined 15.546, by referring the P estimation of the T-Test, We predict that the t-value between Duality of CEO and Earning Per Share is 2.168 with P Value $0.031 < 0.05$ signifies that there is significant impact of Duality of CEO on Earning Per Share.

CONCLUSION

While seeing the impact of corporate governance practices i.e. Independent variables on earning per share its seems that Board Independence and duality of CEO significantly affecting the earning per share at 5% level of significance, frequency of meeting found significant at 15% level, while Board size and corporate social responsibility were found insignificant in affecting the earning per share in manufacturing sector.

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