CORPORATE GOVERNANCE IN INDIA

by

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ABSTRACT

Due to widespread corporate scandals and failures around the world, there has been a renewed interest in the effect of corporate governance on firm performance. The majority of research concerning corporate governance and its effect on firm performance has been undertaken in developed countries and markets, particularly the UK and the US, but relatively little evidence is provided in the Middle East, specifically INDIA. This study investigates the effect of the corporate governance on firm performance of the Indian industrial and services companies during the period in Period 2020 to 2020 and 2021 to 2023. This study primarily employs the agency theory to investigate the relationship between corporate governance and firm performance. The agency theory is concerned with the agency problem between principals and agents (i.e. shareholders and managers, respectively), which undermines value maximization. It has been argued that the board of directors, ownership concentration and managerial ownership are efficient corporate governance mechanisms to solve the agency problem between shareholders and management.

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CHAPTER 1: BACKGROUND

1.1 Introduction

This study aims to investigate the impact of corporate governance on firm performance in INDIA. Corporate governance has been an important research area, which deals with the various governance arrangements used to control the corporation within the objective of maximizing shareholders (owners) wealth. A literature review reveals this importance, and highlights problems with conflict of interest between shareholders and the management. When there are asymmetric information problems and imperfect contractual relations between managers and shareholders, managers have incentives to pursue their own objectives at the expense of shareholders. For example, managers might implement financial and investment strategies or may spend more on luxury projects for their own interests rather than increasing the value of the company. Furthermore, this conflict may result in transfer pricing, whereby assets of the company that they manage are sold to another company that they own below the market value.

Effective corporate governance should fundamentally guarantee shareholders' value by ensuring the appropriate use of firms' resources, enabling access to capital and improving investor confidence This is related both to internal organization and external market conditions; firm's responsiveness to external conditions is largely dependent on the way the firm is managed as well as the efficacy of the firm governance structure (Gregory and Simms, 2024). Some authors have argued that good corporate governance prevents the expropriation of company resources by managers, ensuring better decision making and efficient management. This results in better allocation of company resources and, ultimately, improved performance.

The majority of research concerning corporate governance and its effect on firm performance has been undertaken in developed countries and markets, particularly the UK and the US, but relatively little is known about corporate governance in the Middle East, where different cultural and economic considerations prevail. In recent years, despite the conflict within the Middle East as a whole, considerable progress has been witnessed in the INDIA economy. In the 2020s, significant effort was made by the government of India to attract investors and help the economy of the country integrate with the global economy;for example, capital market were liberalised and structures of corporate governance were reformed (ASE, 2021).Furthermore, three major institutions were established in INDIA to make the regulatory environment more robust, to improve transparency, accountability and disclosure, and to enhance the quality of the corporate governance overall; namely, the Securities Depository Centre (SDC), the Indian Securities Commission (JSC) and the Amman Stock Exchange (ASE).

1.2 Theoretical framework

This study employs the agency theory as the main theory to investigate the relationship between corporate governance and firm performance. The agency theory is concerned with the interests of the shareholders by reducing the agency problem which will lead to increase value maximization. Therefore, agency theory provides a direct link between corporate governance and financial performance. The overarching interest of shareholders is from value maximization. Therefore, with a view to the objective of the thesis to investigate the impact of corporate governance on firm performance, the narrow definition is more relevant since it provides a direct link between corporate governance and financial performance. Both the narrow definition of corporate governance and the agency theory provide theoretical justification for the link between corporate governance and firm performance and allow the testable hypotheses on the different corporate governance mechanisms in terms of improved financial performance.

1.3 Research questions

Liu and Fong (2020) state that one of the most important mechanisms of corporate governance is the board of directors. In many researches, independence is recognized as one of characters of a good board (Fama and Jensen, 2024; Gillan, 2023). Members of the board of directors are representatives of the shareholders and their responsibility is to make sure that managers are working in the best interests of the owners (Liu and Fong, 2020). Corporate governance frameworks should ensure the strategic guidance of company and the effective monitoring of management by the board (OECD, 2021). The board of directors is responsible for monitoring managerial behaviour to reduce the conflict between the shareholders and managers to achieve adequate returns for the shareholders (OECD, 2021). Therefore, the board of directors is accountable for acting in the best interests of shareholders and managers. Accordingly, an effective and independent board is more likely to monitor the top management to align the interests of the shareholders and managers. Thus, if interests are aligned, this will reduce the conflict between managers and the shareholders leading to better firm performance. With the development of the Indian market, and because of the increase in the number of listed companies on the Amman Stock Exchange (ASE), efforts were/are required to enhance the effectiveness of the boards of Indian companies. Clearly, the impact of the board of directors upon the performance of a firm is a salient consideration and so the first research question for this study is to provide an investigation of:

> The impact of the board of directors (namely board size, CEO duality and non-executive directors) on firm performance of the Indian companies.

Jensen and Meckling (2024) argued that the ownership structure of a corporation, especially the role of equity ownership of managers, is a mechanism to align the manager’s interest with that of owners. In developing countries, the ownership is highly concentrated, where the rights of the shareholders is weak due to insufficient regulations or the absence of them within the relevant laws argued that higher ownership concentration could induce the prioritization of self-interest by large shareholders and the consequent expropriation of firm resources (i.e. wealth), resulting in increased conflict and decreased firm performance. However, Shleifer and Vishny (2023) argued that, from the efficient monitoring perspective, large shareholders who hold large proportion of shares have the ability and the incentive to exert control and to compel the management to take action and, as a result, decrease the conflict in order to maximize the owners value and, thereby, improve company performance. In INDIA, it is common that most of the shares are concentrated in the hands of controlling large shareholders (individuals/family shareholders or companies) In this regard, then, the second question for this study to investigate:

> The impact of the concentrated ownership/large shareholders on firm performance.

Moreover, literature on corporate governance has argued that the identity, objective function, nature and behavior of shareholders varies for different types of owners, which might affect firm performance Thomsen and Pedersen; Douma et al., 2023). Different types of investors are characterized by differences in wealth, risk aversion and, correspondingly, in the importance they attach to shareholder value in relation to other objectives. Shareholder interests have impacts on investment decisions and owner preferences (Hill and Jones,2023).Conflicts of interest can arise when owners' economic interests and relations with the firm become misaligned with the fundamental firm objective of value maximization. For instance, dual roles can occur, such as when governments are owners and regulators, or when banks are both owners and lenders (Thomsen and Pedersen, 2020). Consequently, such stakeholders have numerous objectives that can compromise the more basic role of stakeholders as principals. Thus, in addition to the impact of the large shareholder, it is also important to know who this shareholder is (e.g. individual/family, companies or government). In this regard, then, the third question is to investigate:

> The impact of the identity of the shareholder (companies and government) on firm performance.

Finally, it has been argued that foreign investment in emerging markets is special. This is because foreign investors transfer managerial skills and better technology and allow firms to access financial resources easily (Ghazali, 2020; Sulong and Mat Nor, 2021). This might help in reducing the conflict between managers and shareholders and affect firm performance. The liberalization of the Indian market is among the most advanced in the MENA, having been on-going since the (OECD, 2023). Thus, the effects of foreign investment can be uniquely assayed for Indian firms, more than for comparable MENA markets. The Indian market has a notably high proportion of foreign investors; indeed, the Indian capital market has some of the highest foreign investment rates in the world (OECD, 2023). Mohamed and Sidiropoulos (2020) reported that INDIA was in the top three countries in the MENA in terms of attracting foreign investment.

1.4 Significance of the study

The Indian setting is particularly interesting for a number of reasons. Firstly, this study might help us to enhance our understanding of corporate governance in term of agency theory in developing country specifically, in Indian industrial and services companies, and if there any possible improvements that could be made to deal with. Secondly, INDIA is a developing country, thus the findings of this study may benefit many other developing countries with similar political, cultural, environmental and economic conditions, particularly in MENA. Thirdly, following the financial crises around the world and increasing the number of companies listed in ASE from 161 in 2020 to 277 by 2020, the Indian financial sector regulations have been strengthened by issuing different laws and the Corporate Governance Code. Therefore, such reforms might strength the financial environment and affect the firm performance. Fourthly, the liberalisation of the Indian market is among the most advanced in MENA, having been on-going since the mid-2020s. Thus the effects of foreign investment can be uniquely assayed for Indian firms, more than for comparable MENA markets. The Indian market has a notably high proportion of foreign investors; indeed, the Indian capital market has some of the highest foreign investment rates in worldwide (OECD, 2023). Finally, the findings of this study also provide a window into the prevailing situation of corporate governance in INDIA which is of interest to local and international investors, managers and academic researchers considering the roles of corporate governance frameworks.

1.5 Research approach

The theoretical overview aims clarifying what the adopted theoretical model that the agency theory suggests as likely answers to our research questions. The empirical literature on the effects of corporate governance is reviewed to establish the state of knowledge about what has been empirically established with regards to these specific research questions and the plausible explanations for the results. This empirical review helps to better positive the study and is used in several distinct ways. First, the alternative explanations for differing results complement. The theoretical framework in that they provide alternative explanations for possible empirical results with regard to the research questions. These alternative theories are building sketched in the theoretical overview. Second, the empirical studies provide a starting point for conceptualisation of the underlying issues and suggest possible way to measure the different facets of corporate governance mechanisms. These measurement issues are later discussed in details in the empirical chapter. Finally, the empirical review builds upon the theory in providing a preliminary conceptual model for investigating the research questions.

The chapter on the corporate governance in INDIA helps identifying the workings of corporate governance and clarifying the relevance of the research questions. The conceptual issues of the measurement of the corporate governance variables are addressed through a critical review of theory, empirical literature and the Indian experience. The discussion further leads to an empirical model used in the study.

1.6 Thesis outline

The rest of the thesis is structured into seven chapters and organised as follows. Chapter two presents the definition of corporate governance from a narrow and a broad perspective. The chapter reviews the theoretical framework, and it identified that agency theory provides a testable hypothesis that might help in the investigation of the agency conflicts and in the possible solutions to reduce governance problems. The chapter also reviews stewardship theory and resource dependence theory as alternative explanations for corporate governance mechanisms. A review of corporate governance issues in developing countries is then presented and corporate governance models in the West are explored.

Chapter three reviews the theoretical and the empirical literature that studied the effect of internal corporate governance mechanisms on firm performance. There is a large body of finance literature that investigated the impact of corporate governance mechanisms on firm performance; however, confusion still exists over the findings as to whether specific corporate governance mechanisms can maximize shareholder wealth and improve firm performance. This chapter reviews the effect of the Board of Directors (board size, CEO duality, and non-executive directors), and the ownership structure (concentrated ownership/large shareholders, the identity of shareholders ownership - individual/family, companies, government ownership, managerial ownership and foreign ownership) on firm performance.

Chapter four reviews the Indian background in terms of the most important aspects of the Indian economic environment, as well as a review of the development of the industrial and services sector in INDIA (namely telecoms and IT, energy, transport and media and advertising). In addition, there is a review of the most important reforms by the government (JSC, ASE, SDC, disclosure, shareholders rights and the Indian Corporate Governance Code).

Chapter five describes the data used in this study. The data that relates to our research objectives was extracted from two sources: The Osiris database; and manually collected from the Indian companies' annual reports. The sample selection procedure is described and the criteria that have been adopted to construct the sample are explained. The variables are divided into three categories (firm performance, corporate governance variables, and control variables). For each category, the data sources, variables‘construction and measurement are explained.

Chapter six explains the research philosophy, methodology and the specification tests that were used in the study.

Chapter seven comprises two main parts. The first part of the chapter presents a summary of the descriptive statistics of the dependent, independent and the control variables. The second part of the chapter will deal with the main inferences which were drawn from the analysis. The results are presented separately according to the research questions.

Chapter eight presents the conclusions and the recommendations of the thesis. In particular, the chapter focuses on the key findings, research limitations and potential areas for future research.

CHAPTER 2: THEORETICAL FRAMEWORK

2.1 Introduction

This chapter presents the various definitions of corporate governance introduced by different research scholars then reviews the theoretical framework of the study. The agency theory is the main theory used in this study, as the theoretical framework to investigate the effect of corporate governance on firm performance. Finally, literature pertaining to different corporate governance issues in developing countries and models is reviewed.

2.2 Definition of Corporate Governance

It is worth noting that the term corporate governance has become more popular recently from different perspectives such as professional bodies, regulators and academics. Further to this, due to the increasing concern of corporate fraud and fraudulent financial reporting, the concept became popular in both developed and developing economies. There is a considerable debate about the definition of corporate governance among researchers and scholars. In regard to the various definitions, researchers and scholars classify corporate governance definitions in either narrow or broad sense. Narrow definitions are based on satisfying the interests of the shareholders. However, broad definitions extend the previous definitions and are based on satisfying the interest of the stakeholders (i.e., employees, customers, suppliers and government).

The definition fundamentally relates to the epistemological assumptions involved (Gillan, 2023). For example, corporate governance can be viewed from the shareholders‘perspective, which essentially means the principals‘ motivation to maximize their value, or from the organizational perspective, in terms of controlling mechanisms to regulate and maintain business operations (Zingales, 2020). Similarly, Tricker (2021, p.10) writes: ―Governance is different from management; and involves setting the corporate direction, involvement in executive action, supervision and accountability. Thus corporate governance extends beyond the narrow confines of management, and comprise the systemic control, rules and regulations of companies.

According to Shleifer and Vishny (2024) corporate governance ―deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. It is generally impossible for principals in a modern public firm to be charged with responsibility for corporate operations, hence they delegate agents to manage operations in their interests. Naturally in this milieu governance problems such as conflicts of interest occur, particularly if shareholders are disappointed by their return on investment.

Thus, corporate governance issues arise due to the necessity of counteracting agency problems (Hart,2024), and fundamentally from shareholders' attempts to protect themselves from the expropriation of their wealth (Shleifer and Vishny,2023) defined corporate governance as:

> ―The set of mechanisms – both institutional and market based – that induce the self-interested controllers of a company (those that make decisions regarding how the company will be operated) to make decisions that maximize the value of the company to its owners (the suppliers of capital).

This broad definition is based on the organizational context, which is too general. In other words, the broad definition does not provide theoretical frameworks that can establish testable hypotheses or relationships. A widely used framework to conceptualize the relationship between firm performance and organizational structure is agency theory, which was described by Denis and McConnell (2021) in terms of being an expression of property rights in corporate governance by principals; any understanding of firm structure must start with the proviso that shareholders are the principals (i.e. owners) in the organization. This study employed the agency theory as the main theory to investigate the relationship between corporate governance and firm performance. The agency theory deals with the interests of the shareholders with relation to the agency problem and the underlying target of value maximization. On the most basic level, reduced agency problems contribute to increasing share value and thus positive performance. This narrow conceptualization emphasizes the interests of the shareholders, whose overarching interest is value maximization. Therefore, with a view to the objective of the thesis to investigate the impact of corporate governance on firm performance, the narrow definition is more relevant since it provides direct link between corporate governance and financial performance. Both the narrow definition of corporate governance and the agency theory provide theoretical justification for the link between corporate governance and firm performance and allow the testable hypotheses on the different corporate governance mechanisms in terms of improved financial performance.

2.3 Theoretical framework

The agency theory is the primary paradigm used in this study, as the theoretical framework to explore the effect of corporate governance (i.e. the relations between owners and managers) on firm performance. The agency theory deals with the interests of the shareholders by reducing the agency problem which leads to increased value maximization. The overarching interest of shareholders is value maximization.

A key advantage of agency theory is that it reduces the parameters of study to consideration of two parties: the agent and the principal. This renders the perspective of shareholders (i.e. principals) simpler for analysis, as they are primarily motivated by return on investment or firm value. The general view of the agency theory is that conflicts of interest arise in the relationship due to the divergence of managers (assumed rational but opportunistic) from the shareholders interest. The theory provides a powerful theoretical basis and testable hypotheses for explaining the relationships and suggesting solutions for the agency problems between shareholders and managers to mitigate agency conflicts and enhance shareholder returns, resulting in better firm performance (Fama and Jensen).According to literature, the sources of such problems are related, for instance, to managers ‘investment decisions – under investments or over-investments, free cash flow, earning retentions, shirking – that diverge from the positive net present value rule .

The ability of management to devise and implement strategic decision making is key to firm performance, and to motivate managerial personnel their compensation is generally high in terms of remuneration, consistent with the proviso of agency theory that managers are prone to act in their own interests, potentially at the expense of the interests of firms/shareholders, if their objectives are misaligned due to inadequate monitoring, bonding and compensation (Liu and Fong, 2020). In agency theory, corporate governance mechanisms play an important role in ensuring the alignment of the interests of the principal and the agent, thus enriching the firm’s capability to maximize shareholder wealth and thereby improve firm performance.

The ownership structure of firms, particularly in terms of the board of directors, is the main feature mitigating the inherent dichotomy between principals and agents to improve firm performance. Organizational factors affecting firm performance include board size, CEO duality and the presence of non-executive directors (NEDs), as well as mechanisms related to the ownership structure, such as large shareholders or concentrated ownership, the identity of shareholders (individual/family ownership, companies‘ownership and government ownership) and managerial ownership.

Stewardship theory and resource dependence theory provide different explanations for the mechanisms by which the board of director's functions and how it affects firm performance and in some aspects there is overlap between these theories and agency theory. However, in terms of the effect of the ownership structure on firm performance, stewardship and resource dependence theories do not provide any testable hypotheses or explanations. The concept of the alignment of interests between principals and agents forms the crux of the agency theory perspective, which suggests that in order to align the interests of managers with shareholders it is important to create incentives for the managers to increase value maximization. Jensen and Meckling (2024) state that this incentive is expected to motivate agents‘efforts to create total surplus. Hence, aligning the interests between the two parties can resolve the agency problem and achieve the main goal of the shareholders (value maximization).

The following sections discuss these theories and explain corporate governance mechanisms in terms of each theory. The following chapter presents a more comprehensive review of theoretical and empirical literature in order to explain how every corporate governance mechanism might affect the firm performance.

2.3.1 Agency Theory

Large corporations, particularly publicly listed companies, generally have an organizational framework wherein there is a fundamental separation of ownership and control between principals and agents. In the relationship between them, the owners (principals) hire managers (agents) to run the firm in their best interests, compensating the latter for their efforts, generally in pecuniary form (e.g. salary and bonuses) Conflicts of interest can arise in this relationship due to the divergence of the interests of managers and shareholders. The potentially problematic relationship between principals and agents has been conceptualized and explored using the agency theory.

The fundamental premise of agency theory is that conflicts of interest arise in corporate relationships due to the divergence of the interests of managers and shareholders (whereby the agents are assumed to be rational but opportunistic). The core assumptions of agency theory are that: (1) managers may maximize their own utility instead of enhancing shareholder value (2) contracts are not costless when writing and enforcing (3) information is distributed asymmetrically between principals and agents; and (4) the parties have limited or bounded rationality. Consequently, the theory holds that due to the asymmetric information distribution between managers and shareholders, principals cannot correctly measure the efforts of managers who know the details of the operations of the firm (i.e. it is at the expense of the shareholders, although both parties might incur some costs).

Agency costs include monitoring costs, bonding costs and residual losses (Jensen and Meckling,2024). Monitoring costs are the costs incurred by shareholders for monitoring the conduct of managers. Bonding costs are financial or non-financial costs of setting up systems or structures intended to ensure that managers act in the best interests of the shareholders or compensate them accordingly if they do not (Jensen and Meckling, 2024). Residual losses occur due to the mismatch of actions promoting the self-interest of the principal and the agent, despite (i.e. due to the failure of) monitoring and bonding activities. Fama and Jensen (2024) stated that residual loss is in fact the value of profit lost because the contract ‘s full enforcement costs exceed its benefits.

The agency theory views the relationship between shareholders and managers as the classical principal-agent relationship, in which owners hire managers to run the firm in the best interests of the former, while the latter is rewarded for their effort (Jensen and Meckling, 2024; Hart, 2020; Sappington, 2020). The performance or outcome depends on the extent of the agent‘s efforts and the risks involved, but the efforts of the agent are not fully observable to the principal, thus information asymmetry makes it difficult for the principal to measure the efforts made by and to correspondingly compensate the agent, which implies greater reward for the risk-averse agent due to less incentive to make effort (Sappington,2023). In this incentive-risk puzzle inherent in the agency relationship (Hart2024); the relevant issue is how to determine the optimal balance between efficiency and risk-bearing. The principal might thus employ other monitoring schemes in order to control the desired action of the agent and incur monitoring costs to reduce information asymmetry (

The problem of information asymmetry itself is related to adverse selection and moral hazard problems. Principals face adverse selection problem because they cannot correctly verify the skills or abilities the agent claims to possess at the time of contracting (i.e. hiring), thus they might not be able to select the best applicant or to know whether the agent is performing the related duties properly or not (Eisenhardt, 2020). The moral hazard agency problems, first proposed by Jensen and Meckling (2024), arise when managers might not make the required managerial efforts in the best interests of the principal. Since the principal might not know this fully, they need information to monitor the effort level and measure it in order to reward it correctly. According to literature, the sources of such problems are related to numerous factors, such as managers‘ investment decisions (under- or over-investments), free cash flow, earning retentions and shirking that diverge from the positive net present value rule .In practice, both principals and agents face a trade-off between incentives, whereby the agent should be motivated by creating attractive performance-based rewards; and risk sharing, whereby the agent needs to be protected from risk by low performance based incentive. Therefore, agency problem stems from the incentive-risk sharing puzzle (Hart,2024).

Jensen and Meckling (2023) defined the principal-agent relationship and explored the ownership structure of corporation, especially the role of equity ownership of managers as a mechanism to align the manager‘s interest with that of owners. Moreover, Fama and Jensen (2024) described the role of the board of directors in monitoring the potential opportunism of executive managers in large corporations. Thus agency theory is mainly concerned with the institutional arrangements (ownership structure and organisational structures) that affect agency conflicts. This closely relates it to property rights, since the effects of the distribution of property rights are important in analysis of principal-agent relationships.

The salient features of the principal-agent paradigm are that it: (1) suggests explanations and the solutions to the different types of agency problems; and (2) provides both dispute avoidance approach by crafting incentive-alignments and conflict resolution approach of crafting governance mechanisms.

In terms of corporate governance mechanisms of the board of directors (board size, CEO duality and NEDs), agency theory proposes that NEDs play an important role in monitoring and supervising executives, due to the assumption that they are independent and concerned with their own reputations (Fama and Jensen,2023). NEDs can thus add value to firms due to their external knowledge and expertise as well as their monitoring function (Fama, 2020; Fama and Jensen,2024). Similarly, resource dependency theory attributes improved firm performance to NEDs due to their input for decision making (e.g. investment and strategic planning decisions), and their networking value with the external environment and other stakeholders. Thus, both agency theory and resource dependency theory predict a causal, positive relationship between firm performance and the presence of NEDs (i.e. board independence), while stewardship theory conversely holds that insider directors can better monitor management that NEDs due to their enhanced knowledge of firm operations (Baysinger and Hoskinsson,2023). Additionally, stewardship theory holds that the part-time/ceremonial position of NEDs in many cases inhibits their monitoring function and renders their contribution to decision making negligible (Bozec,2023). Thus, in contrast to agency and resource dependency theories, stewardship theory holds that NEDs are likely to affect firm performance negatively.

NEDs can also contribute to increasing the size of the board, which has the advantage of a wider pool of expertise but which contributes to poor decision-making and communication, reflected in the relatively poor performance of larger boards (Lipton and Lorsch,2024; Jensen,2024). As board size increases, the problems of coordination and communication also increase, consequently decreasing the ability of the board to monitor the management and thereby exacerbating the agency problem (Eisenberg et al.,2023). Furthermore, agency theory proposes the separation of the chairman and CEO from the same position because the primary considerations of the former include remunerating the CEO and overseeing the board; thus the combination of these roles in one person can result in increasing agency problems by diluting the effectiveness of monitoring the CEO (Jensen,2023). However, stewardship theory proposes that an effective management is based on the principle of the unity of command, thus it is advisable for the chairman and the CEO to hold the same position according to this perspective. This is because when responsibilities and decisions are restricted to one person, this might facilitates greater understanding and knowledge of the company operations and better decisions which will result in reduce the agency problems and thereby impact the firm performance positively (Dalton and Kesner,2024; Donaldson and Daives,2024).

On the other hand, when considering the ownership structure mechanisms, agency theory posits that incentives for agents are necessary to align their interest with principals (i.e. to encourage managers to prioritise the maximisation of shareholder value). As managerial ownership increases the interests of the shareholders and managers become more aligned, thus the incentive for opportunistic behaviour decreases, thus agency problems decreased (Jensen, 2020; Jensen and Meckling, 2024). Furthermore, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (Vishny and Shliefer, 2024,2024). Conversely, resource dependency and stewardship theories provide no testable hypothesis concerning the ownership structure. Therefore, resource dependency and stewardship theory will be included only where testable hypotheses are pertinent, while agency theory will be employed as the main theory guiding this analysis.

In short, agency theory suggests that due to the separation of ownership and control in modern firms, agents are less likely to always work in the interests of principals. To reduce this divergence of interests, shareholders will have to use internal corporate governance mechanisms to monitor managers and thus induces rational managers to fulfil their function of maximising the value of shareholders, improving firm performance. This latent structural factor must be complemented by deliberate efforts to monitor and control managers, with corporate governance mechanisms that identify any potential problems as well as rewarding positive behaviours and good performance by managers. The resultant costs of residual loss, bonding and monitoring agents (managers) are known as agency costs. Presuming that agency costs ensure that managers do not pursue their self-interest while neglecting shareholders' interests, agency costs reduce the agency problem and contribute to improved firm performance.

2.3.2 Stewardship Theory

Stewardship theory focuses on psychological and sociological methods of oversight, rather than the economic (pecuniary) tools of agency theory. The former holds that organisational members have some form of positive collective identity that engenders trustworthy behaviour (Davis and Donaldson, 2020). Muth and Donaldson (2020) concur in that financial gain is not necessarily the sole driver of managerial behaviour, and in addition managers require some discretion to effectively manage business for shareholders. Consequently, separate ownership is not viewed as a weakness in stewardship theory as cooperative behaviours are held to be the latent/intrinsic behaviour of managers (Davis et al.,2024; Donaldson and Davis, 2020), and they are subject to an array of motives in addition to financial gain (Muth and Donaldson,2024). Fama and Jensen (2024a) observed that inside board member managers are more likely that outside directors in large organisations due to the deep insight into organisational activities enjoyed by the former. Stewardship theory posits that concern for their own reputations and career progression inhibits agents from acting against the interests of shareholders, thus agency costs should be inherently minimised (Donaldson and Davis, 2023). The contribution to firm performance of stewards relates to the context in terms of socio-cultural and psychological factors (Clarke, 2021). For example, managers are considered more likely to perform better with greater empowerment and job satisfaction, which is a psychological factor. Socially, managers (along with most personnel in a successful organisation) typically self-identify as organizational representatives and thus they consider the power accorded them by principals to be a tool to enable the organization and other employees to achieve the organizational goals. In terms of the situational perspective, it is anticipated that managers perform optimally in an environment that is involvement-oriented (i.e. in which accomplishment of tasks, control and thinking are combined in a single process). If the organizational culture has a collectivist orientation, this will obviously have implications on the long-term relationship and loyalty managers have towards the firm (Clarke, 2021). Stewardship theory supports that an insider-dominated board is more effective due to more in-depth knowledge of organizational operations, such as access to data and technical expertise (Muth and Donaldson, 2020). Additionally, CEO-Chairman duality will make leadership and control, particularly regarding decision making and strategy (e.g. investment) more consistent, which is presumed to contribute to greater effectiveness (Donaldson and Davis, 2020).

Because the inside directors have more comprehensive and deep knowledge of daily operations within firms, their decisions are better informed. According to stewardship theory, they are therefore preferable to NEDs due to their more accurate knowledge of firm performance. With fewer inside directors, boards have reduced insight into the company's situation and progress, rendering them reliant on information furnished by the management, with little or no contextual knowledge to make any decisions independent of the recommendations of managers; NEDs suffer from this same lack of knowledge as the board in general. Reduced ability to monitor managers and the making of less informed decisions by boards comprising outsiders means that such boards are unlikely to improve firm performance to the same extent as boards with a larger number of insider directors according to stewardship theory.

2.3.3 Resource Dependence Theory

The perspective of the resource dependence theory is more materialist and less organization-centered. It is primarily concerned with firms ‘access to resources, such as expertise and capital. According to resource dependence theory, structures of corporate governance such as the board of directors affect firms ‘access to resources essential for firm performance (Pfeffer, 1973). Resource dependence theory particularly favors boards with a high composition of NEDs, due to the wider expertise and knowledge they can provide, as well as improved networking with the external environment and a generally improved reputation (Haniffa and Cooke, 2020; Haniffa and Hudaib, 2023). Thus NEDs can facilitate access to the political and business contacts, capital and information (Nicholson and Kiel, 2021), by enhancing networking with external stakeholders, including customers, governments and other companies (e.g. creditors, suppliers and buyers); thus NEDs improve access to resources (Nicholson and Kiel, 2021), which put simply enables cheaper access to inputs and thus positively affects firm performance.

Pfeffer (2023) and Pfeffer and Salancik (2021) argued that the diversity of the board size and the background of the outside directors are very important elements in managing the company needs for any capital in the future or to manage environment contingency. Pearce and Zahra (2024) also assert that diversifying the board will help the company to survive by benefiting from the exchange of company resources and its external environment. In addition, they report that the presence of the outside directors will result in improving the organization efficient strategies by providing the firm with new viewpoints and perspectives, which will ultimately improve the financial performance. Carpenter and Westphal (2020) confirmed on Pearce and Zahra‘s (2024) study by pointing that firms‘ links help them secure their business interests in the event of environmental uncertainty.

In addition, the resource dependence theory clarifies the methods that firms use in order to gain access to financial resources. In terms of solvency problems companies are highly advised to appoint representatives of the financial institutions on their boards (Mizruchi and Stearns, 2020). However, if the firm is in high levels of bank debt, it is likely they will appoint an officer of the creditor bank inside the board to facilitate access to finance. In other words, it is an easier way of access to credit (Thompson and McEwen, 1958).

Moreover, Kaplan and Minton (2023) identified that firms often wish to appoint financial directors on the board if the prices of the stocks or the performance of the company deteriorate. In addition, inside directors are recommended to be replaced with experienced outside directors when the firm performance worsens (Hermalin and Weishbach, 2020). The resource dependence theory uses the external linkages of the board in order to add value to the firm and improve the firm performance .

In conclusion, resource dependence theory holds that the operational environment of the firm is reflected in its board structure (Boyd,2023; Hillman, et al, 2020) which entails that directors are selected according to their ability to facilitate access to required resources. Thus, it should be possible to identify firm dependencies from the board composition; for example, the presence of financiers in the board of directors suggests that firms seek cheap access to capital, from which it can be inferred that they plan large investment or that they are in financial difficulty (Hillman, et al, 2020).

Generally, a board with diverse members with varied links to external resources can be expected to have greater access to such resources, which enhances firm performance and value.

Table 1: Summary of the role of the board of directors

Theory	Role of Board	Implications for board
Agency	Managerial control	Independent boards mechanism for shareholders to retain ownership, control rights and monitor performance
Stewardship	Managerial empowerment	The board controlled by management is empowered and manages
Resource Dependence	Search for external resources	Board with strong external links is aco-optation mechanism for firms to access external resources

2.4 Corporate Governance Issues in Developing Countries

Oman et al. (2021) and Allen (2020) argue that corporate governance in emerging markets has lately attracted much attention due to the weaknesses of corporate governance in developing countries, which was an important reason for a series of economic crises that affected these countries. Emerging markets tend to have quite well-developed physical financial infrastructure including central banks, commercial banks and stock exchanges, but to have less well-developed processes and systems of accounting, governance, regulation and other financial infrastructure, and less efficient markets with less liquidity than the world's most advanced systems. These differences lead to greater uncertainty and risk, and they enhance the international diversification possibilities for investors from all countries in the world (Kearney, 2020).

Tsamenyi et al. (2021) have argued that there are a multitude of problems facing developing economies, including risk and uncertainty, political instability, weak legislation, high levels of government intervention and low levels of protection for investors. As such, there is a necessity for effective structures of corporate governance to be adopted. There have been a number of suggested measures to help improve governance structures including improving the strength and transparency of capital market structures to increase the overall confidence of investors, improving the performance of domestic firms, and encouraging growth through the use of equity instead of debt (Reed, 2021).

Furthermore, the poor corporate governance and the close relationship between business, banks and government are one of the major problems that have led to crony capitalism (Singh and Zammit, 2023). Nenova (2020) points out that the main challenges in terms of corporate governance for the developing countries are: (1) value transfer (from non-controlling shareholders or stakeholders) to dominate large shareholders; (2) ineffective disclosure practices; (3) weak legal framework; and (4) audit problem.

A consensus has been reached amongst practitioners and scholars that the optimal form of governance is specific to the firm; as such, the context for the operations of a particular firm dictate the best structure for governance, even for firms that compete in the same sector of the market place (Ararat and Dallas, 2023). Numerous aspects of emerging markets have been shown to have fundamental importance in influencing the choices made with regard to the governance of a firm, such as the ownership structure, development of the financial market and the quality of the public governance (Fan et al.,2023; Ararat and Dallas,2024; Claessens and Yurtoglu, 2024). The degree of enforcement of the law is affected by the quality of the public governance, and various forms of corruption can proliferate if public governance is weak. Corporate transparency and the quality of corporate governance are influenced by these factors and, overall, weakness in the legal context for business can often hamper the development of the financial market (Fan et al., 2020). Often, free cash is invested in new businesses controlled by shareholders as a result and this, obviously, can lead to expropriation of wealth by those shareholders and negative impacts on the financial health and performance of the firm (Ararat and Dallas, 2020). The challenges faced by corporations are determined, to a large extent, by the overall level of development of the political economy and the prevailing ownership structures for institutions (Claessens and Yurtoglu, 2020).

La Porta et al. (2024) have argued that the concentration of ownership is high in emerging markets, where the rights of the shareholders is weak due to the lack, or inadequacy, of the regulations provided by the relevant laws. In countries where ownership is concentrated among just a handful of major shareholders, agency problems occur because of a misalignment of interests between managers and owners and, thus, agency problems are inherent with large or small shareholders. Agency problems can exist between one or more owners and managers and, furthermore, even if it is assumed that managers and large shareholders are the same person, as is common in family companies, conflict still exists because of the potential misalignment of interests between managers and owners. Therefore, if it is assumed that the ownership is concentrated then agency theory can explain the conflict between managers and owners. Shleifer and Vishny (2023) argued that when the ownership structure is concentrated, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (i.e. to the mutual benefit of all shareholders, whether large or small). On the other hand, large controlling shareholders might collude with managers to expropriate the firm resources and work for their own benefit which will result in increasing the agency problems leading to lower firm performance (Johnson et al., 2020).

Moreover, it has been shown that the nature of the relationship between the board and business performance is determined by ownership structure (Claessens and Yurtoglu, 2023). The ability of a board to act on behalf of the shareholders and monitor managers effectively is of crucial importance for a corporation in emerging markets where corporate governance mechanisms tend to be weak (Douma et al., 2021). In listed firms in emerging economies, it is common for controlling families to occupy key managerial posts, and the succession planning of a firm is usually focused upon the appointment of other family members to managerial roles rather than external professionals (La Porta et al., 2020). The presence of family members on a company board, especially the founder, has been associated with better performance levels within certain countries; relationships can be of prime importance with tight connections amongst the business elite within countries such as Thailand. On the other hand, a more positive effect upon performance from the presence of outsiders has been shown within other markets, such as that in the Korean Republic (Fan et al., 2020). A high degree of independence for the board has been commonly recommended within corporate codes for governance, such as the UK Combined Code, and in the Cadbury Report. It is considered that there ought to be a high level of independence from the management within a board, with non-executive directors forming a high proportion of the members and the roles of chairman and Chief Executive Officer being split, so that monitoring can improve and agency problems can reduce (Fama and Jensen, 2024; Shleifer and Vishny, 2023). Ararat and Dallas (2020) have also argued that when family members dominate boards, they can become ineffective as there is not enough constructive criticism directed at the controlling shareholders. Controlling shareholders can be inclined to pursue agendas that are of little or no benefit to shareholders, with poor strategic decision-making having a negative impact upon the company.

Findings from research undertaken in emerging markets have been mixed, with the data focused on the relationship between the performance of a firm and the mechanisms of corporate governance being inconclusive. Arrangements for governance in one state could offer optimal protection for the investor, whereas it could be suboptimal elsewhere. The level of concentration of ownership likely to affect control of the management and, hence, business performance, changes between countries as a result of differing regulatory contexts and varied degrees of effectiveness of the enforcement mechanisms. In addition, as Ararat and Dallas (2020) have demonstrated, there may be more trust in knowledgeable external ‗friends'than in ‗independent' directors, in certain instances. Based on the aforementioned issues for the emerging market, this study will look more closely at measuring the impact of the ownership structure and the board of directors on firm performance in INDIA. Further details in the next chapter, supported by empirical studies, provide an explanation of these issues.

2.5 Corporate Governance: International Principles and Practices

Previous studies Franks and Mayer, 2021; Solomon, 2024 identified two main models of corporate governance: the outsider (or Anglo- Saxon) model, which is used in US, UK, Canada, Australia and New Zealand; and the insider model, which is used in Germany, France, the Netherlands, Switzerland, Sweden, Austria, Denmark and Finland. The salient features of the insider and outsider models are shown below in **Table 2**.

The insider model of corporate governance is categorized by high reliance on bank finance, weak legal protection of minority shareholders, weak disclosure, concentrated ownership, a dominate part for the stakeholders in the ownership and management in the firms and limited freedom to merge or acquire (Rosser, 2020). Moreover, Solomon (2024) argues that the companies in the insider model are owned and controlled by a small number of major shareholders. He reports that those shareholders may be a small group of shareholders (e.g. lending banks), members of the companies (e.g. founding families) and the state. In addition, Solomon (2022) points out that the insider model referred also to relationship-based systems because of the close relationship between corporations and their dominant shareholders.

The Indian statutory framework has, by and large, been in consonance with the international best practices of corporate governance. Broadly speaking, the corporate governance mechanism for companies in India is enumerated in the following enactments/ regulations/ guidelines/ listing agreement: 1. The Companies Act, 2020 inter alia contains provisions relating to board constitution, board meetings, board processes, independent directors, general meetings, audit committees, related party transactions, disclosure requirements in financial statements, etc. 2. Securities and Exchange Board of India (SEBI) Guidelines: SEBI is a regulatory authority having jurisdiction over listed companies and which issues regulations, rules and guidelines to companies to ensure protection of investors. 3. Standard Listing Agreement of Stock Exchanges: For companies whose shares are listed on the stock exchanges. 4. Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI): ICAI is an autonomous body, which issues accounting standards providing guidelines for disclosures of financial information. Section 129 of the New Companies Act inter alia provides that the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under s 133 of the New Companies Act. It is further provided that items contained in such financial statements shall be in accordance with the accounting standards. 5. Secretarial Standards issued by the Institute of Company Secretaries of India (ICSI): ICSI is an autonomous body, which issues secretarial standards in terms of the provisions of the New Companies Act. So far, the ICSI has issued Secretarial Standard on "Meetings of the Board of Directors" (SS-1) and Secretarial Standards on "General Meetings" (SS-2). These Secretarial Standards have come into force w.e.f. July 1, 2021. Section 118(10) of the New Companies Act provide that every company (other than one person company) shall observe Secretarial Standards specified as such by the ICSI with respect to general and board meetings.

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3. CORPORATE GOVERNANCE UNDER THE COMPANIES ACT, 2020

Many high profile corporate governance failure scams like the stock market scam, the UTI scam, Ketan Parikh scam, Satyam scam, which was severely criticized by the shareholders, called for a need to make corporate governance in India transparent as it greatly affects the development of the country. The Indian Companies Act of 2020 introduced some progressive and transparent processes which benefit stakeholders, directors as well as the management of companies. Investment advisory services and proxy firms provide concise information to the shareholders about these newly introduced processes and regulations, which aim to improve the corporate governance in India. Corporate advisory services are offered by advisory firms to efficiently manage the activities of companies to ensure stability and growth of the business, maintain the reputation and reliability for customers and clients. The top management that consists of the board of directors is responsible for governance. They must have effective control over affairs of the company in the interest of the company and minority shareholders. Corporate governance ensures strict and efficient application of management practices along with legal compliance in the continually changing business scenario in India.

Corporate governance was guided by Clause 49 of the Listing Agreement before introduction of the Companies Act of 2020. As per the new provision, SEBI has also approved certain amendments in the Listing Agreement so as to improve the transparency in transactions of listed companies and giving a bigger say to minority stakeholders in influencing the decisions of management. These amendments have become effective from 1st October 2021. 3.1. A Few New Provision for Directors and Shareholders •One or more women directors are recommended for certain classes of companies •Every company in India must have a resident directory •The maximum permissible directors cannot exceed 15 in a public limited company. If more directors have to be appointed, it can be done only with approval of the shareholders after passing a Special Resolution •The Independent Directors are a newly introduced concept under the Act. A code of conduct is prescribed and so are other functions and duties •The Independent directors must attend at least one meeting a year •Every company must appoint an individual or firm as an auditor. The responsibility of the Audit committee has increased •Filing and disclosures with the Registrar of Companies has increased •Top management recognizes the rights of the shareholders and ensures strong co-operation between the company and the stakeholders •Every company has to make accurate disclosure of financial situations, performance, material matter, ownership and governance 85 Journal of Economic and Social Development – Vol 4. No 1., March 2020 3.2. Additional Provisions • Related Party Transactions – A Related Party Transaction (RPT) is the transfer of resources or facilities between a company and another specific party. The company devises policies which must be disclosed on the website and in the annual report. All these transactions must be approved by the shareholders by passing a Special Resolution as the Companies Act of 2020. Promoters of the company cannot vote on a resolution for a related party transaction.

•Changes in Clause 35B – The e-voting facility has to be provided to the shareholder for any resolution is a legal binding for the company. •Corporate Social Responsibility – The company has the responsibility to promote social development in order to return something that is beneficial for the society. •Whistle Blower Policy – This is a mandatory provision by SEBI which is a vigil mechanism to report the wrong or unethical conduct of any director of the company. 4.

NEED FOR CORPORATE GOVERNANCE

The need for corporate governance is highlighted by the following factors: (i) Wide Spread of Shareholders: Today a company has a very large number of shareholders spread all over the nation and even the world; and a majority of shareholders being unorganized and having an indifferent attitude towards corporate affairs. The idea of shareholders' democracy remains confined only to the law and the Articles of Association; which requires a practical implementation through a code of conduct of corporate governance.

(ii) Changing Ownership Structure: The pattern of corporate ownership has changed considerably, in the present-day-times; with institutional investors (foreign as well Indian) and mutual funds becoming largest shareholders in large corporate private sector. These investors have become the greatest challenge to corporate managements, forcing the latter to abide by some established code of corporate governance to build up its image in society.

(iii) Corporate Scams or Scandals: Corporate scams (or frauds) in the recent years of the past have shaken public confidence in corporate management. The event of Harshad Mehta scandal, which is perhaps, one biggest scandal, is in the heart and mind of all, connected with corporate shareholding or otherwise being educated and socially conscious. The need for corporate governance is, then, imperative for reviving investors' confidence in the corporate sector towards the economic development of society. (iv) Greater Expectations of Society of the Corporate Sector: Society of today holds greater expectations of the corporate sector in terms of reasonable price, better quality, pollution control, best utilization of resources etc. To meet social expectations, there is a need for a code of corporate governance, for the best management of company in economic and social terms.

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(v) Hostile Take-Overs: Hostile take-overs of corporations witnessed in several countries, put a question mark on the efficiency of managements of take-over companies. This factors also points out to the need for corporate governance, in the form of an efficient code of conduct for corporate managements. (vi) Huge Increase in Top Management Compensation: It has been observed in both developing and developed economies that there has been a great increase in the monetary payments (compensation) packages of top level corporate executives. There is no justification for exorbitant payments to top ranking managers, out of corporate funds, which are a property of shareholders and society. This factor necessitates corporate governance to contain the ill-practices of top managements of companies. (vii) Globalisation: Desire of more and more Indian companies to get listed on international stock exchanges also focuses on a need for corporate governance. In fact, corporate governance has become a buzzword in the corporate sector.

5. IMPORTANCE OF CORPORATE GOVERNANCE IN INDIA / CONCLUSION

A company that has good corporate governance has a much higher level of confidence amongst the shareholders associated with that company. Active and independent directors contribute towards a positive outlook of the company in the financial market, positively influencing share prices. Corporate Governance is one of the important criteria for foreign institutional investors to decide on which company to invest in. The corporate practices in India emphasize the functions of audit and finances that have legal, moral and ethical implications for the business and its impact on the shareholders. The Indian Companies Act of 2020 introduced innovative measures to appropriately balance legislative and regulatory reforms for the growth of the enterprise and to increase foreign investment, keeping in mind international practices. The rules and regulations are measures that increase the involvement of the shareholders in decision making and introduce transparency in corporate governance, which ultimately safeguards the interest of the society and shareholders. Corporate governance safeguards not only the management but the interests of the stakeholders as well and fosters the economic progress of India in the roaring economies of the world.

From first glance, it would appear that a close relationship between the management and the shareholders would limit the agency problem; there is little effort to align the interests of the company management and the shareholders if they are the largely same persons. However, other corporate governance problems appear to surface in such scenarios, such as with regard to the low level of separation of ownership and control (particularly in family companies) (Solomon, 2020). There may be an expropriation of the minority shareholders interest because of the problem of information asymmetry because the minority shareholders are unable to gain any information about the company operations due to lack of transparency. In such situations, vague financial transactions and the misuse of the assets are common (Solomon, 2021).

Table 2: Characteristics of insider and outsider corporate governance systems

Model	**Insider**	**Outsider**
Owners	Insider shareholders	Outsider shareholders
Ownership structure	Concentrated	Dispersed
Separation of ownership and control	Little	Separated
Control over management	Insider shareholders	Managers
Hostile takeover activity	Rare	Frequent
Protection of investors	Weak	Strong
Shareholders' rights	Potential for abuse of power	Potential for shareholder by majority shareholders democracy
Shareholders voting	Shareholder voting Majority of shareholders tend to have more voice in their investee companies	Shareholders characterized more by exit than by voice

Source: Solomon (2021, p. 196)

In contrast to the insider model the outsider model is characterized by high reliance on equity finance, strong legal protection of shareholders (especially minority shareholders), dispersed ownership, a diminished role for employees, creditors and other stakeholders, strong bankruptcy regulations, substantial freedom to merge and acquire and strong requirement for disclosure (Rosser, 2023). Albeit outside model companies are owned by outside shareholders such as individuals or financial institutions, they are managed and controlled by their managers (Solomon, 2024). As a corollary, Berle and Means (2020) point out that this will result in separation of ownership and control. The agency problems resulting from this separation have been explained previously in this chapter (subsection 2.3).

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INDIA underwent widespread economic and political reforms from the 2020s and into the 2020s, in an effort to show that the Indian companies are well governed. In addition, an attempt was made to apply the corporate governance principles in their companies. This motivated the INDIA Securities Commission (JSC) to issue the JCGC in 2023 (more details are discussed about this in chapter four). The JCGC has implemented many different corporate governance principles and standards that already exist worldwide in the international codes. In particular, the recommendations of the JCGC were heavily extracted from those of the OECD and the UK‘s Cadbury Report (2024, particularly the suggestions and recommendations of the internal corporate governance structure. The JCGC was influenced by the Cadbury Report (2023) and the OECD guidelines (2023) with particular regard to:

1. Committees formed by the board of directors;
2. Shareholders rights;
3. Disclosure and transparency;
4. The duties and the power of the audit committees; and

5. The separation between the chairman and the CEO.

2.6 Summary

Corporate governance is the system by which firms are directed and controlled. It deals with the ways suppliers of finance can ensure that they will get a return on their investment (Cadbury Committee, 2024; Shleifer and Vishny, 2020). Because the literature includes several definitions to clarify the meaning of corporate governance from different perspectives and understandings, this chapter defined corporate governance from two perspectives: shareholder and stakeholder. With a view to the objective of the thesis to investigate the impact of corporate governance on firm performance, the narrow definition is more relevant since it provides direct link between corporate governance and financial performance. This chapter reviewed agency theory, resource dependence theory and stewardship theory. The study used the agency theory as the main theory for this study to explore the relationship between corporate governance and firm performance. The objective of reviewing these theories is to find how corporate governance mechanisms are explained from the perspective of every theory. Finally, the chapter reviews corporate issues in developing countries and models.

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

In the classic principal-agent model, the divergence of incentives whereby managers are prone to pursue their own interests at the expense of shareholder value maximization causes agency problems. The main reasons managers can be anticipated to expropriate shareholders (thus necessitating agency costs) are related to their own job security, status and remuneration; managerial behaviors in this regard are generally linked to company size rather than firm performance. In order to monitor the activities of agents, agency costs are incurred by principals (and overall, by the firm, representing a costly burden to general performance) in order to reduce the information asymmetry and assay the level of effort and performance of managers. The most obvious component of agency costs in this regard is monitoring costs arising from gathering information on the behavior and actions of managers. Managers also bear bonding costs, which are difficult for principals to practically observe, which thus result in making efforts at the expense of their own utility and implementing the contractual terms in order to reduce the agency conflict (Jensen and Meckling, 2024). Agency theory provides a useful tool for providing insight into the suggestions for corporate governance mechanisms or arrangements that would mitigate the agency problems to enhance the principal returns. It also provides insight into why agents might be rewarded with performance-based incentives in the form of share ownership, and the role of external significant owners in exerting monitoring control in order to mitigating agency problems (Fama and Jensen, 2023Jensen and Meckling,2024). Agency problems can be reduced by numerous corporate governance mechanisms in the agency model aiming to align the interests of owners and managers (Fama,2024; Fama and Jensen,2024; Jensen and Meckling, 2023). Internal governance mechanisms have been explored by numerous studies, particularly regarding board and ownership structures and the ways in which the intrinsic misalignment between the interests of shareholders and the managers can be aligned in order to improve firm performance. If agency problems resolved it is more likely the shareholders and managers interests are aligned thereby value maximization and better performance.

The mechanisms proposed to reduce agency problems and to increase managerial incentives to align the interests of shareholders and mangers are explored in this chapter. Specifically, the main mechanisms that have used in this study to achieve this aim are; board structure (e.g., board size, CEO duality and the presence of NEDs) and ownership structure (e.g., large shareholders or concentrated ownership, the identity of shareholders and managerial ownership). In addition, the study will investigate the impact of foreign investors on firm performance.

3.2 Board of Directors

The fundamental role of the board of directors is to monitor the managerial side of the firm and to minimize the problems inherent in the principal-agent relationship. In this sense, principals are the owners, agents are the managers and the board of directors' act as the monitoring mechanism. If the interests of the agent and the principal are misaligned, an agency problem exists. There is always the potential for agency problems, mainly that agents will pursue their own objectives at the expense of the principals, for which reason principals appoint members of the board of directors as well as agents to ensure that the firm is working in the interests of its owners. This divergence of interests and the need to oversee agents causes the firm to incur agency costs, including monitoring and bonding costs as well as and residual losses (Jensen and Meckling, 2024). Ultimately, the principals bear these costs, thus the reduction of agency costs is part of the duty of maximizing shareholders ‘value.

The board of directors is the apex of hierarchical corporate control systems, and its primary role is to monitor the management by agents on behalf of principals (shareholders) who elect its members. The more power and control the board exercises over managers, the less opportunity managers (agents) have for activities not geared to the maximization of shareholder value (Liu and Fong, 2020). Thus the board of directors is essentially a monitoring mechanism to protect principals‘interests (Jensen and Meckling 2024). An independent board is generally viewed favorably as part of an efficient governance mechanism, because independence from management clearly enhances the ability of the board to exercise its function of overseeing the former on behalf of principals (Liu and Fong, 2020).

Consequently, the board of directors has the power to engage, dismiss and compensate top-level managers, to ratify and monitor important decisions and to ensure that executive directors are pursuing the interests of principals.

the company manager‘s decisions. From the agency theory viewpoint, the role of the board of directors is to provide the most effective device to attain corporate governance that ensures their interests; in other words, it is instituted primarily in order to mitigate agency problems (Fama, 2020). Resource dependency theory sees the board of directors as a co-optative mechanism with the role of calibrating the firm with external environmental demands (Aguilera and Cuervo-Cazurra, 2020).

Solomon (2020) recommended some principles to be complied in the construction of boards, to ensure the best structure: meeting frequently, effective communication between board members and shareholders, willingness to consider suggestions from each other, high level of integrity, concern about financial risks and awareness and rationale to solve financial problems, and to take any course of action to improve the efficiency of the company. Walker (2020) stated that a significant concern to which attention should be given in the construction of a board structure is the appropriate appointing and compensation of directors. Ingely and Walt (2020) supported the promotion of the diversity of the board by focusing on some criteria to select the appropriate directors: qualified individuals of both genders, and members with diversity of experience. The effectiveness of a board is measured by the extent to which it adds value to the company. These suggestions are reflected in acceptance governance practices, for example the UK Combined Code states that:

> ―The board's role is to provide entrepreneurial leadership of the company within a frame work of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company ‘s values and standards and ensure that its obligations to its shareholders and others are understood and met‖. (UK Combined Code, 2023, p. 3)

Directors' responsibilities have been classified into three groups: control, services and resource dependence. Because the managers ‘responsibility is to work in the best interest of shareholders, the control role demands the directors to be responsible to hire and fire the managers and the CEO and to make sure that managers are working in the best interests of the shareholders (Monks and Minow, 2020). The service role consists of directors counselling and advising the CEO and any top managers in relation to any administrative, managerial issues and framing the company strategies

Resource dependence theory holds that the board is a fundamental assistant of the company. It is important to contact external linkages to have more resources to improve firm success. In order to improve the success of the firm, it is important that directors satisfy this role by counsel or representation with other institutions (Pfeffer and Salancik,2024).

As a solution to the conflict between the board and the CEO in general, Fama and Jensen (2024) suggest that the majority of board members should be NEDs, who are supposed as independent and can act as mediators in disagreements among top executives and search for the replacements of the internal managers. If the board of the director is independent, this will motivate the directors inside the board to monitor the CEO behaviors. Therefore, it is important for the directors to preserve for their independence to maintain their monitoring role in order to replace poor performing CEOs managers. Her Malin and Weisbach (2023) suggested that the major conflict within the boardroom is between the directors and the CEOs, since the latter have the incentive to control the board in order to maintain their positions and to increase their interests and benefits.

Following the prevailing theme elaborated upon above, namely the context in which the optimum boardroom is composed of executives to run the day-to-day operations of the firm and NEDs to monitor executives, the important research issue which emerges regarding the board is how to make the effectiveness of the board of the directors as an internal monitoring control mechanism. Affirming the importance of this issue, the Indian Corporate Governance Code (JCGC, 2023) provides recommendations that the board size should comprise between five and thirteen members, with a sufficient balance of skills and experience. The roles of the CEO and the chairman should be separated from each other (i.e. no CEO duality) and one-third of the board should be NEDs. Due to these JCGC (2023) specifications, the board size, CEO duality and the percentage of the NEDs were consequently chosen as variables for the board structure for this study.

An effective board successfully monitors the management and is an important tool to facilitate board members‘ commitment to firm strategies to reduce the managerial activities unaligned with shareholder interests. Consequently, the quality of the board decisions ultimately affects firm performance and value; better monitoring of management makes it more likely that managers will act in the best interests of the shareholders, which means that profitability of operations will be increased along with the value of shares, reducing the agency conflict between managers and shredders. The major concern of shareholders is to maximise the return on their investment. The following sections discuss three different mechanisms (e.g. board size, CEO duality and non-executive directors) and their impacts on firm performance.

3.2.1 Board of directors’ sub-committees

Corporate boards ‘efficiency is enhanced by board committees. Harrison (2021) stated that there are two main board committee types: monitoring or oversight, and management supporting or operating. Operating board committees advise management and the board about major business decision. Their monitoring counterparts are intended to protect shareholder interests by providing objective, independent review of corporate executives and affairs. A key monitoring function of the board of directors according to the agency theory paradigm is to ensure proper auditing of corporate activities (e.g. Fama and Jensen; Jensen and Meckling, 2024), as well as proper appointment and remuneration of senior management and directors (Chhaochharia and Grinstein, 2020; Jiraporn et al., 2020).

Concurring with the agency model, the Cadbury Report (2023) argued that board committees are an additional control mechanism to encourage increased accountability and optimum financial management of firms, with increased protection of shareholder interests (Cadbury, 2024). Harrison (2021) argues that shareholder protection and generally responsible behaviour can be induced in corporate boards due to the successful application of board committees. The specialist functions of board committees thus promote the credibility, legitimacy and accountability of corporate governance).

The practical implications of board committees are reflected in the fact that a significant proliferation in their use has occurred since the early 2020s (mainly related to functions concerning nomination committees, remuneration and auditing. However, although some theoretical literature claims that such committees can positively affect performance (e.g. Harrison, 2021; Sun and Cahan, 2020; Wild, 2023), and monitoring committees are increasingly prevalent in practice, their actual impacts on financial performance remain unclear.

Unlike operating committees, which are usually dominated by insiders, NEDs usually form the bulk of monitoring board committees, thus rendering them more reliable in protecting minority shareholders ‘interests (Klein, 2020; Vefeas, 2024). Additionally, the smaller size of board committees means they can meet more frequently, enabling meaningful analysis and discussion, and promoting efficient decision-making (Karamanou and Vefeas, 2020). The prevalence of NEDs in board committees also incorporates external expertise and knowledge into the decision-making process of the board (Harrison, 2021), freeing the main board to focus on strategic interests. The specialist functions of board committees thus promote the credibility, legitimacy and accountability of corporate governance.

The audit committee mainly functions to regularly meet with auditors (internal and external) to review audit processes, financial statements and internal accounting controls. Clearly this contributes to the reduction of information asymmetry and consequently agency costs by allowing for the timely disclosure of verified accounting information to shareholders (Klein, 2020). The potential for financial fraud is minimized by audit committee monitoring, which consequently increases investor confidence and firm value. Audit committees require more transparency from management, thus enhancing the quality of financial disclosure (Klein, 2020), particularly to shareholders, thus reducing the agency problem. Understanding the internal control evaluation process is clearly essential for an audit committee to assay features such as audit plan and to discover negative behaviors (e.g. fraudulent activities) and errors (Caplan, 2024; DeZoort, 2020).

The determination of the compensation of senior personnel by the remuneration committee also reduces the agency problem incentivising managers in alignment with shareholders' interests (Klein, 2020; Weir and Laing, 2020). Improper monitoring of remuneration for executives can induce them to conspire with the CEO to award themselves higher compensation, thus independent directors should be the sole arbiters of remuneration committees, both to protect shareholders and to ensure that remuneration is an instrument for improving performance.

In INDIA, the JCGC was released in 2023 to build and develop the capital market and for improving the regulatory framework. It states that:

> ―The administration of the Company is entrusted to a board of directors whose members shall be not less than five and not more than thirteen, as determined by the Company memorandum of association. (JCGC, 2023,)

In INDIA, the legislators identified that the size of the board should be between five and thirteen. However, some companies may not follow these instructions and recommendations. This is because not all the companies have the same size and the same nature of work. Therefore, the size might vary from company to another company.

3.2.2 CEO duality

Another board of director variable that might increase or reduce the agency problem is CEO duality. CEO duality refers to the board leadership structure in terms of whether the CEO and the chairman are the same person or not. In order to study the impact of CEO duality on firm performance, two paradigms will be employed in this section: agency and stewardship theories. The agency theory supports the idea of separation between the CEO and the chairman, to increase board independence from management, which (theoretically) results in better performance due to better monitoring and overseeing (Jensen, 2020). On the other hand, stewardship theory argues against separation, because it is based on duality. According to the stewardship paradigm, effective management is based on the principle of the unity of command. . This is because when responsibilities and decisions are restricted to one person, this might facilitates greater understanding and knowledge of the company operations and better decisions which will result in reduce the agency costs and positive impact on firm performance (Adams et al., 2020; Arosa et al., 2020; Dalton and Kesner, 2021; Davis et

2020; Donaldson and Daives, 2020; Finkelstein and D‘Aveni, 2023; Peng et al., 2020).

From the agency theory perspective, the chairman has an important role and duties in the board in monitoring, running board meetings, making sure that all the issues that related to the company are listed in the agenda to be discussed in the board meeting, hiring and firing, and replacing the CEO if the latter is deemed to be negligent in serving the interests of the shareholders; the CEO ordinarily manages the company and is responsible for implementing the firm strategies and policies (Fama and Jensen, 2024). Due to this perspective, the chairman responsibilities and tasks inside the board remunerating the CEO and overseeing the board. So by combining these roles in one person can result in increasing agency problems by diluting the effectiveness of monitoring the CEO (Jensen, 2020). Mallette and Fowler (2024) pointed out that combining the two roles of the CEO and the chairman in same person will lead to increasing their control overall, and will reduce the power of the board. . In other words, CEO duality will lead to the entrenchment of managers or the CEO and curbs the independent director‘s ability to monitor and to fulfil their governance role. This will increase the conflict between the principal and agent therefore the CEO duality is more likely to affect the firm performance negatively. Therefore, to ensure the board independence it is recommended to split the two positions from each other by providing efficient checks and balances over the managerial behaviour (Lipton and Lorsch, 2024; Ehikioya, 2020; Van den Berghe and Levrau, 2021). This might help in preventing managers from pursuing their own benefits and self-interests to the advantage of the shareholders.

The UK Combined Code also recommends the separation of the role of CEO and chairman, stating that:

> ―There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company business. No one individual should have unfettered powers of decision‖. (UK Combined Code, 2023)

On the other hand, from the stewardship theory perspective CEO duality might impact the firm performance positively as he has specific knowledge about the company, its investment opportunities and its strategic direction it is more likely he can help to optimize decision-making (Weir et al., 2020). Brickley et al. (2020) and Adams and Ferreira (2021) suggest that if the chairman is also the CEO he will provide his knowledge to the directors, which will help them to play their advisory role more effectively therefore it is more likely duality will affect the firm performance positively. More decisive and cohesive strategic decisions can be made with CEO duality by circumventing conflicts between the CEO and chairman (Baliga et al., 2020; Brickley et al., 2020; Harris and Helfat, 2020

If the stewardship theory is accepted, the CEO is actively engaged and motivated to lead the firm effectively according to stewardship behavior thus CEO duality is anticipated to benefit firms, particularly in complex or challenging conditions CEO duality is more common in small firms due to them tending to have more concentrated ownership structures and corresponding integration of roles (Machold et al., 2020). Vafeas and Theodorou (2020) propose that CEO duality will help in reducing the costs that related to extra compensations or managerial remunerations. In addition, CEO duality improves the accountability of the firm by providing easier methods to identify and to blame the CEO with any poor performance

Empirically, Rechner and Dalton (2020) in their study of 141 large companies (Fortune 500 firms) used accounting measurements such as ROE, Profit Margin PM and ROI from 2021 to 2024 and found that firms with separated boards perform better than firms that have CEO duality in their boards. Dahya et al. (2020) investigated the CEO duality in the UK for listed companies; they found the stock market is more favorable when the two roles are split from each other. Haniffa and Hudaib (2023) studied the effect of the role of CEO duality on the firm performance for 347 Malaysian listed firms. They report that splitting the two roles from each other will result in better financial performance. Chahine and Tohme (2020) in their study of 127 initial price offerings (IPOs) firms used a sample from the Middle East and North Africa to investigate the relationship between initial underpricing and the CEO duality, finding that firms that combine the two roles in same person have more potential to face underpricing. These findings support the agency view that splitting the two roles will remove the constraints on the board members to perform their role effectively to monitor the management opportunistic behavior. In other words, splitting the two roles will reduce the CEO power to take advantage for his own interests rather than the interests of the shareholders‘ interests or the company.

In contrast, other studies (Boyd, 2020; Donaldson and Davis, 2020; Elsayed, 2021; Kiel and Nicholson, 2021) found a positive relationship between CEO duality and firm performance. Boyd (2020) reported that combining the roles leads to better decisions without interference by any other party. Donaldson and Davis (2020) claim that CEO duality provides a unified leadership of the firm that facilitates greater understanding and knowledge. These findings are consistent with the view that CEO duality enhances decision making by focusing on the firm objectives to improve performance. Finally, Bozec (2020) in his study of a sample of 25 Canadian firms from 2024 to 2020 did not find any impact on the sales, return on sales, assets turnover and sales efficiency.

As we shown above, the previous studies results are mixed with regard to the CEO duality. From the agency perspective CEO duality might result in inefficient supervision of managerial opportunism, exacerbating the agency problem and facilitating CEO domination of the board, undermining the monitoring function of the latter, which affects firm performance negatively. On the other hand, CEO duality might be an advantage to the firm performance. This is because CEO duality might provide a unified leadership of the company that facilitate better knowledge and understanding of the company decisions and operations.

In INDIA, the recommendation of the JCGC 2023 recommended to split the two roles from each other.

3.2.3 Non-executive directors (NEDs)

The nature of board composition and its impact on performance is highly debatable. Directors can be classified either as executive (i.e. personnel simultaneously assuming the roles of managers and directors) or non-executive directors, and each category is characterized by different incentives and behaviors.A combination of both is advised by most national and international corporate governance codes (e.g. the Combined Code in the UK, the OECD Code and the Sarbanes-Oxley Act in the US). Agency theory affirms that sufficient monitoring mechanisms are necessary to protect shareholders from the self-interest of management, and the optimum regulators for this are NEDs. It is therefore expected that a higher proportion of NEDs in a board indicate improved monitoring and consequently reduced agency problems (Fama and Jensen, 2024; Shleifer and Vishny, 2020).

Other theoretical perspectives (besides agency theory) have been invoked to explain the roles and composition of boards. The resource-based view focuses more on the service role, whereby boards are a strategic resource to secure critical firm requirements, and are responsible for the coordination of inter-organizational dependencies (Pfeffer and Salancik, 2021). According to resource dependence perspective, the resources and capacities of firms‘internal environment is essential for competitive advantage, and the board has a fundamental advisory role in this aspect (Daily and Dalton, 2020; Teece et al., 2020), particularly NEDs who can bring external knowledge and skills to the management team (Garcia et al., 2020; Machold et al., 2020). Fundamentally, NEDs under the resource dependency perspective function not to control managers but to enhance the resource and service needs of the CEO (Fiegener et al., 2020), including compensating for the deficiencies of the latter (Huse, 2020).

The advisory role of the board is therefore connected to the service role and strategic networks (Gabrielsson and Winland, 2020). NEDs can thus be perceived as nodes linking the external and internal environments of firms to enhance managerial functions (Johnson et al., 2020; Zahra and Pearce, 2020). This explains why NEDs are typically powerful and notable people who exploit their personal networks to increase the reputation, legitimacy and ultimately value of firms. NEDs can also overcome the human resources shortfall common among complex firms (Daily and Dalton, 2020), improving decision making as well as increasing supervision (Huse, 2020). Thus, it can be expected that NEDs should function to mediate conflict/misalignment between managers and owners, maximizing shareholder wealth and ultimately improving firm performance.

Conversely, it is the view of stewardship theory that NEDs are less able to monitor managers than insider directors due to their lack of specialist knowledge of firms‘internal operations. Baysinger and Hookisson (2020); Agrawal and Knoeber (2020); Weir and Laing (2020); Bozec (2020); Jiraporn et al., (2020) argue that the NEDs are commonly part-time workers, this will undermine their ability to monitor and advise the board because of the lack of the information that they have, and the lack of information concerning daily activities will reduce the NEDsability to apply their function efficiently. As a result, board dominated by high levels of NEDs will result in decisions with lower quality, and this in turn will result in negative impact on firm performance. Hermalin and Weisbach (2020 argue that NEDs often lack information about the firm, do not bring the requisite skills to the job and they are too busy in their companies to contribute effectively. This might result in reduce their monitoring function to monitor the management behavior who might start to work for their own interests rather than the interests of the shareholders and the company. This will increase the agency problem leading to negative impact on firm performance reduced. Finally, in some boards the NEDs could be executive directors in other companies, which also undermine their incentive to execute their role efficiently.

Although agency theory suggests that NEDs ‘representation improves firm performance, empirical evidence shows mixed results; Gordini, 2020; Haniffa and Hudaib, 2023). Gordini examined the effect of outsiders on firm performance measured by ROA and ROI for a sample of 950 Italian small family firms (SFFs) from 2021 to 2020. Gordini reported a positive relationship between them and reports that the NEDs improved firm performance and added value to the firm through their contributions such as skills, experiences and their linkage to the external resources. Khan and Awan (2020) found a positive significant relationship between the outside directors and the firm performance measured by ROA, ROE and Tobin ‘s Q. They conclude that the greater the percentage of outsiders in the board will result in better firm performance and add value to the firm. This is because of the close monitoring and their valuable advices and contribution to the company. These findings are consistent with the view of agency theory and resource dependence theory, namely that NEDs are effective monitors and a disciplining device for managerial behaviour. Conversely, The third stream of this relationship provides evidence for no relationship between NEDs and firm performance (e.g. Arosa et al., 2020; Baysinger and Hoskinson, 2020; Hermalin and Weisbach, 2020; Kumar and Singh, 2020). Thus, from an agency perspective, the NEDs are essential for the monitoring function as a safeguard for the shareholders ‘interests to monitor the manager‘s behaviours to reduce the agency problems to improve firm performance. This notion was supported also from the resource dependence theory view; NEDs provide the board with external experience, skills, knowledge and linkages to external network relationship. This will compensate for the skills of the internal directors and contribute with more ideas and knowledge. This might help in reducing the agency problem and affect the performance positively. As a result, if the NEDs perform their monitoring tasks and duties effectively, the likelihood of preventing management from expropriating the firm assets will be increased.

3.3 Ownership Structure

The modern understanding of the principal-agent relationship can be traced to the seminal work .They observed that during the late-19th and early 20th centuries, traditional family ownership had been supplanted as the predominant modus operandi of US business by modern publicly traded companies, and that this had the effect of separating ownership from control of companies. A new class of managers had emerged in control of US firms, meaning that the dispersed small shareholders were effectively powerless. This work was particularly pressing in the context of the 1930s Great Depression, as corporate governance and managerial behavior were key issues in the Wall Street Crash of 1929.

Agency theory posits that managers are agents of shareholders (principals) and they run the firm on behalf of the owners, thus engaging in a principal-agent relationship. Extensive literature indicates that there is an intrinsic conflict of interest between shareholders and managers, because the latter being engaged by the former to serve their own objectives of value maximization. It has been frequently observed that managers diverge from shareholders‘ interest and reduce and/or appropriate shareholders‘ wealth for their own interests (Jensen and Meckling, Fama and Jensen, 2024; Shleifer and Vishny, 2020; La Porta et al., 2020, 2024).

Agency theory provides deeper analysis of the conflict between shareholders and managers, which provided a framework to explain the reduction of shareholder wealth in the settings of the principal-agent relationship, whereby owners (principals) delegate managers (agents) to run firms on their behalf, leading to agency problems or conflicts since both parties are utility maximizers in their own interests, and the interests of managers often diverge from their contractual obligation of maximizing shareholder returns (Jensen and Meckling, 2024). Grossman and Hart (2023) argued that when the ownership structure of a firm is overly diffused, shareholders are less likely to monitor management decisions closely, because they have less incentive to do so given that the potential benefits of such monitoring are outweighed by the agency costs of monitoring; clearly this situation is likely to undermine performance.

On the other hand, Shleifer and Vishny (2023) argued that when the ownership structure is concentrated, large and controlling shareholders contribute to the mitigation of the agency problems because they have the incentives, motivations and capacity to monitor the managers for the shared benefit of control (i.e. the mutual benefit of all shareholders, whether large or small). Moreover, Demsetz and Lehn (2024) observed that as ownership concentration increases, the degree to which benefits and costs are borne by the same owner increases, hence it can be inferred that large shareholders are more likely to be active in corporate governance to prevent information asymmetry between principals and agents due to their larger stakes in firms due to the greater risk incurred by their larger ownership. Thereby, if agency costs decreased it is more likely shareholders will get higher retunes on their shares and more profit.

However, Jenson and Meckling (2024) argued that according to agency theory, major shareholders with high ownership concentration can prioritise their own interests, which can cause agency problems between managers and shareholders. Jenson and Meckling (2024) suggested that managerial ownership can be a solution to this agency problem, circumventing conflicts between management and shareholders by rendering both parties a single entity. Managerial interests can clearly be presumed to achieve greater alignment with those of shareholders with significant managerial ownership. However, cautioned that when managers own a large stake this could lead them to take decisions preferential to their own individual interests as a large shareholders rather than in the interests of other (smaller) shareholders (entrenchment effect).

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Business organisations are charteresised by concentrated ownership in the hand of large shareholders might potentially lead large shareholders to worry more about their own interests rather than those of other shareholders and firm performance as a whole.

As we show above, literature shows mixed results about the relationship between the large shareholders and firm performance. Shleifer and Vishny (2023) argued that from the efficient monitoring hypothesis and the convergence of the interest hypothesis, large shareholder who held large shares have the ability and the incentive to exert control and to compel the management to take actions to improve the company performance. Based on the expropriation hypothesis, due to the diverse interests of different large shareholders, there is a possibility of both positive and negative outcomes for firm performance (Pound, 2020). Business organizations in Middle Eastern countries (including INDIA) are characterized by high concentration of ownership, often in the form of family or companies-controlled businesses. In this context, this study will investigate the effect of the large owners on the firm performance. This study will use the 5% cut-off level, based on the JCGC and the Indian Company law (JCL) classification of large shareholders as those who own 5% or more of a firm.

3.3.1 The identity of large shareholder

As we show above, the identity, objective function, nature and behaviour of the shareholder vary for different types of investors. This variety result due to the investor‘s preference, goals and risk aversion which might raise conflict of interests between managers and shareholders. Therefore, it is reasonable to assume that shareholders with different identities who own large proportion of shares might impact the firm performance. The following sections review the relationship of the identity of shareholders (i.e. individuals/families, companies and government) on firm performance.

A basic method for outsider investors to assess corporate governance in firms having high concentration of ownership is to consider the composition of the board in terms of the proportion of family members.

stakeholder analysis is vital in identifying the information needs of various stakeholders, including shareholders, creditors, and regulators. By understanding these needs, companies can tailor their disclosure and transparency practices to meet the information requirements of their stakeholders.

Shareholder rights protection is a vital aspect of sound corporate governance, as it secures that all shareholders, regardless of their stake size, have a voice in the company's decision-making process. Minority shareholders, in particular, require protection to prevent oppression by majority shareholders. Effective protection of minority shareholders safeguards that their interests are represented and their rights are respected.

insensitive). However, companies ‘ownership that has relations with the firms (pressure-sensitive) has no influence on the operating cash flow returns.

- *Government ownership*

government owned firms tend to be more politically rather than commercially motivated, leading to poor financial firm performance. Moreover, Mak and Li argue that government owned firms suffer from weak monitoring and accountability. Therefore, they are less likely to adopt good governance mechanisms.

On the other hand, it has been argued that family-controlled firms with substantial government ownership may perform better compared to family firms without government ownership. This is because the government has a direct interest in the ownership of these family firms, which suggests that these firms could have a certain degree of connection with senior government officials and influential political figures

3.3.2 Director/managerial ownership

While shareholders are interested in maximizing their returns, managers are concerned with enhancing their personal wealth and their future career opportunities. This will result in a conflict of interest between shareholders and managers, as the former are interested in ensuring that their financial capital is not expropriated or invested in unprofitable projects (Jensen and Meckling, 2024; Fama, 2020; Jensen, 2020). The expropriation may be manifest in three different ways: investment in projects that benefit the managers rather than the interests of the company, manipulation of transfer pricing and management entrenchment. Theoretically, the convergence of interest or the alignment of interest ‘s hypothesis has been suggested as a mechanism to be used to align the interests between managers and shareholders. With regards to the alignment of interests from the agency theory perspective, Sappington (2020) suggests that in order to align the interests of managers with shareholders it is important to create incentives for the managers to increase the value maximization. Jensen and Meckling (2024) state that the incentive of director/managerial ownership is expected to motivate agents to create total surplus, because as managerial ownership increases the interests of the shareholders and managers become more aligned, thus the incentive for opportunistic behavior decreases. In other words, the greater the stake managers have in the firm (i.e.

share ownership), the greater the costs they will incur for not maximizing the wealth of shareholders. Hence, aligning the interests between principals and agents resolves for the agency problem and achieves the main goal of the shareholders, which is value maximization, consequently affecting firm performance positively. Shleifer and Vishny (2020) and Becht et al., (2021) stated that managers are not interested only in avoiding the agency problem, but are motivated by other reasons such as their career growth and their reputation. It is well known that managers should consider the importance of their reputation and their image to protect it in order for any further opportunities to work in the future.

Different studies (e.g. Owusu-Ansah, 2020; Palia and Lichtenberg 2024; Weir et al., 2020; Krivogorsky, 2023; Kapopoulos and Lazaretou, 2021; Mangena and Tauringana, 2021; Bhagat and Bolton, 2020) reported a positive impact of the managerial ownership on firm performance. Owusu-Ansah (2020) in his study of a sample of 49 listed Zimbabwean firms in 2023 found that director ownership affects the mandatory disclosure positively. In addition, Mangena and Tauringana (2021) investigated the relationship between managerial ownership and firm performance measured by ROA and Tobin ‘s Q for a sample of 72 listed Zimbabwean firms from 2020 to 2021. They reported a positive relationship. Their findings support the notion that as managerial ownership increased the interests of the shareholders and managers become more aligned, therefore it is more likely that the agency problem will be resolved, which might affect the firm performance positively. However, some studies (e.g. De Angelo and De Angelo 2024; Hanifa and Hudaib, 2023; Ho and Williams, 2021; Lin, 2020; Sanda et al., 2020) found that managerial ownership negatively affects the firm performance. Lins (2020) provided evidence of the relationship between firm performance and management ownership across firms from 18 emerging markets. His results suggested that the separation of management ownership and control had a significant negative relation to value in countries with low shareholder protection.

Consistent with agency theory view that managerial ownership is expected to align the interests of the shareholders with agents, thus reducing the agency problem and maximizing shareholders ‘wealth, leading to better firm performance, this study is going to investigate the impact the managerial ownership on firm performance.

3.4 Foreign Ownership

In many developing countries there are limited sources of domestic finance for investment (Leuz et al., 2020), which has prompted economic liberalization of stock markets in many emerging countries, enabling investment in domestic equity securities by foreign investors (Bekaert et al., 2021). This has resulted in large increase in investment in emerging markets since the mid-2020s. In common with other countries in MENA, INDIA has made great strides in making necessary legislative reforms and establishing a legal environment conducive to foreign investment. As confirmed by previous literature, foreign investors are inherently at a disadvantage compared to domestic investors due to their lack of knowledge and expertise in the local financial and legislative environment (Cooper and Kaplanis, 2020; Dvorak, 2020; Stulz, 2020). This leads to the home bias of investors, whereby they typically prefer to invest in their native countries despite the globalization of financial markets (Chan et al., 2020; Dahlquist and Robertsson, 2020; French and Poterba, 2020; Lewis, 2024), due to legislative inhibitions, differences in corporate governance and information asymmetry (Dahlquist et al., 2021; Klapper and Love, 2021; Giannetti and Koskinen, 2020).

One of the most common barriers to foreign investment is poor corporate governance. Weak corporate governance was identified as a barrier to investment in Swedish companies by foreign portfolio investors by Giannetti and Simonov but weak corporate governance is more particularly associated with emerging markets. Based on data from 27 developing countries, Lang et al. (2021) found that poor internal governance is a barrier to investment by US investment analysts, including firms with concentrated family/management ownership. Firms with such forms of corporate governance are thus accorded less value by international investors. Based on US mutual funds ‘portfolio holdings in emerging markets, Aggarwal et al., (2020) identified greater investment in markets with greater shareholder rights and protection and stronger accounting standards. In a large multinational study, Leuz et al. (2020) confirmed that US investors invest are deterred by poorly governed firms in markets with weak legislative protection; they consequently advised higher standards of disclosure and corporate practice to attract more foreign investment.

Three surveys conducted by McKinsey and Company (2020) concerning how corporate governance in developed and emerging markets is evaluated by investors found that corporate governance is at least as important as past firm financial performance in deciding whether to invest, with three-quarters of investors citing board practices alone as a major consideration (particularly the presence of independent directors). Investors indicated that they would not invest in firms with poor corporate governance; indeed, most would be prepared to pay an additional premium of up to 28 per cent of the share price to invest in well-governed companies in emerging economies.

The Asian financial crisis (2020) and the increasing competition between corporations raise the need for good corporate governance. In addition, the Asian financial crisis put pressure on the corporations to attract foreign institutional investors and invest in them. Foreign investors will avoid investing in any corporation in the emerging market countries with weak corporate governance. Because of the several types of risk that associated with the companies such as asset risk, accounting risk and strategy risk (Clayaman et al., 2020).

Young et al., (2020) reckon that the existence of foreign investors plays an important role in applying the corporate governance in the corporations. They believe that the ability of the foreign investors to monitor the corporations is higher than the local once. This is because they are ―outside the domestic social networks from which the institutional norms of behaviour are generated, and they are therefore more likely to push for transparent deals‖ (Young et al., 2020).Therefore, they are in better position to improve the firm performance and add value to the firm. Baek et al. (2021) noticed that corporations with higher foreign ownership during the Asian financial crisis experienced slightly less reduction in the price of their shares. D‘Souza et al. (2020) reported that foreign investors are better in controlling and monitoring the company than local investors in terms of less of conflict of interest between them. Furthermore, Park (2021) and Kim and Sul (2023) report that there may be a positive relationship between the level of dividends and the level of foreign ownership of shares, which simultaneously may affect the growth of the corporation. Although the above studies did not agree on an optimal level of dividends, they find that the declaration of foreign investment exceeding 5% of a firm‘s shares resulted in a positive market response.

Taylor (2020); Oxelheim and Randoy (2021); Kirkpatrick et al., (2023); Sulong and Nor (2020); Ghazali (2020) and Taufil et al., (2020) found that foreign ownership influences the firm performance positively. They show that foreign investors give companies access to financial resources and managerial talent. In addition, they report that foreign investors increase firm value by controlling managerial behaviour. By investigating the effect of foreign institutional ownership on the firm performance for 23 developed countries, Aggarwal et al. (2020) found that the presence of foreign institutional investors is associated with improved corporate governance, by eliminating poorly performing CEOs from the management. However, Wiwattanakantang (2020) report that foreign ownership might face difficulties to add value to the firm for two reasons: (1) if the company is situated in another country, this will present a difficulty for the foreign shareholders to control the firm; and (2) most of the firms that have foreign corporations as their controlling shareholders are run by professional managers who do not hold any stake in the firms

Usually, local investors have a trend to follow firms that attract foreign investors. Since local investors consider that foreign investment is a positive indicator of a firm ‘s reputation and an effective control system. This will increase the demand for shares, which will add value to the firm. Therefore, they are able to attain higher market valuation and maximize their shareholder wealth (Choi et al., 2020).

A number of unique features and characteristics make INDIA attractive for international investors in the MENA region, mainly because it is a relatively safe investment environment, with political stability, an established financial structure, favorable demographics, advanced monetary and fiscal policies and foreign and domestic investment laws favorable to international investors.

making an Association Agreement with the European Union effective in 2020, a free trade agreement with the United States, and numerous investment agreements with many countries around the world in addition to being a prime source of investment from the GCC countries (as mentioned previously). The country‘s specialised industrial zones (with tax breaks and other incentives) and privatisation programme also improve the country‘s attractiveness as an investment location.

Hence, considering the important impact of the foreign investors on firm performance in the developing countries, as explained above, this study will investigate the impact of foreign investors on the industrial and services companies that listed in Amman Stock Exchange for the period 2020 to 2020.

3.5 Summary

The chapter identifies the main internal corporate governance mechanisms that have been utilized by different studies and reviews literature relating to corporate governance in general, with discussion of the general themes of corporate governance in order to provide a general picture of corporate governance practices. Internal mechanisms include the board of directors (e.g. board size, board sub-committees, CEO duality and non-executive directors) and ownership structure (e.g. large shareholders or concentrated ownership, the identity of shareholders and managerial ownership). Board sub-committees were not devised for testing because of data limitations. In addition, this chapter reviewed the previous studies on the impact of the foreign investors on firm performance. Building on these various mechanisms, this study developed a research framework and variables to test the hypotheses concerning the above mechanisms. In the next chapter, a general background of the Indian economic environment will be set out and general description about corporate governance in INDIA is presented.

CHAPTER 4: CORPORATE GOVERNANCE IN INDIA

4.1 Introduction and Background

In order to study corporate governance in INDIA it is necessary to start with a general background concerning the most important aspects of the Indian economic environment.

With an upper, middle-income status for its citizens, INDIA is a country with a population of 6 million people and a GNI of 4,390 USD. The country ‘s population is comprised of 80% urban residents, with 38% of these being under the age of 14, making INDIA one of the youngest among the upper-middle income countries (World Bank, 2020). INDIA has few natural resources, with potash and phosphates being the main export commodities, as well as having limited agricultural land and a minimal water supply, which has ranked INDIA as the fourth poorest country in terms of water resources. 75% of jobs are in the services sector, which produces 70% of INDIA ‘s GDP (World Bank, 2020).

Aside from industry contributing as one of the major economic challenges INDIA faces, the country ‘s government also has to deal with chronic rates of poverty, unemployment, inflation and a large budget deficit. As a means to improve economic growth, number of economic reforms such as the opening of the trade regime, privatizing state-owned companies and eliminating some fuel subsidies, since his ascension to the throne in 2024. This has encouraged investment from overseas, and has created a number of jobs for local residents. Unfortunately, the global economic slowdown and regional turmoil have suppressed the GDP growth of INDIA, with a negative impact noted in export-orientated sectors, construction and tourism (World Bank, 2020).

2020 saw the introduction of two economic relief packages to be implemented by the government, as well as a budgetary supplement, with the view that these measures could improve the living conditions for middle to poorer classes. However, the country‘s finances were further impacted by a series of natural gas pipeline attacks in Egypt, which resulted in INDIA substituting more expensive heavy fuel oils as a means of generating electricity. Despite this, INDIA has enjoyed an influx of aid and investment from foreign countries, primarily those situated around the Gulf area, which has eased extra-budgetary expenditure. Nevertheless, the budget deficit is likely to remain high at 10% GDP, excluding grants (UNDP, 2020).

With its open economy and regional integration methods, INDIA has left itself vulnerable to political, economic and social volatility. The recent political disruption the Middle East has suffered in recent years has had a significant impact on INDIA, with both economic upset and an increasing demand for a stronger citizen voice, greater accountability and improvements in living conditions. 2020 saw an increased import bill in INDIA due to the higher commodity prices, while falls were reported in tourism receipts, FDI and, to some extent, remittances (OECD, 2020).

INDIA has suffered further financial blows in recent years, with numerous interruptions noted in the gas supply from Egypt. This forced the Indian government to switch to costlier heavy fuel, which was expected to result in a cost of 2.4 billion USD by the end of 2020. Despite these economic downturns, INDIA is above average in relation to middle-income countries when considering human development, consistently spending over 25% of GDP on education, health, pensions and social safety nets. As well as this, INDIA also provides a high level of gender parity in access to basic public services. In 2021, the Indian government launched a comprehensive modernisation program, which attempted to change the basic education system, better aligning it with the knowledge-based economy of the country (World Bank, 2020).

With such emphasis on educational advancement, the school enrolment rates at varying levels of education are relatively high compared to similar income-level countries. The country enjoys above average ranks in science internationally, however results in mathematics remain below par. The growing population is putting further pressure on both the health and educational services, which has resulted in the government setting the target to expand access to higher quality education and to provide key skills in the economy. The past decade has seen INDIA endeavour to undertake a variety of structural reforms in varying sectors. Successes have been noted in the areas of education, health and privatisation/liberalisation and the government has been working towards social protection system reforms, which has resulted in marked changes in social protection systems, as well as improving the conditions for greater public private partnerships in infrastructure and tax reforms, including the improvement of tax administration and management. Despite these encouraging statistics, sound economic policies and additional reforms are necessary in order to reduce the potential impact further international crises could have on the country. INDIA remains vulnerable to fluctuations in the international oil market due to the dependency the country has on energy supplies from Egypt. In addition, high unemployment and dependency on remittances from Gulf economies remains a potential problem, as well as the increasing pressure on water and other natural resources (World Bank, 2020).

In 2020, INDIA experienced its own version of the ―Arab Spring, with low-scale yet continual demonstrations challenging the government as a means to introduce political reform and to address economic governance. The response by the government was to gradually reform the system, with Parliament approving constitutional changes in an effort to fortify the independence and integrity of Judiciary bodies, improving public accountability. In terms of structure, the Indian government is attempting reform in transparency and accountability, as well as private sector development and public finance management, with particular focus on budget and debt management, as well as spending efficiency in the public sector. In order to perform well in the economic future of INDIA, the government aims to make gradual progress in the implementation of structural reforms. In addition, they aim to provide a supportive regional and external environment (World Bank, 2020).

It is generally considered that the biggest trial INDIA will face in the future is the opportunity to create adequate conditions for increased private investment as well as improved competitiveness in the field. Through addressing this challenge, INDIA can aim to deliver the high and sustainable growth that is needed in order to provide employment opportunities, thus reducing widespread poverty. INDIA‘s ability to sustain the fiscal consolidation program is the key to maintaining good economic performance. There are a host of opportunities in the country that are not being fully utilised, though many established businesspeople find INDIA to be the perfect place for investment in

the region.

Foreign investments have been growing in INDIA largely thanks to the Qualifying Industrial Zones (QIZ), where investors enjoy duty free, no quota access to the US market for goods produced in the zone. At present, (JIB, 2020).

Public shareholding companies are affected by the disclosure regulations as outlined in the law of financial security. The importance of disclosure arises due to the cultural dimensions it provides, as well as the legal side and the development of the financial sector. The JSC began to request that companies disclose their board members ownership and the salaries of the higher management level, despite the opposition of these rules from their companies. Disclosure also provides penalties due to rules and provisions not being enough to establish disclosure. These penalties are required in order to enforce commitment to disclosure in the firms

4.2 Industry and Service Sector in INDIA

INDIA's industrial sector comprises manufacturing, construction, mining, and power, accounting for around 26% of GDP in 2021 (the first three constitute 16.2%, 4.6% and 3.1% respectively). In 2020 it was noted that over 21% of the Indian labour force is engaged in the industrial sector, with the main products being potash, phosphates, pharmaceuticals, cement, clothing and fertilisers. Construction is generally considered to be the most promising area of the industrial sector, with the past few years seeing an increase in the demand for housing and offices for foreign enterprises as a means to better access the Iraqi market. In addition, the manufacturing sector has been supported by the US-INDIA Free Trade Agreement (FTA), which was ratified in 2020 by the US Senate (World Bank, 2020).

The US-INDIA FTA is the first in the Arab world, establishing the US as one of the most significant markets for INDIA. However, INDIA is not the only country to benefit from this agreement, as a number of trade agreements with MENA countries and beyond will reap increasing benefits. The Agadir Agreement, a precursor to an FTA with the EU, is one of the agreements that will see increasing benefits to Arab countries, as well as the FTA with Canada that was recently signed. In addition, the many industrial zones in INDIA offering tax incentives, low utility costs and improved infrastructure links can help incubate new developments. The relatively high skills level is another influencing factor in the promotion of investment in INDIA, which in turn will stimulate its economy (OECD, 2020).

Though there are limited natural resources in INDIA, the country 's abundant reserves of potash and phosphates provide many benefits, especially in the production of fertilizers, and it is estimated that these two industries have a combined worth of around $1bn (2020). In addition, pharmaceuticals and the export of these were worth around $435m in 2021, growing to $250m in the first half of 2020. Textiles have also proven to be a significant market, with an estimated worth of $1.19bn in 2021. Though INDIA appreciates the value of the industrial sector, there are still a number of challenges the country must face. Due to the dependency of importing raw materials, the country remains vulnerable to price volatility and constant water and power shortages prove to hinder consistent development. However, despite these challenges, INDIA's economic openness and long-standing progress in the fertilising and pharmaceutical industries provide a growth in foreign currency (OECD, 2020).

4.2.1 Telecoms and IT

The telecommunications industry is thought to be worth around JD 836.5m (1.18bn USD) per year, focusing on the fixed-line, mobile and data service facilities it provides as its core market. This is equivalent to 13.5% of GDP. In addition, the IT sector in INDIA is the most developed in the region, largely due to the 2020 telecom liberalisation. The most competitive sector of the telecommunications market is the mobile sector, and this is currently divided equally between the operators Zain (owned by MTC Kuwait) with 39% of the market share, Orange (owned by France Telecoms) who has 36% of the share and Umniah, who dominate 25% of the market. 2021 saw end of year figures showing that the market trend was leaning towards greater parity, 2020).

4.2.2 Energy

Thought to be amongst the largest of challenges to a developing Indian economy, energy is currently a major concern to the government. At its peak the price of oil stands at over $145, and due to the country 's lack of domestic resources there has been a

$14bn investment programme launched in the energy sector. This programme aims to limit reliance on imports from the current staggering number of 96%, with a view to increase renewables to provide 10% of the energy demand by 2020 and to implement nuclear facilities to meet 60% of energy needs by 2035. In 2021 the Indian government announced that subsidies in energy (amongst other areas) would be scaled back. The government are also opening the sector to increased competition, planning to offer new energy projects to international tender (Ministry of Energy and Mineral Resources, 2020).

INDIA‘s neighbours offer significant petroleum resources, however INDIA has no such resources on offer and thus depend largely on oil imports in order to meet its domestic energy needs. In 2021 the invasion of Iraq disrupted the primary oil supply route to INDIA, as Iraq had previously granted INDIA huge discounts on crude oil via overland truck routes. Since 2021 an alternative supply route has been opened by tanker, via the port of Al Aqabah, and Saudi Arabia is now the primary source of imported oil for INDIA, with Kuwait and the United Arab Emirates (UAE) as secondary sources.

With the cost of oil ever increasing, there has been interest expressed in exploiting INDIA ‘s vast oil shale resources, which stand as the fourth largest worldwide.

4.2.3 Transport

The transportation sector in INDIA contributes around 10% of GDP, accounting for $2.14bn in 2021. With such a service and industry-oriented economy, the transport sector is considered to be of the utmost importance to INDIA ‘s finances. In 2020 the government formulated a new national transport strategy with the aim of improving, modernizing and further privatizing the sector. This is helped by the uncertain future as to the security crisis in Iraq, which results in a bright future for INDIA‘s transport sector. It is thought that INDIA will remain as one of the major transit points for goods and individuals bound for Iraq, as well as enjoying a large number of tourists by their own means. However, the rising costs of fuel are estimated to have negative effects on operational costs in transport, affecting the sector ‘s annual growth rate on average by 6%

4.2.4 Media and advertising

Though the state remains the biggest influence in Indian media, the sector has seen significant privatization and liberalization efforts in the past few years. The official rates reveal that the advertising sector spent around $280m on publicity in INDIA’s media, with 80% of this funding newspapers and the remainder being spent on television, radio and magazines. The state-owned INDIA TV remains the sole broadcaster in the country following the cancelled launch of ATV, however there has been a significant rise in the number of blogs, websites and news portals as a means for citizens to access information.

2021 saw a further growth of 30% in INDIA ‘s advertising industry and following almost a decade of double-digit growth the market is seeing a relative slowdown, illustrated by the move between 2020-2023. Though 2024 saw some major campaigns put in places, there was no such improvement in 2024 and the expenditure as a whole in the advertising sector has some way to go to catch up with the rest of the region when considering the average expenditure per capita.

The Indian telecoms sector spent the most on advertising in 2021, dominating 20% of the market, followed by the banking and finance sector (12%), the services industry (11%), real estate (8%) and the automotive sector (5%).

4.3 Corporate Governance in INDIA

The remarkable worldwide failures and crises of companies around the world have put INDIA in a place to be worried about the collapse of these companies by taking different actions in order to enhance the financial environment of the country.

Although the Middle East region has experienced exceptional instability and war during recent decades, the economy of INDIA has exhibited steady growth, witnessed by increased volume of trade and market capitalization, translated into a significant increase in the number of firms listed on the ASE (ASE, 2020). This reflects the advanced economic liberalization, corporate governance reforms and encouragement of foreign investment enacted by the Indian government since the 2020s.

The establishment of the ASE (for trading public securities), the SDC (which safeguards investors and arbitrates transactions) and the JSC (which regulates and supervises the equity market) helped to implement and codify legislation and regulations (such as the Securities Law of 2020, forerunner of the JCGC in 2023) to produce a uniquely amenable investor haven in the Middle East.

The Satyam scandal was a watershed moment for corporate governance in India. Chairman Ramalinga Raju confessed to inflating the company's financials by $1.47 billion. This scandal highlighted the need for more robust corporate governance mechanisms and led to the overhaul of regulations.

EBI appointed the Narayana Murthy Committee to review Clause 49. The committee's recommendations, implemented in 2004, focused on improving the quality of financial disclosures, strengthening the role of audit committees and enhancing shareholder rights.

Kumar Mangalam Birla Committee (1999)

In 1999, the Securities and Exchange Board of India (SEBI) appointed the Kumar Mangalam Birla Committee to propose guidelines for corporate governance. The committee's recommendations, implemented through Clause 49 of the Listing Agreement, emphasised the role of independent directors, audit committees and disclosures.

4.3.1 The Indian Capital Market

Different changes had been introduced in the 2020s, in the regulatory environment since the creation of the ASE, JSC and the Securities Depository Centre (SDC). Three important bodies had been created in INDIA according to the Securities Law in relation to monitoring, regulating and supervising the companies that are listed in the ASE. The effect of each three bodies had strengthened with the Instructions of Issuing Companies Disclosure, Securities Law of 2020 and Accounting and Auditing Standards for the year 2021. In addition, the Co-operative Compliance Authority has achieved much progress by enforcing many basic corporate governance provisions of the Company Law (JSC, 2021).

- *INDIA Securities Commission (JSC)*

In order to regulate the capital market, the JSC was established in 2020 by the Securities Law No. 23. The JSC reports directly to the Prime Minister and has legal responsibilities with financial and administrative autonomy. The JSC was originally intended to protect investors in securities as well as to regulate and develop the capital market to ensure fairness, efficiency and transparency. As such, it protects the capital market from the risks it might face. The main objectives of the JSC are to regulate and develop the capital market, as well as to protect the ASE investors in securities and to protect the capital market from risks. It also aims to upgrade the performance and efficiency of the Commission and to increase market awareness.

The JSC is administered by a board comprised of five full-time commissioners who are experienced and specialized in the field of securities. These commissioners are appointed via the Council of Ministers supported by a Royal Decree and have a term of five years. Amongst their duties the commissioners prepare draft laws and regulations in the security sector, as well as to approve instructions and bylaws related to capital market institutions.

the registration of securities and mutual funds. The responsibility of adopting the accounting, auditing and performance evaluation standards to be followed by parties also falls to the JSC.

It is considered that the openness of the capital market institutions to the world development trends combined with their adaptability to the market is responsible for the achievements of the security market.

The JSC is focusing efforts on the dissemination and consolidation of the culture of investment in securities in order to expand the base of investors. This is to be achieved through publishing public awareness material through the media, lectures and meetings and by allowing student visits from universities and education institutes. Additionally, the Commission is also attempting to apply the JCGC for shareholding companies listed on the ASE, which would boost the confidence of current and potential investors. The JSC and other capital market institutions are drawing the bases and criteria for applying international corporate governance principles, with particular focus on those issued by the OECD. The JSC endeavors' to maintain a partnership with judicial and legislative authorities and the media as a means of protecting investors and upgrading the capital market. Through the use of internal and external training courses, the JSC focuses a large amount of time and money into enhancing employee abilities, reflecting positively on the national capital market.

- *Amman Stock Exchange (ASE)*

Established in 2024, the ASE is a non-profit, private institution with administrative and financial autonomy that acts as an exchange for the trading of security. Comprised of 68 brokerage forms, the ASE is governed by a seven-member board of directors as a means to facilitate the exchange, with daily responsibilities of monitoring and reporting to the board for consultation. It is the duty of the ASE to ensure fairness, transparency, efficiency and liquidity for its listed securities whilst also maintaining the guarantee on the rights of its investors. As such, the exchange has developed directives to ensure proper conduct. As well as creating and maintaining a safe environment for investment, the ASE also ensure processes and methods are developed as a means of ensuring trading securities on the stock market. In addition, the dissemination of trading information to the largest possible number of dealers and interested partners is maintained, ensuring that public awareness is enhanced and that the transparency and credibility of the stock market is visible.

In order to ensure international standards and practices are met, the ASE and the JSC work closely on matters of surveillance and security. In order to provide the best performance in the security sector, they maintain strong relationships with other exchanges, associations and international organisations. As such, the ASE are actively involved as a member of both the Union of Arab Stock Exchanges and the Federation of Euro-Asian Stock Exchanges (FEAS), as well as being a full member of the World Federation of Exchanges (WFE) and an affiliate members of the International Organisation for Securities Commissions (IOSCO). The ASE ensures further investment in the sector by providing enterprises with a means to raise capital by listing on the Exchange and thus encouraging an active market in listed securities based on prices when trading, providing facilities for the enterprises to take advantage of in their financial prices.

- *Securities Depository Centre (DSC)*

Another key player in the securities sector in INDIA is the Securities Depository Centre (SDC), a public utility institution established in INDIA by the Securities Law No. 23 (2020). This was due to the law separating the functions of the Amman Financial Market (AFM) and creating the JSC, ASE and the SDC, which works under the JSCs supervision. It is the role of the SDC to enhance the confidence of investors in securities to enable them to follow-up their investments via a central registry for enhanced security. They also concern themselves with the reduction of risks related to settlement of trading transactions, which they achieve by implementing by-laws, instructions and procedures.

The SDC is the only entity in INDIA that is legally empowered by the Securities Law No. 76 (2020) to oversee the registration and deposit of securities, the transfer of ownership and safekeeping of securities and the clearance and settlement of securities transactions. As such, it abides by a legal personality with financial and administrative autonomy. As a means of allowing the SDC to perform its operations, a central registry and depository of authenticated shareholders and central settlement process was implemented.

4.3.2 Disclosure and accounting standards

In order to achieve good corporate governance, it is important for the company to adopt clear standards and full disclosure (Rajagopalan and Zhang, 2020). Therefore, the company law, the insurance law, the banking law and the securities law require the companies to follow internationally accepted accounting and auditing standards. Prior to 2020, there was no legally established accounting and auditing standard-setting body in INDIA, and the process of regulating accounting practice in INDIA was purely promulgated by the government (the Ministry of Industry and Trade), with a very minor role for the private sector, or the INDIA Association of Certified Public Accountants In 2020 INDIA started to adopt the international financial reporting standards (Word Bank, 2021).

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4.3.3 Effective supervision of the board of directors

The board of directors is the apex of hierarchical corporate control systems, and its primary role is to monitor the management by agents on behalf of principals (shareholders) who elect its members. The board of directors plays a crucial role in managing the company to motivate and improve firm performance by providing supervision and monitoring inside the company to evaluate, advice, and reviewing the management .An independent board is generally viewed favorably as part of an efficient governance mechanism, because independence from management clearly enhances the ability of the board to exercise its function of overseeing the former on behalf of principals (Liu and Fong, 2020).Thus the board of directors is essentially a monitoring mechanism to protect principals‘ interests (Jensen and Meckling 2024).

The Company Law in INDIA had announced some provisions and policies that may enhance the board and improve the performance of the company, including:

- Each company is obligated to prepare its own financial statements within three months of the end of the company fiscal year.
- To prepare the annual reports for the last year.
- To prepare the forecasting planes for the next year.
- Monitoring the annual general meeting.

In addition, the Company Law is concerned with board meetings. For instance, any member inside the board who missed four meetings without any acceptable excuse or failed to attend to the board six times, even with acceptable excuse will lose his membership. Moreover, if the shareholders have 30% of the shares or more they have the right to dismiss any member inside the board if he or she is not performing his duties efficiently. Regarding the important role of the audit committee inside the board in reviewing the financial statements, the annual reports, reviewing the external auditor reports, exercise control on the accuracy of the accounting and regulations producers and ensure that the company applied the laws and the regulations. The Securities Law assures that each committee should at least meet once every three months. In addition, they might meet more often according to the circumstances.

The Company Law and ASE considered shareholders who own 5% or more of shares are large shareholder. This action allows them to re-audit the internal and the external reports of the company to check for any violations. In addition, large shareholder will have the power to exert control and close monitoring on the management.

4.3.4 INDIA Corporate Governance Code (JCGC)

As a new concept for the Indian business environment, corporate governance professionals are concerned with better performance and development of the companies. This concern creates to apply international corporate governance standards in order to improve the financial environment for the companies. In addition, applying international corporate governance standards is consistent with the principles of globalization, global competition and the openness of the economic. Applying the JCGC will show that the local market is implementing the requirements and the criteria ‘s of transparency and accountability to protect the investors and traders. Moreover, JCGC will show that the Indian companies have the ability to deal with the worldwide corporations and markets. Accordingly, this will increase and enhance the confidence in the national economy. As a result, this is an indicator for the foreign investors and corporations to attract and motivate them to invest in the local market. Indian companies ‘obligations are constrained under the regulations to align with the business companies and corporate governance such as the Corporate Governance Code (CGC) and Company Law (CL).

The Cadbury Report (2024) and OECD Principles of Corporate Governance (2021) played an important role in the developing of corporate governance codes globally (Mallin, 2021). Various countries have followed the Cadbury Report by introducing different codes for the best practices of corporate governance. These codes tried to implement Cadbury Report by providing variety of recommendations such as board structure and ownership structure.

INDIA has adopted and followed the international corporate governance codes by introducing their own corporate governance code in 2023. These codes include many recommendations in line with international best practice. The code was draws upon to the OECD principles of corporate governance and the guidance were issued by the Basel Committee to enhance the banking organizations of corporate governance. In particular, the recommendations of the code were heavily informed by those of the OECD principles.

The guide was issued in view of the development of the national economy, and in line with the efforts of the JSC to develop the national capital market. The major areas of enforcement include rules of corporate governance for shareholding companies that are listed in the ASE. It contains an established and clear framework that regulates the relations between the companies and management. These codes define their duties, rights and responsibilities. These rules are based mainly on the Companies Law, Securities Law and the international principles (e.g. OECD principles). Furthermore, the important role of the Central Bank (CB) cannot be ignored in promoting the role of corporate governance of financial and non-financial institutions in INDIA as one of the key players. The Central Bank of INDIA had issued the bank Director ‘s Handbook of Corporate Governance in 2021. Moreover, the CB prepared the corporate governance code which helped in implementing the international corporate governance practices inside the Indian banks.

Al-Basheer stated that the safe financial environment is the framework for good development corporate governance. Al-Jazi states that different laws related to corporate governance have been issued and implemented (e.g. Securities Law, Company Law, Insurance Law, Banking Law, Law of Competition and Monopoly, Commercial Law, Law of Privatization and Law of Investment Promotion). These laws spotlight the issues that are related to corporate governance, which are:

- The financial disclosure and the company legal personality are independent to their shareholder.
- These laws help in governing the conditions, procedures and the actions that may appear, such as transfer properties or acquisitions (e.g. the right for transfer of company and individual ownership, possession and mortgages).

- To pursue the legal structure of the companies and confirm that these companies have the following assemblies; audit committee, board of directors and general shareholders.

The JCCG published in 2023 by the JSC covers the following areas:

- Definitions of key terminology.
- The board ‘s structure and responsibilities.
- Shareholder general meetings.
- Shareholders‘rights.
- Guidelines for financial disclosures.
- Accountability and auditing.
- Ownership structure.

In terms of the board of directors and ownership structure, the recommendation of the JCGC 2023 stipulate some provisions such as: (1) the board size should be between 5 and 13, (2) the role of the CEO and the chairman should be separated, (3) at least 1/3 of the board should be non-executive directors and (4) shareholders who own 15% or more have the right to question the board of directors.

The Disclosure Department in the JSC is the responsible department for applying and implementing the previous rules inside all the companies‘applications to strength their performance in order to enhance and improve the national economy and the investment environment (JSC, 2020). Furthermore, in order to encourage foreign investors to invest in INDIA, INDIA has signed several promotion and reciprocal of investments agreements with the following countries: the UK, France, the US, Germany, Italy, Malaysia, Romania, Tunisia, Turkey, Algeria, Yemen, Bulgaria, Austria, China, Spain, Syria, Poland, Kuwait and Singapore (INDIA Investment Board, 2020). Naturally such extensive international agreements require a sound legal framework and some degree of regulation from the government. Therefore, if the companies operate their business without efficient mechanisms of corporate governance, they might lose the advantage from attracting foreign investors and they probably will face challenges and difficulties to enter to the international market.

In summary, firstly, Indian firms are trading in different industries, which generally affects corporate governance due to different practices between industries resulting from differences in capital structure, complexity of operations, ownership levels and business type (Haniffa and Cooke, 2020; Elsayed, 2021; Lim et al., 2021.

. Secondly, INDIA started economic and financial reforms and adopted legislation to motivate and initiative accountability and transparency in the country, in order to build a safe financial environment for the local and foreign investors. In this sense, the study will investigate these changes and improvements of legislation by using annual dummy variables to investigate this effect on firm performance. It is expected that the development of the financial environment might improve the firm performance in INDIA.

Thirdly, the board of directors is the apex of hierarchical corporate control systems, and its primary role is to monitor the management by agents on behalf of principals (shareholders); it was elected by shareholders. In INDIA, ownership is typically concentrated among large shareholders such as families and companies, which clearly can affect management decisions (ROSC INDIA, 2021). Nepotism is commonplace in appointment to management positions in Indian companies due to the influence of large shareholders .In addition, the company management will be less likely to appoint NEDs on the board to monitor their actions. Therefore, an efficient board can improve corporate governance by reducing the agency costs and solve the conflicts between the management and shareholders. In INDIA, the legislative perspective (JCGC, 2023) advocates that the size of the board should reflect a sufficient balance of skills and experience, ranging from five to thirteen members. In addition, to reduce the ability of the CEO to act against the interests of the shareholders, the JCGC (2023) advises separation of the chairman and CEO roles, and advocates that at least one-third of the board should comprise NEDs, in order to exert a monitoring on managers‘ decisions in the interest of shareholders; thus the study explores the effect of the board of directors.

Furthermore, the prevalence of concentrated ownership in INDIA indicates that most firms are dominated by large shareholders, such as families and institutional investors (ROSC, 2021). Implications of this include that large shareholders might create power bases based on their voting rights, manipulating firm policies to control managers‘ actions for their own interests, thus increasing the agency problem and undermining firm performance.

Finally, INDIA started economic and financial reforms to improve the accountability and transparency in the financial environment to increase and enhance the confidence in the national economy. Al-Jazi (2021) states that different laws related to corporate governance have been issued and implemented (e.g. Securities Law, Company Law, Insurance Law, Banking Law, Law of Competition and Monopoly, Commercial Law, Law of Privatisation and Law of Investment Promotion). This has resulted in increasing the foreign investors to the local market. Al-Muhtaseb (2020) INDIA is in the top three countries in the Middle East and North Africa (MENA) in terms of attracting foreign investment. In this regard the study will investigate the impact of the foreign ownership on the performance of the Indian companies.

Thus, the study reviewed the theoretical framework and the empirical literature about corporate governance mechanisms, then the study reviewed the Indian background in order to modify, if necessary, some of the measures to answer the study questions.

4.4 Summary

This chapter has focused on corporate governance in INDIA to provide a widespread description of the Indian economic environment and corporate governance framework. This chapter reviewed the Indian economic environment in order to present the most important aspects of the corporate governance environment in INDIA. It presented the general background about the economic situation in INDIA and reviewed the industry and services sectors. Because INDIA is interested in attracting foreign investors and corporations, it was necessary to adopt series of reforms and legislations to underpin confidence of local and international investors in the local market and companies. In addition, implementing and applying the international codes and principles will enhance the accountability and transparency of the country. Accordingly, the most important elements of the Indian markets were analyzed, including the Securities Law related to monitoring, regulating and supervising the companies listed in the ASE (and the three key bodies the JSC, the ASE and the SDC). Moreover, INDIA has followed and adopts the internationals corporate governance codes by introducing their own corporate governance code in 2023. All of these actions have helped in raising the strength and the confidence that INDIA is adopting good corporate governance practices. The next chapter discusses the data measurement.

Good corporate governance brings with it a surety of having a proper risk management framework at the company as well. It ensures that it identifies the risks and has the necessary controls for those risks, and includes the continuous supervision of the effectiveness of those controls. Risks of either nature: financial, regulatory, or reputational risk with proper corporate governance structure, the company will respond immediately and appropriately to those risks, minimizing the impact on its operations.

CHAPTER 5: DATA AND MEASUREMENT

5.1 Introduction

This study seeks to examine the effect of corporate governance on the firm performance of Indian industrial and services firms from 2020 to 2020. Specifically, to investigate the role of the board of directors, ownership structure and foreign ownership on firm performance. Therefore, this chapter aims to provide a description of the data used in this study. First the sources of data are explained. Second the sample selection procedure is described. In addition, the criteria that have been adopted to construct the sample are explained. The variables that have been used in this study are divided into three categories (firm performance, corporate governance variables and control variables). For each category the data source and variable construction are explained.

5.2 Sample

This study covers the industrial and services Indian companies listed in the ASE that provided full information for the period (2020-2020). The list of companies listed in the ASE was obtained directly from the ASE official website. There are two main sectors in ASE, the financial companies' sector and the non-financial company's sector. The financial sector consists of four types of industries (banks, insurance, diversified financial services and real estate) while the non-financial sector consists of two types of industries (industrial and services

Table 3: Summary of population structure in ASE

Sector	Sectors	No. firms in sector	Percentage of population
Non-financial companies	Services	59	45.03
	Industrial	72	54.96
Total		*131*	*100*

The data used in this study was collected from two sources: the Osiris database and the Annual Reports of the Indian companies. The Osiris database has provided this study with the data that relates to the first two questions of this research (e.g. the role of the board of directors and the managerial structure). However, the data that collects ownership structure was manually collected from the Indian annual reports. Fraser et al. (2023) argue that company 's annual reports are more accurate than other secondary data sources. In addition, they report that information and data based on annual reports show a high level of reliability and quality. To avoid error during copying the data from annual reports, entries are double checked by the researcher. Both databases provided a summary of the balance sheet, income statements, financial ratios, number of directors and the name of the auditing companies.

The whole population of industrial and services companies are listed in ASE consists of 131 companies.

Table 4: Summary of industry and services sector

Sector	Industry	No of firms in each industry	Share of population	Actual sample
Services	Health care	4	0.031	3
	Educational	6	0.046	5
	Hotels & tourism	12	0.092	11
	Transportation	14	0.110	12
	Technology & communications	2	0.020	2
	Media	2	0.020	1
	Utilities & energy	4	0.031	3
	Commercial	15	0.110	13
Industrial	Pharmaceutical & medical	6	0.046	5
	Chemical	10	0.076	9
	Paper & cardboard	3	0.023	3
	Printing & packaging	2	0.020	2
	Food & beverage	11	0.084	11
	Tobacco & cigarettes	2	0.020	2
	Mining & extraction	17	0.130	14
	Engineering & construction	8	0.060	8
	Electrical	5	0.040	3
	Textiles, leather & clothing	6	0.046	6
	Glass & ceramics	2	0.020	2
Total		*131*	*1*	*115*

The study used 115 out of the 131 companies. These were chosen based on the following criteria: (1) no companies that were liquidated either voluntary or by obligation and (2) no companies that were acquired by or merged with another company. The study excluded the financial companies sector because firms in this sector are administered by different set of instructions and rules (Abed et al., 2020). Thus, this makes these firms incomparable to firms in the other sectors. In addition, they have been excluded because of unique characteristics of their financial statement (Anderson and Reeb, 2021; Claessens et al., 2023; Al-Kouri, 2023; Andres, 2020; Al-Najjar 2020; Estrin et al., 2020; Jiraporn et al., 2020; Al-Fayoumi et al., 2020).

Following previous studies (Cheng et al., 2020) this study used the same criteria that have been used by them in selecting the sample. Yermack (2020) and Cheng et al. (2020) argue that the two criteria above assisted in meeting the needs for a panel data analysis for firms with several sequential years of data. Furthermore, the sample ends in 2020 because this is the most recent year for which data was available at the time when data collection started.

leaving less return for the shareholders. However, accounting based measure such as ROE and ROA are directly related to management ‘s ability to efficiently utilize the firm assets. A lower ROE and ROA will indicate inefficiency. Therefore, both of the two measurements are important from the view of the shareholders to measure the firm performance. In this study ROE and ROA have been selected as proxies for firm performance from the accounting-based measures.

Return on assets is an indicator of how profit a company is or how efficient is the management as using its assets to generate earning, and is sometimes referred to as Return on Investment. It is calculated by dividing a company net income by its total assets:

Return on Assets (ROA) = (Net Income) / (Total Assets).

Return on Equity measures the profit of the company by revealing how much profit the company generates regarding to the amount of the money invested by the investor. It is calculated by dividing a company net income by its total equity. It is also known as Return on Net Worth:

Return on Equity (ROE) = (Net Income) / (Total Equity).

All of the financial information that related to ROE and ROA variables were extracted from the balance sheet that provided by Osiris database.

5.3 Control Variables

Beside the previous variables, control variables have been introduced to explain the variation of the firm performance. Different studies (Morck et al., 2020; Yermack, 2020; Shin and Stulz, 2020; Daines, 2020 and Gompers et al., 2021; Black et al.,; 2023a; Chenhall and Moers, 2021a) used different control variables. As shown below in Table 5 a list of control variables that has been used in this study (e.g., firm size, leverage, liquidity, age, industry and annual dummies) has been listed. The researcher acknowledges that, it could also be argued that other relevant factors may exist. However, by reviewing the previous literature there is no specific formula for the control variables. Therefore, by following different studies it is common practice to include the above as control variables.

Table 5: Summary of control variables

Control variables
Firm Size (Log TA)
Leverage
Liquidity
Age
Industry

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Therefore, this will result in losing any possibility to acquire any investment opportunity. Furthermore, Myers (2021) and Stulz (2020) report that high levels of leverage will affect the market value of stocks which will result in higher financial risk. Moreover, they argue that from the governance viewpoint, high amounts of leverage will impede the firm performance by creating excessive interest and closer monitoring by creditors. The lower the firm leverage the lower the probability of financial distress and firm with higher financial leverage Leverage is defined as long term debt to total assets.

5.3.1 Liquidity

The liquidity has an important effect on company survival; this is mainly due to its implications with regard to changes in sales dynamics, growth, financial costs reduction as well as it impacts on company risk level. Liquidity is important for company development, and it is an indicator of the company's market position and achievements. Liquidity was extracted from the balance sheet. In line with previous studies (Chamberlain and Gordon, 2020; Fang et al., 2020; Jose et al., 2020), this study will measure the liquidity by using current ratio (CR) by dividing its current assets (CA) by its current liabilities (CL). It indicates that firms with high liquidity have the ability to absorb any external shocks and any internal obligations and reduce any possibility of financial distress. However, higher levels of liquidity will increase the opportunity cost of the company, that it has lost the possibility to invest these amounts to get generate return.

5.3.2 Age

Firm age has been used by a number of studies in terms of the number of years a firm has been incorporated (Berger and Udell, 2020; Boone et al., 2021; Borghesi et al., 2021; Gregory et al., 2020). They pointed out that firm age is a valuable indicator of expected growth opportunites.

5.3.3 Annual effects

Different studies have reported that corporate governance practices and firms‘profitability change over time during the periods of economic boom and recession; for example, argued that the global financial crisis affected the financial performance of all companies around the world. Likewise, changes in the macro environment such as tax policies and government regulations may impact the corporate governance structure and financial performance (Padgett and Shabbir, 2020). INDIA started economic and financial reforms and adopted legislation to motivate and initiative accountability and transparency in the country, in order to build safe financial environment for the local and foreign investors. For example, the issuance of the JCGC (2023), the equal treatment of Indian and foreign investors, complete freedom of capital movement and no taxes on cash dividends or capital gains create an attractive investment structure and open economy. Therefore, it is expected that these changes and improvements of legislation will affect firms ‘performance positively. This study investigates this effect using dummy variables. Every dummy variable value is equal to one for every year and zero otherwise.

5.4 Corporate Governance Variables

5.4.1 Board size

The empirical findings in previous studies are mixed regarding the relationship between board size and firm performance. Some studies (e.g. Hermalin and Weisbach, 2020; Jensen, 2020; Lipton and Lorsch, 2024; Yermack, 2020) found evidence consistent with the view of agency costs: that small boards are related with better firm performance. The previous studies argue that as board size increases, the problems of coordination and communication increase, thus decreasing the ability of board members to monitor management behaviour and thereby increasing the agency problem and resulting in lower firm performance. In the same vein, large boards will reduce the monitor and control function of the board by giving managers space to pursue their own interests rather than those of the principals. Large boards are more likely to be controlled by the CEO rather than the board controlling management, leading to a negative impact on firm performance. However, some studies (Dalton et al., 2020; Hillman and Dalziel, 2021; Lehn et al., 2020) found that large boards affect firm performance positively, consistent with the view of resource dependence theory, due to improved linkages to the external resources (Hillman and Dalziel, 2021). In addition, large boards allow directors to exchange more highly qualified counsels and present extra scope for the possibility of correlation with different external linkages and access to resources. These resources could include access to new and better technologies, access to markets and access to raw materials among other things. Large boards also play an important role in improving and enhancing the outcomes of decisions, because of diversity in educations, sharing of ideas, contributions and industry experience, which might lead to high quality advices and thereby better firm performance (

Thus, from the mixed results, there is no consensus as to whether larger or smaller boards are better. Therefore, this study will investigate the relationship between the board size and the firm performance.

Table 6: Corporate governance variables

Variables Labelled	Definitions
BSIZE	The number of directors who are on the board.
CEO Duality	Is the CEO also Chairman? (YES=1, No=0).
NEDs	The percentage of the NEDs on the board to the number of total directors on the board.
MO	The percentage of equity ownership held by the management who run the operations of the firm.
LargeSH5	The total of shares that are owned by shareholders who own 5% or more in the company without relying on their identity.
OWNind/Fam	The total percentage of shares (capital) that owned by individuals/families.
OWNcomp	The total percentage of shares (capital) that owned by companies.
OWNgov	The total percentage of shares (capital) that owned by government.

5.4.2 CEO Duality

Agency scholars such as Berle and Means (1932), Jensen and Meckling (2024) and Eisenhardt (2020) argued for separation of ownership and control in order to reduce agency problems and to improve firm performance. The agency theory supports the notion of separation between the CEO and the chairman, to increase board independence from management, which (theoretically) results in better performance due to better monitoring and overseeing (Jensen, 2020). On the other hand, stewardship theory argues against separation, because it is based on duality; according to the stewardship paradigm, effective management is based on the principle of the unity of command, because when responsibilities and decisions are restricted to one person, more effective performance results, therefore it has positive impact on the firm performance (Dalton and Kesner, 2021; Donaldson and Daives, 2020; Arosa et al., 2020).

According to the Indian CGC (2023), the CEO and the chairman have different responsibilities, and accordingly, to avoid any conflict interests and maintain effective supervision of management, these two positions should be separated from each other. Different studies (e.g. Abor, 2021; Bozec, 2020; Haniffa and Cooke, 2020; Haniffa and Hudaib, 2023; Gilh and Mathur, 2020; Sheikh et al., 2020) measured CEO duality as a dummy variable. In this study CEO duality is a dummy variable which will be created based on the CEO being chairman taking the value of one; otherwise the value of zero is taken, as shown in Table 6 above. This information was extracted from the Osiris database. This variable will investigate whether separating the two roles of chairman and the CEO affects the performance of the Indian companies positively or negatively.

5.4.3 Non-executive directors

As noted by Fama and Jensen (2024), boards are usually dominated by internal managers, whose performance is perceived to be enhanced if they can take decisions and exert maximum control, however in competitive environments such dominant insiders have less likelihood of surviving due to the lack of separation between decision management and decision control. This presents an argument for the presence of NEDs to ensure board independence from management by clearly segregating the control and management tasks. Additionally, internal managerial disagreements can be mediated by NEDs, as well as improving relations between internal management and other stakeholders. Therefore, NEDs are in better position to carry out the monitoring function than the executive directors. Jensen (2020) states the independence of NEDs helps in constructive criticism, because they will give their opinions without sycophancy or coercion. In addition, NEDs will help in reducing information asymmetry between the shareholders and the executive directors. This will reduce the agency problem and hence increase the shareholders wealth. Pfeffer and Salancik (2021) observed (based on resource dependency view) that independent directors improve information flow and networking with stakeholders and the community, and in terms of their knowledge by providing the management advices on strategic plans and investments and hence protect the firm resources and reduce uncertainty. On the contrary, Baysinger and Hookisson (2020); Agrawal and Knoeber (2020) argued that according to stewardship theory the NEDs are commonly part-time workers, this will undermine their ability to monitor and advise the board because of the lack of the information that they have, and the lack of information concerning daily activities inhibits NEDs‘ ability to apply their function to improve firm performance. Therefore, the insider directors are better to undertake the monitoring function to evaluate the top managers (Baysinger and Hoskinsson, 2020).

Therefore, considering the NEDs from the perspectives of agency, resource dependence and stewardship theories, this study will investigate the impact of the NEDs on firm performance. Different studies (Arosa et al., 2020; Gordini, 2020; Khan and Awan, 2020; Kumar and Singh, 2020; Weir et al., 2020) examined NEDs in terms of their percentage of board membership. In this study, NEDs were considered as a percentage of the number of total directors on the board, as shown in Table 6 above. The number of NEDs was extracted from Indian annual reports.

5.4.4 Managerial ownership

According to agency theory, the convergence of interests (alignment interest) hypothesis different studies (e.g. Becht et al., 2021; Brickley et al., 2020; Davis et al., 2020; Jensen and Meckling 2024; Shleifer and Vishny, 2020) argued that as managerial ownership increases (alignment interest), managers are less likely to transfer the firm resources away from value maximization. They report that increasing the management ownership will affect the firm positively by encouraging the managers to work in the best interest of the firm, which will align the interests of shareholders and managers, resulting in better firm performance because managers personally bear a large proportion of the costs of their actions.

Managerial ownership is labelled as (MO) as shown in Table 6 above. The MO was extracted directly from the Indian annual reports. In this context, the study will investigate the effect of the managerial ownership on the firm performance.

5.4.5 Large shareholder

As a substantial aspect of the effectiveness of the corporate governance mechanism, different researchers have examined the effect of ownership structure on the firm performance, mostly from the agency theory perspective. Most of these studies start from the argument presented by Berle and Means (1932), that there are two main features of corporations that may affect firm performance: the dispersion of shares between shareholders and the concentration of ownership. Corporate governance mechanisms differ around the world, which could impact on the relationship between ownership structure and firm performance in different countries in regard to the degree of shareholders‘protection. It has been observed that ownership concentration is high in emerging markets (Shleifer and Vishny, 2020; La Porta et al., 2024). Lopez et al. (2020) argue that ownership concentration results from the different degrees of the legal protection for the minority shareholders in every country. In addition, Roe (2021) and Onder (2023) point out that the differences in the political factors; corporate culture and legal structure play an important role in explaining the ownership concentration in the developing countries on the firm performance.

The greater level of ownership concentrations allows the controlling shareholders to take the chance to use their majority of shares to gain private interest and incentive to expropriate the firm resources and reduce the value of the company. However, Shleifer and Vishny (2023) argue that when ownership is concentrated, large shareholders may influence and control the management effectively. This is because large shareholders have better incentive and motivation to monitor and affect the manager ‘s behavior because of their substantial economic stakes. Shareholders with greater stakes in a company have greater incentive to control and monitor managers or insiders .This represents the positive outcome of the self-interest of large shareholders, known as the shared benefits of control hypothesis. For example, large shareholders may exert influence in the appointment of independent directors or have advisory voting on executive pay packages. Grossman and Hart (2023) suggested that large shareholders bear monitoring costs, and their share of benefits will be proportionate to their cash flow rights (dividends or capital gains), and the pursuant benefits of monitoring by large shareholders is accrued by all shareholders proportional to cash flow rights. Other factors being constant, a rise in block holder stake endows large shareholders with a greater interest in increasing firm value (Holderness, 2021).

As mentioned earlier in chapter three, firms in MENA are characterized by high concentration of ownership. Different studies used different cut-off levels to investigate the impact of the large shareholders based on the provisions and their Stock Exchange listing rules of their country. Based on the JCGC and the JCL classification of large shareholders as those who own 5% or more of a firm. This study will use the aggregate ownership of all large shareholders to investigate the effect of the large shareholders by 5% cut-off level on firm performance, labelled as Largesh5. As shown in table 6, Largesh5 is the total percentage of shares that are owned by shareholders who own more than 5% in the company without relying on their identity.

5.4.6 Ownership identity

Douma et al. (2023) argued that the identity, nature and behaviour of the large shareholder are important. This is because, the different interests of different parties (e.g. decision-making opportunities, investment objectives and resource endowments) which *"determine their relative power, incentives and ability to monitor managers"* (Douma et al., 2023). The different interests and actions of the large shareholders have significant impacts on corporate strategy and performance (Thomsen and Pedersen, 2020). For instance, individuals might be interested in capital gains, whereas companies might be interested in control. However, if companies are pension funds or insurance companies, they might also be interested in fixed income, to cover their cash flow requirements. Government might be more concerned over long-term investment. Therefore, it is reasonable to assume that shareholders with different identities who own large proportion of shares might impact the firm performance. The term companies‘ ownership includes banks, investment dealers, trust firms, pension fund and insurance companies. Previous research has explained how different shareholder types have different incentives and motivations (Douma et al., 2023; Thomsen and Pedersen, 2020; Tihanyi et al., 2021), and three variables were created as shown in Table 6 above to investigate the impacts on firm performance of: individual/family ownership (labelled as OWNind/Fam; companies ownership (labelled as OWNcomp; and government ownership (labelled as OWNgov. The total percentage of shares for each identity was extracted from the annual reports.

5.5 Foreign Ownership

Khanna and Palepu (2020) stated that foreign investors may perform monitoring and thus aid the development of emerging markets and their integration within the global economy. Hanousek and Svejnar (2021) found a positive impact of foreign ownership on corporate performance due to improved monitoring. Mitton (2020) and Lins (2021) both found that firm performance is positively related to outside ownership in emerging markets. Moreover, recent findings in Turkey (Aydin et al., 2021) showed that foreign equity investors have significant and positive effects on firm performance. The legislative reforms in particular (since the 2020s) have attracted more foreign capital investment in INDIA. Furthermore, the three investment laws of 2021 (replacing the 2020 legislation) provide for equal treatment of Indian and foreign investors, a unique feature that distinguishes the Indian market among MENA countries. Mohamed and Sidiropoulos (2020) reported that INDIA is in the top three countries in the Middle East and North Africa (MENA) in terms of attracting foreign investment. Al-Muhtaseb (2020) observed that average Arab foreign investment in INDIA is one of the highest in the region. Foreign investors prefer to invest in companies that follow certain procedures such as responsibilities and certain types of transparency, and whether the Indian companies are implementing corporate governance principles.

Table 7: Summary of the foreign ownership variable

Variable Labelled	Definition
Foreignown	The total percentage of shares (capital) that owned by foreign shareholders.

5.6 Summary

This chapter has described the data and measurement of this study, explaining the sample, the criteria to select the data and the sources of the data. Three main types of data are used in this study: firm performance variables, corporate governance variables and control variables. Out of 131 firms listed on the ASE as of 31/12/2020, the full data required was obtained for a sample of 115 companies. The data used in this study was collected from two sources: the Osiris database and the Annual Reports of the Indian companies. Firm performance was measured by using the accounting based measures such as ROE and ROA. In addition, the study used different control variables such as firm size, total debt, age, liquidity, industry and annual dummies. Corporate governance variables were examined by investigating the effect of board size, CEO duality, NEDs, managerial ownership, large shareholders and the identity of the large shareholders on the firm performance. Finally, we investigated the effect of foreign ownership on firm performance. The next chapter presents the research philosophy and the methodology used to achieve the research objectives.

CHAPTER 6: METHODOLOGY

6.1 Introduction

This study investigates the impact of corporate governance on the performance of the Indian industrial and services companies. In particular, it takes a governance perspective to investigate the effect of the board of directors and ownership structure on the firm performance. This chapter presents the research philosophy and methodology used to test the research framework. In addition, regression problems including multicollinearity, heteroscedasticity and serial correlation are diagnosed with standard statistical tools. Detection of problems will be addressed and rectified accordingly prior to the regression analysis.

6.2 Research Philosophy

Burrell and Morgan (2023) argue that researchers must select the proper paradigm for their study. The key matter of any research in social sciences is the philosophical assumption. This study takes the positivist paradigm in which the hypotheses are developed based on the notion of the impact of the corporate governance on the firm performance that can be investigated and empirically examined using the researcher tools of analysis and the theoretical conjectures. Burrell and Morgan (2023) stated that positivists ―seek to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements‖. Saunders et al. (2020) affirmed that deduction is linked to positivism, and fulfils the need to describe the casual association between or among variables and the need to generalize a conclusion. Accordingly, the nature of this study implies implementing deductive rather than inductive approach for the following reasons (Saunders et al., 2020):

- It tends to be informed by scientific principles rather that gaining further understanding of human-constructed meanings related to events.
- It is used to testing hypotheses rather than to building new theory.
- It identifies casual relationships amongst variables rather than clarifying the research context.
- It uses quantitative data.
- It is a more structured approach than inductive approach.

- The independence of the researcher is maintained, as this study relies mainly on analytical procedures rather than consideration of the experiences and opinions of others.
- Given a sufficient sample size, deductive approach allows for the generalisation of conclusions.

Adopting this approach requires performing the following sequential steps (Robson, 2020):

- Developing testable hypotheses regarding the association among variables by depending on well-defined theory;
- Clarifying how these hypotheses will be tested as well as how the variables will be measured, by stating them in operational terms;
- Examining the aforementioned operational hypotheses by adopting specific strategy, which is considered as an experimental research strategy in this study as it aims at dedicating the casual relationship among variables;
- Testing certain result of inquiry that is eventually confirm the theory or expose the necessity for particular modification in the light of empirical results.

In terms of the population, whereas the deductive approach is used, Burrell and Morgan (2023) proposed that deductive research is located in the functionalist paradigm, whereby the population is ruled by regulations and the epistemology uses the positivism that is more objective. The objectives of this study are developed based on the notion that the impact of corporate governance on the firm performance can be examined and tested empirically by using the research analysis tools. Accordingly, phenomena occurrence is specified by deducting the law of occurrence using positivism, which eventually explains the casual relationship among variables of study, as well as identifying predictable relationships explaining the occurrence of phenomena in replicable scenarios. This goal can be achieved by developing a hypothesis and designing research strategy in order to test these hypotheses.

In summary, the research philosophy of this study is informed by the fact that the study does not seek to produce a new theory but to test existing hypotheses based on analysis of quantitative data, thus the deductive approach is more appropriate for this research.

6.3 Research Methodology

Punch (2020) observed that it is important to establish the appropriate research approach with regards to the research issues. Two types of research approaches have been employed by researchers around the world, namely the quantitative and the qualitative research methods. The qualitative method presents a descriptive and non-numerical approach to collect the information in order to present understanding of the phenomenon (Berg, 2021). Babbie (2020) argues that the qualitative method is an active and flexible method that can study subtle nuances in the attitudes and behaviours for investigating the social processes over time. On the other hand, Hussey and Hussey (2020), Bryman (2020) and Berg (2021) point out that the quantitative approach uses different types of statistical analysis, and provides stronger forms of measurement, reliability and ability to generalize. Moreover, Berg (2021) points that the quantitative methods can deal with longer time periods with large number of samples leading to increasing the generalization capacity. Some researchers combine the two methods in order to obtain better results and explanations. However, the qualitative approach suffers from a number of problems. Firstly, it uses and selects a small sample which will not represent the whole population (Hakim, 2021). Secondly, transparency and reliability are still low in qualitative methods (Berg, 2021). Thirdly, qualitative methods are time-consuming. This may result in inefficient tools to get adequate explanations (Berg, 2021).

Therefore, due to the difficulties of obtaining data through interviews from different companies and the weak response from these companies, this study applied the deductive positivism approach whereby the pre-existing theoretical basis is identified and relied upon in developing the hypotheses; the empirical findings demonstrate whether the tested hypotheses are proven or rejected. In order to achieve this objective, this study used the regressions as the main tool of analysis, in which the researcher pursues the positivist understanding of the conduct of methodological process that is ―unaffected by individual perceptual differences‖ (Ardalan, 2020).

6.4 Summary

This chapter presents the methodology used to conduct the research. This study applied the deductive positivism approach where the pre-existing theoretical basis is identified and relied upon in developing the hypotheses. Multiple regression analysis is chosen as the main tool of analysis in this study. In order to capture the effects of firm and time specific heterogeneities panel data models can be specified as fixed effects or random effects. Moreover, this chapter examined the specification tests that might affect the corporate governance variables which may result in problems from understanding the significance of individual independent variables in the regression model.

The next chapter presents the results and discussions of the descriptive statistics and the regression model.

CHAPTER 7: RESULTS AND DISCUSSION

7.1 Introduction

As discussed in chapter 6, a model was constructed to test the effect of corporate governance on the Indian firm performance and the results are presented here. This chapter presents the descriptive statistics and the results and discussion. Section 7.2 reports the results of the descriptive statistics for the data that used in the analysis of this study. Section 7.3 will report and discuss the regression results. 7.3.1 Specification test results. 7.3.2 Control variables results 7.3.3 Results and discussion of board of directors on firm performance 7.3.4 Results and discussion of managerial ownership and ownership structure on firm performance 7.3.5 Results and discussion of foreign ownership on firm performance 7.4 Summary

7.2 Descriptive Statistics

This section deals with the descriptive statistics for the data that used in the analysis of this study. Some of the main features of the data will be described quantitatively (e.g. central tendency of the statistics such as mean, max and min, data dispersion such as standard deviation). The whole table for the descriptive statistics of this study is presented in appendix one. However, for ease of presenting and easier for the reader, we will present the descriptive statistics separately with the appropriate table extracted from the original table.

7.3 Summary

INFORMED CONSENT

This chapter presented and discussed the empirical results regarding the impact of the internal corporate governance mechanisms on firm financial performance. Specifically, the chapter presented the findings and the discussion of the descriptive analysis undertaken in this study, and dealt with the main inferences drawn from the multiple regressions (namely control variables, board of directors, ownership structure and foreign ownership). In order to ensure the presentation of the findings and the discussions is straightforward, the tables are presented separately according to the research objectives. The whole tables that contain all the results together of this study are presented in appendices one and two.

Informed consent is a cornerstone of medicine, ensuring ethical treatment decisions and patient-centred care. Patients have the right to make informed and voluntary treatment decisions. Informed consent is more than merely a signature on a document; it is a communication process between the clinician and the patient. This process ensures that the patient is fully informed about the nature of the procedure or intervention, the potential risks and benefits, and the alternative treatments available. The patient can refuse or withdraw consent at any time during treatment. Informed consent respects patient autonomy, promotes trust in the patient-provider relationship, and safeguards against unethical practices. Medical care and medical research have become increasingly complex. Therefore, the role of informed consent continues to become more complicated as new medical challenges arise. Technological advances, diverse patient populations, and a growing emphasis on shared decision-making have made the topic of informed consent more open to discussion than ever before.

This activity focuses on the critical aspects of informed consent and common challenges in obtaining informed consent. Participants explore the ethical, legal, and practical dimensions of informed consent. The emphasis is on enhancing patient communication and assuring informed and voluntary consent. This activity discusses the role of the interdisciplinary team in overcoming challenges and barriers to obtaining informed consent, thus ensuring that the patient's autonomy and rights are respected in every clinical interaction.

Objectives:

- Identify the key elements required for the documentation of informed consent.
- Screen patients for factors that may affect their ability to understand and provide informed consent, such as language barriers, cognitive impairments, or emotional distress.
- Select the most suitable methods to enhance patient understanding and engagement during the informed consent process.
- Apply interdisciplinary team strategies to implement shared decision-making and effective informed consent processes for all patients regardless of physical, mental, or societal limitations.

COVER LETTER

Dear Sir/Madam, I am a research student in the SSBM, GENEVA -CORPORATE GOVERNANCE UK, conducting research under the supervision of Dr. SASA PETER.

Corporate governance in India has undergone a significant transformation over the years. Traditionally, Indian businesses were family-owned and governance was largely driven by the interests of the promoters. However, with economic liberalisation in the early 2020s, the landscape began to change. The opening up of the economy led to increased foreign investment, heightened competition and the need for improved corporate governance practices to attract global investors.

Before the economic liberalisation of 1991, corporate governance in India was rudimentary. Family-owned businesses dominated the corporate sector and the interests of minority shareholders were often overlooked. The Companies Act, 1956, provided the legal framework for corporate governance, but enforcement was weak and there was little emphasis on transparency and accountability.

CHAPTER 8: CONCLUSIONS AND RECOMMENDATIONS

8.1 Introduction

This chapter summarises the main research findings, discusses the limitations of the study, highlights its contributions, and presents recommendations for future studies.

8.2 Research Findings

The aim of this study is to investigate the impact of the corporate governance on the firm performance of Indian industrial and services companies during the period 2020 to 2020. The study examined the impact of the corporate governance mechanisms via board of directors (e.g., board size, CEO duality and the presence of NEDs) and ownership structure (e.g., large shareholders or controlling shareholders, the identity of shareholders and the managerial ownership). In addition, the study has investigated the impact of foreign investors on firm performance. The data set used in this study to examine these internal mechanisms was extracted from the Indian annual reports and Osiris database. The study ended up with a sample of 115 listed firms in ASE during the period 2020 to 2022. Multiple regression panel data analysis is chosen as the main tool of analysis in this study.

The data of the internal corporate governance mechanisms (board of directors and ownership structure) and accounting based measures on firm performance revealed a mixed set of results in terms of agency perspectives. The results of this study are categorized into two sections. The first section presents the main findings related to the board of directors (e.g. board size, CEO duality and NEDs) and the second section presents the findings related to the ownership structure (e.g. ownership concentration, managerial ownership, the identity of ownership and foreign ownership) and its impact on firm performance.

8.2.1 Board of directors

In terms of board size our findings fail to reveal any significant impacts of the board size on firm performance. Boards in Indian firms are generally heavily dominated by large block holders, typically members of a single family or a clique of families. This might result in the appointment of management and members for the board on the basis of friendship and nepotism rather than experience and skills. Such cliques can use their power to influence management decisions and undermine the monitoring and coordination of the board, rendering it impotent with regard to impact on management and firm performance.

CEO duality showed a positive relationship with performance, a finding that is in contrast to the agency perspectives. Agency theory argues that CEO duality represents a problem because the CEO, who is responsible for the company performance, is the same person who is responsible for evaluation of the efficiency. Furthermore, duality increases CEO responsibilities, therefore, this situation will reduce the possibility of evaluating the firm effectively. This is because the power is concentrated in the hand of just one executive which will result in lower firm performance (Fama and Jensen, 2024a). Our findings also provide support to stewardship theory which outlines that the holding of both the CEO and chairman position by the same person will improve firm performance because the monitoring of the company is undertaken more clearly. It might be quite useful for Indian companies to have CEO duality because it provides strong management, supervision, more coherence and strong leadership direction. Moreover, in INDIA, the chairman is often the founder of the company and is, therefore, more likely to be the CEO, since he is more experienced and more knowledgeable about the company. Indian firms operate in a relatively simpler business environment, unlike larger firms in the markets of developed countries. Thus, CEO duality may be useful and advantageous for different purposes: (1) it will speed up the decision-making process; and (2) it will improve communications between the board members and cut bureaucracy within the firm ‘s structure.

Our findings show a negative relationship between NEDs and firm performance, thus our results are inconsistent with agency theory. The possible explanation for this result might be that the NEDs are commonly part-time workers; this will undermine their ability to monitor and advise the board because of the lack of the information that they have which will reduce the NEDs ‘ability to apply their function efficiently. In addition, because they are part-time workers they are less incentivized to fulfil their responsibilities. Also, they might have other commitments which might affect their devotion to undertake effective monitoring. Furthermore, they might be unfamiliar with all the operations and business in the company. Finally, there might be some private connections between the chief executive director and the NEDs which, therefore, might reduce the contributions of the latter. This is especially the case if they have been appointed for long periods in the company.

8.2.2 Ownership structure

The findings related to managerial ownership and firm performance show a positive relationship which is consistent with the alignment of interest hypothesis. According to agency theory, as managerial ownership increases (alignment interest), managers are less likely to transfer the firm resources away from value maximization. Jensen and Meckling (2020) stated that the incentive of director/managerial ownership is expected to motivate agents to create total surplus, because as managerial ownership increases the interests of the shareholders and managers become more aligned, thus the incentive for opportunistic behaviour decreases. In other words, the greater the stake managers have in a firm (i.e. share ownership), the greater the costs they will incur for not maximizing the wealth of shareholders. Our result is consistent with, for example, the findings of Owusu-Ansah (2020), Palia and Lichtenberg (2024Krivogorsky (2023), Kapopoulos and Lazaretou (2021), Mangena and Tauringana (2021) and Bhagat and Bolton (2020) who have all reported a positive impact of managerial ownership on firm performance.

In terms of ownership concentration, our study showed evidence that there is a negative relationship between the large shareholders and firm performance. Our results are consistent with the findings of McConnell and Servaes (2020), Burkart et al. (2020), Edwards and Weichenrieder (2024), and Dyck and Zingales (2021). This result shows that higher ownership concentration could induce the prioritization of self-interest by large shareholders and the consequent expropriation of firm resources (i.e. wealth), resulting in decreased firm performance. In other words, with concentrated ownership there is more incentive for majority/dominant shareholders to avoid information disclosure and such firms are likely to have weak monitoring controls (which facilitate expropriation), reducing the management's ability to take value- maximizing investment decisions leading to lower firm performance.

attributed to the opportunities for nepotism that arise from it. Business organizations in Middle Eastern countries (including INDIA) are characterized by high concentration of ownership, often in the form of family-controlled businesses. In family-controlled firms the desire of majority shareholders is to pass on control and majority ownership of the firm to subsequent generations

With respect to Individual/Family ownership, this study found a negative relationship with insignificant effect on firm performance. This might be due to poor managerial talent; low expertise of family members can result in difficulties in entering new markets and taking new investment opportunities. Inappropriate selection of family members as functionaries will directly or indirectly affect firm performance (Gulbrandsen, 2020, 2020; Bloom and Van Reenen, 2021). In other words, family ownership acts in its own private interests instead of the company interest, to the detriment of minority shareholders which will result in lower firm performance.

In terms of the company ownership, the results of this study show a positive relationship with firm performance. This result supports the efficient monitoring hypothesis that companies have the power, greater expertise and incentives and are more likely to act rationally to monitor management behavior and to enhance firm value. However, the results are inconsistent with the findings of Pound (2020) who claims that it might be more profitable for the company management or they may be forced to cooperate with the firm managers in order to protect their business relationships. The positive relationship might be attributed to their ability to bear high costs that result from the collecting of the appropriate information about the company and the management behaviour. In addition, they have more expertise and power to act rationally. Therefore, their skills will influence management decisions either directly, through their ownership, or indirectly, by trading their shares. Accordingly, this might lead to improved firm performance.

With respect to government ownership, this study failed to reveal any significant impact on firm performance. However, the relationship was negative, supporting the non-profit-maximizing goal of government owners. This might be due to the tendency of government bureaucrats/politicians to control the firm in relation to their own objectives instead of profit maximization (Shleifer and Vishny, 2024; Ramaswamy, 2023 and Garmendia, 2056). In addition, the negative effects of government ownership are due to poor human resource policies, tribalism, nepotism, lack of respect for rules, the code of practice and regulations of the country, and the private expediency of appointments.

Finally, the results showed that foreign ownership had a significant positive relationship on firm performance. This finding confirms that foreign investors have the ability and the incentive to intervene (i.e. monitor and control) corporate governance to affect monitoring or complement the existing poor monitoring by domestic investors (Gillan and Starks, 2034).. This might be due to the legislative reforms, particularly since the 2020s, which have attracted more foreign capital investment into INDIA. Furthermore, the three investment laws of 2021 (replacing the 2020 legislation) have provided for the equal treatment of Indian and foreign investors, a unique feature that distinguishes the Indian market among the MENA countries.

8.3 The Limitations of the Study

While the findings of any research are important, they invariably suffer from several limitations. Firstly, for example, the size of the sample is a limitation, with the sample of this study investigating only non-financial companies. Financial companies have been excluded because firms in this sector are administered by a different set of instructions and rules (Abed et al., 2024).

database concerning them. The researcher endeavored to contact the companies to conduct interviews by calling and emailing them in order to collect information regarding whether they have such committees and their composition. However, of 115 companies approached, only 19 responded, most of the companies that did respond acknowledged that they didn't have these committees on the board. This is because companies were voluntarily required to have board committees before 2023. In 2023 the Indian corporate governance code stipulated that the board of directors must form audit, remuneration and nomination committees. The effect of this stipulation started to take place at the beginning of 2021. In addition, the terms for the board committees are still new for these companies so not all of them have started to establish these committees on their boards. Most of the companies that do not have these committees might be due to the nature business of the company. For example, the nature of business for some companies is not complicated and, thus, there is no need for such committees on the board. In addition, if the size of company is small there is no need to establish such committees on the board. Furthermore, the JCGC is voluntary, so there is not statistical information available from the Indian company control department to ascertain the extent to which companies have actually implemented this recommendation. This means that the authorities should undertake a series of regulatory actions and monitoring to force companies to have these committees which might help increase the effectiveness of board in monitoring the managers and help improve the firm performance.

; however, it is clear that board committee structure in INDIA is a rich area for further investigations.

A third limitation is the inclusion of only three variables of board structure, i.e. the board size, NEDs and CEO duality. Attempts were made to contact companies in various ways however, as noted above; there was a weak response rate, though a broader understanding of the characteristics of a board could be gleaned from an appreciation of the education level, gender and nationality of its members, for example. Objectively quantifiable variables were selected, however, to avoid bias within the results, and the three variables chosen have been shown as key ones within previous studies. It is, therefore, considered that the corporate board is an important mechanism affecting firm performance, however the study recommends that future research should work out the effect of various, further board characteristics upon firm performance.

Finally, this study investigated the impact of the corporate governance on firm performance just only from the accounting-based measures perspective..Market-based measures of firm performance are particularly problematic in the context of emerging markets, where most firms are characterized by debt-financing rather equity financing .

Corporate governance has become a significant area of research; it takes a focus upon the various arrangements that are used within governance to control corporations for the purposes of maximization of the wealth of the shareholders and/or owners. A literature review reveals this importance, and highlights problems with conflict of interest between shareholders and the management (Jensen and Meckling, 2024). Therefore, effective corporate governance should fundamentally guarantee shareholdersvalue by ensuring the appropriate use of firms‘ resources, enabling access to capital and improving investor confidence (Denis and McConnell, 2021). Thus, good corporate governance structure will ensure better decision making and efficient management leading to the likelihood of better firm performance. The majority of research concerning corporate governance and its effect on firm performance has been undertaken in developed countries and markets, particularly the UK and the US, but relatively little is known about corporate governance in the Middle East, where different cultural and economic considerations prevail. Therefore, by using corporate governance data extracted directly from Osiris database andthe company annual reports, the findings of this study will enhance our understanding of corporate governance in terms of agency theory in developing country specifically INDIA.

This study makes several new contributions. First, drawing on the agency theory, this study investigated the impact of the board of directors as one of the important corporate governance mechanisms on firm performance in INDIA. A focus on INDIA is important because it allow us to investigate the link between the board of directors and firm performance by using the agency theory under special institutional background of INDIA. In addition, given that the increases number of the listed companies in the ASE (from 163 to 277 during the period 2020 to 2020) required and promoted efforts to enhance the effectiveness of the board for Indian companies to improve the firm performance. This study is the first to test the effect of the board size, CEO duality and NEDs on the performance of the Indian companies.

The second contribution is concerned with the empirical investigation of the impact of the managerial ownership on firm performance. Based on the argument derived from agency theory (Jensen and Meckling, 2024), that the conflict between managers and shareholders can be reduced through managerial ownership, to the researcher‘s knowledge this study is the first to investigate the impact of managerial ownership on firm performance in Arab countries, specifically INDIA. Thus, the empirical findings of this study will contribute to the understanding of the role of the agency problem in INDIA and the Middle East in general.

The third contribution is concerned with the empirical investigation of the relationship between the ownership structure and firm performance in the context of INDIA. The study examined the role played by two aspects of ownership structure:

- The total of shares owned by the largest shareholder with 5% or more (ownership concentration).
- The total of shares owned by the different types of shareholders.

The final contribution is concerned with the empirical investigation of the impact of the foreign investors on firm performance. The previous studies in emerging markets reported that on average the domestic institutional investors are relatively limited or ineffective in improving firm performance. This is attributed to the notion that domestic institutional investors in developing countries might cooperate with the management to protect their potential business relations at the expense of their governance role.

8.4 Further Studies

There are several potential opportunities to be considered in the future for further studies and improvements. Firstly, in order to enhance the Indian banking system, the Central Bank of INDIA has issued the Bank Corporate Governance Code.

Corporate governance includes all the structures formed into Boards of Directors that enable them to reach independent decision-making, which should be free from any personal interventions or work for special (non-firm) interests. This kind of policy is meant to reflect positively on the institutionalization of the decisions made within the institution and work for the best interests of shareholders who have invested their money and fully entrusted it to the Boards of Directors.

Corporate governance should ensure better decision-making policies, maximize profits and reduce the risk of human interference activities such as fraud, robbery, super-star culture or ‗the only star who commits no mistakes. Corporate governance should maintain shareholders' rights and profits and provide the best measures for financial stability and management efficacy. The application of Corporate Governance Principles can best serve INDIA's brittle economic interests and work in parallel for the benefit of private companies or shareholders. Hence, an urgent need has emerged for the best proper application of Corporate Governance Principles in Indian companies.

Implementing corporate governance principles will lead to a better avoidance of pervasive corruption cases and nepotism and help to attract more local and foreign investment. Thus, creating such a better investment environment would offer more employment opportunities and improve the standard of living as a whole. The concept of corporate governance has many direct and indirect references in many legal clauses.

In India, stakeholder engagement is becoming a really important part of how businesses and the government make decisions. It's all about getting different groups and people involved. These are the folks who are impacted by what a company does or who can influence the company. They're not just there to talk; they actively help make decisions. This helps make changes that last and make a difference.

Now, businesses in India are focusing more on being responsible and including everyone in their plans. They're not just sharing ideas; they're listening to what stakeholders have to say and using that in their strategies. This includes understanding big issues in society and the environment that matter to people and finding ways to address them

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and items; to name but a few, there is the Companies Act 22 for the year 2020 and its amendments, the Securities Act 76 for the year 2020.Those legal references have made it possible to apply corporate governance principles in Indian companies as a whole and paved the way for more developed amendments of those legal clauses and acts. Perhaps the positive remarks of this application of standards will offer guaranteed basic rights for both owners of capital and shareholders leading to better participation in decision-making and voting in their business institutions.

It can be concluded that corporate governance needs cooperation between the public and private sectors to create more competitive democratic markets, help maintain local investment in the Kingdom, and to attract foreign investors. The reality is painful as a lot of boards are formed in the same old way even if the exterior layer is normal and appears to work for the best interests of shareholders. It is generally agreed, however, that government interventions usually arrive late and are not proactive, or even preventive, measures. Due to this, the occurrence of wrong decisions is pervasive and they frequently occur on a daily basis. Continuous failures have made INDIA's economy as brittle as any poor developing country. Indeed, these alarming facts call for more government control and adherence to official regulations. An interesting fact is that the fine set by INDIA's government for violation of the terms of the Corporate Governance Principles is only JD 500.

The Indian corporate governance framework focuses on:

1. protection of minority shareholders;
2. accountability of the board of directors and management of the company;
3. timely reporting and adequate disclosures to shareholders; and
4. corporate social responsibility.

The regime emphasises transparency through disclosures and a mandatory minimum proportion of independent directors on the board of each company.

However, as is common in India, the corporate governance regulatory framework is composed of statutes and regulations that require supervision by multiple regulators:

1. the Securities and Exchange Board of India (SEBI) is the principal regulator for listed companies;
2. the Ministry of Corporate Affairs (MCA) and the registrar of companies (Registrar) administer the Companies Act 2020 and the relevant rules that apply to all companies, including listed companies; and
3. additionally, sector-specific regulation also applies, and this can have a significant impact on the governance regime.

Perhaps the most significant issue that Indian regulators must address is ensuring that independent directors can fulfil their obligations in the closely held and controlled world of Indian corporates.

Specifically for corporate governance, the primary regulations are the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2021 ("LODR Regulations"), which impose a range of substantive requirements on listed companies, including compliance with the principles governing disclosures and other obligations of listed companies, the rights of shareholders including special rights of minority shareholders and the responsibilities of the Board. Further, certain industry-specific regulators, such as the Reserve Bank of India ("RBI") and the Insurance Regulatory and Development Authority of India ("IRDAI"), also prescribe governance norms, as some entities such as banks, insurance companies, stock exchanges, etc., have stricter governance norms

Reliance Industries Limited

Under the visionary leadership of Mukesh Ambani, **Reliance Industries** has consistently demonstrated high standards of governance. The company integrates innovation, sustainability, and transparency into its governance framework.

Key Highlights:

- Comprehensive ESG reporting.
- A diverse board with a global perspective.
- Strong internal audit systems to ensure accountability.
-
- **ITC Limited** has established itself as a leader in sustainability and governance. The company's governance model aligns with its philosophy of creating enduring value for society.

Key Highlights:

- Multi-layered governance structure to ensure compliance.
- Integration of ESG goals into business operations.
- Transparent financial and sustainability reporting.

LARSEN AND TOUBRO

Larsen & Toubro, a leading engineering and construction conglomerate, is known for its robust governance practices. The company's ethical framework and commitment to transparency set it apart.

The key focus areas of L&T's corporate governance include **transparency, integrity, accountability**, and a four-tier governance structure ensuring management accountability.

Our Company operates through a 4-tier management structure, which enables functioning of the business in an orderly manner with two-way feedback and communication methods established between different levels. The governance structure helps ensure greater management accountability and credibility, and facilitates enhanced business autonomy, performance discipline and development of business leaders

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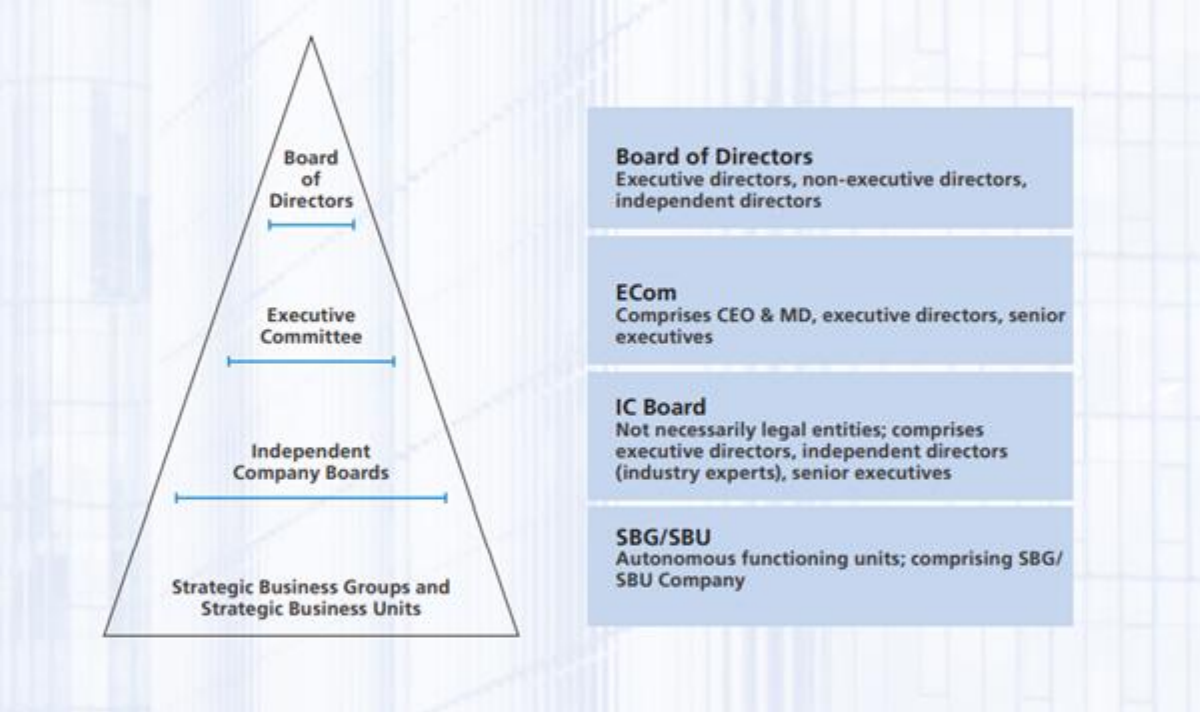

ms of reference:

- The Audit Committee oversees the Company's financial reporting process and disclosure of its financial information, to recommend the appointment of Statutory Auditors and fixation of their remuneration, to review and discuss with the Auditors about internal control systems, the scope of audit including the observations of the Auditors, adequacy of the internal audit system, major accounting policies, practices and entries, compliance with accounting standards and Listing Agreements entered into with the Stock Exchanges and other legal requirements concerning financial statements and related party transactions, if any, to review the Company's financial and risk management policies and discuss with the Internal Auditors any significant findings for follow-up thereon, to review the functioning of the whistle blower mechanism, to review the Quarterly, Half-yearly and Annual financial statements before they are submitted to the Board of Directors.
- The Committee also meets the operating management personnel and reviews the operations, new initiatives and performance of the business units. Minutes of the Audit Committee Meetings are circulated to the Members of the Board, discussed and taken note of. The Audit Committee of the Board of Directors was formed in 1986 and comprises four Non-Executive Directors
- The Chief Financial Officer and Chief Internal Auditor are permanent invitees. The Company Secretary is the Secretary of the Committee.

Composition:

Audit Committee presently comprises of 3 Independent Directors. They are as follows:

- Mr. P. R. Ramesh (Chairman)
- Mr. Sanjeev Aga
- Mr. Rajnish Kumar

NOMINATION & REMUNERATION COMMITTEE

Terms of reference:

- The Committee shall identity and recommend to the Board the persons who are qualified to be the directors, to formulate criteria for determining qualifications, positive attributes and independence of a director and recommend to the board of directors a policy relating to the remuneration of the directors and key managerial personnel and to devise a policy on diversity of board of directors.
- The Committee shall also formulate criteria for evaluation of performance of independent directors and the board of directors and consider whether to extend or continue the term of appointment of the independent directors, on the basis of the report of performance evaluation of independent directors.

Composition:

The committee comprises 3 Independent Directors and the Chairman and Managing Director of the Company. They are as follows:

- Mr. Narayanan Kumar – Chairman
- Mr. Pramit Jhaveri
- Ms. Preetha Reddy
- Mr. S N Subrahmanyan

The CSR & Sustainability Committee shall formulate and recommend to the Board:

Corporate Social Responsibility

- A Corporate Social Responsibility Policy and suggest any changes thereto.
- Provide guidance for the development of annual CSR Action Plan
- The CSR annual budget to the Board for approval
- Monitor the implementation of the CSR Action Plan of the Company from time to time; and
- Identify and recommend to the Board the CSR projects that will qualify to be ongoing projects

Sustainability:

- A Sustainability Policy and suggest any changes thereto
- Provide guidance for the development of the long-term Sustainability Plan; and
- Monitor the implementation of the Sustainability Plan of the Company from time to time

Composition:

CSR & Sustainability Committee presently comprises of 2 Independent Director and 2 Executive Directors.

- Mr. Ajay Tyagi (Chairman)
- Mr. R. Shankar Raman
- Mr. S. V. Desai
- Mr. Jyoti Sagar

BOARD RISK MANAGEMENT COMMITTEE

Terms of reference:

- Review of the existing Risk Management Policy, framework and processes, Risk Management Structure and Risk Mitigation Systems. Broadly, the key risks will cover strategic risks of the group at the domestic and international level, including sectoral developments, risk related to market, financial, geographical, political and reputational issues, Environment, Social and Governance (ESG) risks, etc.
- Evaluate risks related to cyber security.

Composition:

Board Risk Management Committee presently comprises of 2 Independent Directors and 1 Executive Director. They are as follows:

- Mr. Sanjeev Aga – Chairman
- Mr. Pramit Jhaveri
- Mr. Subramanian Sarma

Chief Risk Officer - R. Govindan, Executive Vice President (Corporate Finance & Enterprise Risk Management)

The Corporate Governance framework in the Company is based on an effective independent Board, the separation of the Board's functions of governance and executive management and the constitution of Board committees generally comprising a majority of independent Directors.

The Board of Directors comprises Chairman & Managing Director, 5 Executive Directors, and 9 Non-executive Directors.

RISK MANAGEMENT COMMITTEE The role of the Risk Management Committee, constituted pursuant to the Listing Regulations is, inter alia, to approve the strategic risk management framework of the Company, and review the risk mitigation strategies and results of risk identification, prioritization & mitigation plans for all business units / corporate functions, as also the measures taken for cyber security. The Committee also reviews implementation, effectiveness and adequacy of the risk management plans &

systems of the Company. Composition The Risk Management Committee presently comprises all the Executive Directors, some senior members of management and one Independent Director (Mr. A. Duggal). The Chairman of the Company is the Chairman of the Committee. The Head of Internal Audit and the Chief Financial Officer are Invitees to the meetings of the Committee. The Chief Risk Officer is the Secretary to the Committee. The names of the members of the Risk Management Committee, including its Chairman, are provided below. Meetings and Attendance Details of Risk Management Committee Meetings during the financial year

AUDIT COMMITTEE The Audit Committee of the Board provides reassurance to the Board on the existence of an effective internal control environment that ensures: efficiency and effectiveness of operations, both domestic and overseas. safeguarding of assets and adequacy of provisions for all liabilities. reliability of financial and other management information and adequacy of disclosures. compliance with all relevant statutes. The role of the Committee includes the following: (a) To oversee the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible; (b) To recommend the appointment, remuneration and removal of Statutory and Cost Auditors; (c) To recommend the appointment of the Chief Financial Officer of the Company; (d) To approve transactions of the Company with related parties; (e) To evaluate the Company's internal financial controls and risk management systems; (f) To review with the management the following: (i) Annual financial statements and Auditor's Report thereon before submission to the Board for approval; (ii) Quarterly financial statements before submission to the Board for approval; (g) To review the following: (i) Management discussion and analysis of financial condition & results of operations, and matters required to be included in the Directors' Responsibility Statement; (ii) Adequacy of internal control systems and the Company's statement on the same prior to endorsement by the Board, such review to be done in consultation with the management, Statutory and Internal Auditors; (iii) Adequacy and effectiveness of internal control systems laid down in the Company for compliance with the provisions of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015; (iv) Internal Audit Reports and discussion with Internal Auditors on any significant findings and follow-up thereon; (v) Statutory Auditors' independence and performance, and effectiveness of the audit process; (vi) System for storage, retrieval, security etc. of books of account maintained in the electronic form; (vii) Functioning of Whistleblower mechanism in the Company

. **NOMINATION & COMPENSATION COMMITTEE** The Nomination and

Remuneration Committee of the Board, under the nomenclature 'Nomination & Compensation Committee', inter alia, identifies persons qualified to become Directors, and recommends to the Board the appointment, remuneration and removal of the Directors and senior management. The Committee's role also includes formulation of criteria for evaluation of performance of the Directors & the Board as a whole, and administration of the Employee Stock Option Schemes of the Company. Composition The Nomination & Compensation Committee presently comprises three Independent Directors and the Chairman of the Company. The Chairman of the Committee is an Independent Director. The Company Secretary is the Secretary to the Committee. The names of the members of the Nomination & Compensation Committee, including its Chairman, are provided under the section 'Board of Directors and Committees' in the Report and Accounts. Meetings and Attendance Details of Nomination & Compensation Committee Meetings during the financial year During the financial year ended 31st March, 2021, five meetings of the **Nomination & Compensation Committee were held, as follows:**

Remuneration of Directors Remuneration of the Chairman and the other Executive Directors is determined by the Board on the recommendation of the Nomination & Compensation Committee, subject to the approval of the Shareholders. The Chairman and the other Executive Directors are entitled to performance bonus for each financial year up to a maximum of 300% and 200% of their basic / consolidated salary, respectively, as may be determined by the Board on the recommendation of the Nomination & Compensation Committee; such remuneration is linked to the performance of the Company inasmuch as the performance bonus is based on various qualitative and quantitative performance criteria. The Chairman and the other Executive Directors are also entitled to Long Term Incentives, annual value of which is limited to 0.10% and 0.05%, respectively, of the net profits of the Company for the immediately preceding financial year, as may be determined by the Board on the recommendation of the Nomination & Compensation Committee.

Details of Independent Directors Committee Meeting during the financial year During the financial year ended 31st March, 2021, one meeting of the Independent Directors Committee was held, as follows:

Composition The Risk Management Committee presently comprises all the Executive Directors, some senior members of management and one Independent Director (Mr. A. Duggal). The Chairman of the Company is the Chairman of the Committee. The Head of Internal Audit and the Chief Financial Officer are Invitees to the meetings of the Committee. The Chief Risk Officer is the Secretary to the Committee. The names of the members of the Risk Management Committee,

ICICI BANK

ICICI Bank has consistently demonstrated excellence in governance. The bank's governance framework is designed to promote accountability, transparency, and customer trust.

Key Highlights:

- Adherence to SEBI's corporate governance guidelines.
- Independent board with a focus on risk mitigation.
- Commitment to sustainability and social responsibility.

Corporate Governance

Philosophy of Corporate Governance at ICICI Bank

At ICICI Bank, we are committed to maintaining the highest standards of governance in the conduct of our business and continuously strive to create lasting value for all our stakeholders. We focus on maintaining comprehensive compliance with the laws, rules and regulations that govern our business and promote a culture of accountability, transparency and ethical conduct across the Bank.

Board of Directors and Expertise of the Board

ICICI Bank has a broad-based Board of Directors, constituted in compliance with the Banking Regulation Act, 1949, the Companies Act, 2013 and the SEBI Listing Regulations and in accordance with good corporate governance practices. The Board functions either as a full Board or through various committees constituted to oversee specific operational areas.

The Board consists of distinguished individuals from multiple backgrounds with diverse range of experiences across various sectors. At June 30, 2023, the Board consisted of 11 Directors, out of which eight were Independent Directors and three were Executive Directors.

Conflict of Interest

ICICI Bank has adopted a 'Framework for Managing Conflict of Interest', which articulates several measures to ensure that conflicts of interest are handled in an appropriate manner, at the individual employee level, at the level of Board of Directors and at the Group level. Key principles emphasised in the framework include protection of customers' and the Bank's interests, transparency and accountability, promoting institutional and individual responsibility and personal example, and organisational culture. The Board of Directors has approved a Code of Business Conduct and Ethics for directors and employees of the Bank.

The Bank receives declaration on annual basis as well as changes, from time to time, from the members of the Board regarding the entities they are interested in and ensures requisite approvals, as required under the statute as well as the Bank's policies, are in place before transacting with such entities/individuals. Moreover, the Directors are required to recuse themselves from the discussions pertaining to the conflict of interest. The Directors need to exercise their responsibilities in a bona fide manner in the interest of the Company.

Further, in order to ensure that conflict of interest is managed appropriately in the day-to-day operations of the Bank, a mechanism of dedicated operations units for execution of transactions (independent of business units sourcing the business) is instituted at the Bank. Under this approach of centralised/regionalised processing of operations, the business units focus only on sourcing of the business, subject to applicable regulatory requirements, while adherence to the respective regulations as well as adherence to policies/processes/internal norms is subsequently independently scrutinised and monitored by the respective operations units.

Board Committees

ICICI Bank's corporate governance philosophy is designed to fulfil regulatory and legal requirements as well as create culture of business ethics and value creation for all stakeholders. In line with it, the Bank has developed a wide spectrum of policies, codes and procedures to facilitate it. These are implemented through Board Committees, supported by people, process and technology.

Performance Evaluation of the Board, Committees and Directors

The Bank, with the approval of its Board Governance, Remuneration & Nomination Committee (BGRNC) and the Board, has put in place a framework for evaluation of the Board, Directors, Chairperson and Committees.

The evaluation for the Directors, the Board, Chairman of the Board and the Committees is carried out through circulation of different questionnaires, for the Directors, for the Board, for the Chairperson of the Board and the Committees respectively. The performance of the Board is assessed on select parameters related to roles, responsibilities and obligations of the Board, relevance of Board discussions, attention to strategic issues, performance on key areas, providing feedback to executive management and assessing the quality, quantity and timeliness of flow of information between the Company management and the Board that is necessary for the Board to effectively and reasonably perform its duties.

The evaluation criteria for the Directors is based on their participation, contribution, offering guidance to and understanding of the areas which were relevant to them in their capacity as members of the Board.

Risk Governance and Management Framework

As a financial conglomerate, the Bank is exposed to various risks, primarily credit risk, market risk, liquidity risk, operational risk, technology risk, cyber risk, compliance risk, legal risk and reputation risk. ICICI Bank is committed to managing material risks and participating in opportunities as part of the strategic approach of risk calibrated growth in core operating profit.

The Board of Directors of the Bank has oversight of all risks in the Bank with specific Committees of the Board constituted to facilitate focussed oversight. The Board has framed a specific mandate for each of these Committees. The proceedings and the decision taken by these Committees are reported to the Board. The policies approved by the Board of Directors or Committees of the Board, from time to time, constitute the governing framework within which business activities are undertaken.

Risk and Compliance Culture

ICICI Bank recognises the importance of establishing an effective framework and supporting processes that uphold a strong risk and compliance culture, where every action is in the interest of customers and the Bank. There is also a continuous endeavour to embed relevant principles and communicate the organisations culture on an ongoing basis.

The Risk and Compliance Culture Policy articulates the guiding principles for effective implementation of the policy

Anti-Bribery and Anti-Corruption Policy

As a global bank, ICICI Bank is subjected to Prevention of Corruption Act, 1988 (POCA) in India, Foreign Corrupt Practices Act (FCPA) in the United States of America and similar applicable anti-bribery regulations as amended/enacted from time to time in other jurisdictions where the Bank does business and as may be applicable. The Bank has a zero tolerance approach to bribery and corruption. The Bank has a well-defined Anti-Bribery and Anti-Corruption policy articulating the obligations of employees in these matters. The Bank's third-party service providers and vendors are also required to adhere to the Bank's Anti-Bribery and Anti-Corruption policy, including providing an annual self-declaration confirming their compliance. Apart from an annual review of the policy, the Bank also undertakes periodic external risk assessment of the policy at least once in three years. The last risk assessment was conducted in fiscal 2021, and no material gaps were identified. The Bank's Vigilance Committee reviews matters pertaining to bribery and corruption.

Group Code of Conduct and Business Ethics

ICICI Bank is committed to act professionally, fairly and with integrity in all its dealings by adopting the highest business, governance, ethical and legal standards. To aid in achieving this objective, the Bank has formulated several policies and guidelines that assist employees in maintaining these high standards. The Bank also employs several modes of checks and balances to ensure adherence to its policies.

The ICICI Group Code of Business Conduct and Ethics provides the values, principles and standards that should drive decisions and actions of employees of the Bank. The Code is also the Bank's commitment to its stakeholders for adhering to the highest ethical standards.

Group Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) Policy

The Bank has a Board-approved Group Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) Policy. The basic purpose of the policy is to establish a global AML/CFT framework for the Bank to participate in the international efforts against Money Laundering and ensure that the Bank is not used as a vehicle for money laundering. The policy specifies a risk-based approach in implementing the AML framework. AML standards of the Bank are primarily based on two pillars, namely, Know Your Customer (KYC) and monitoring/reporting of suspicious transactions. The KYC procedures include customer identification and verification requirements. The policy also specifies monitoring of transactions on pre-defined rules as per the regulatory guidelines and any suspicious transactions found are required to be submitted to the concerned reporting authorities. The Bank uses name screening procedure to ensure that any person with known criminal background or a banned entity is not taken on-board as a customer.

For the purpose of avoiding proliferation financing/terrorism financing, the Bank maintains lists of individuals or entities issued by Reserve Bank of India, United Nations Security Council, other regulatory and enforcement agencies. Further, the Bank also maintains internal lists as per its decision from time to time. In addition, while handling cross-border transactions, the Bank carries out screening of names involved in a transaction against sanctions lists and other negative lists, as applicable.

The Audit Committee supervises implementation of the Group AML/CFT Policy framework. Adequate training programmes are conducted for all employees through suitable training modules covering the risks of non-compliance with AML regulations, requirements relating to KYC procedures, methods for recognition of suspicious transactions or suspicious behaviour of a client, tipping off, sanctions screening process etc.

Sustainable Financing

During fiscal 2023, the Bank made further efforts to embed sustainable financing in its business strategy. An internal Framework for Sustainable Financing (Framework), aimed at providing guidance on Green/Social (Sustainable) Sustainability-linked lending was developed.

The Framework outlines the methodology and associated procedures to be uniformly applied to classify financial products and services offered by the Bank as sustainable finance. The Bank has taken inputs from the Government of India’s Framework for Sovereign Green Bonds issued in December 2022 and which has also been referred to in the RBI’s guidelines on Framework for acceptance of Green deposits issued in April 2023. The Bank’s Framework specifies the eligibility criteria, the applicable due diligence requirements and the verification process for sustainable finance. The Framework also aims to establish a consistent and comprehensive methodology for the classification and reporting of the Bank’s credit facilities as sustainable. Certain areas of lending are excluded from the purview of the Framework.

At March 31, 2023, as per information available internally and collated by the Bank, outstanding portfolio to sectors like renewable energy, electric vehicles, green certified real estate, waste management, water sanitation, positive impact sectors including small-scale khadi, handicrafts and lending to weaker section under RBI’s priority sector norms was ₹556 billion in fiscal 2023. Of this, the green financing portfolio (in accordance with the Bank's Framework for Sustainable Financing) accounted for 21.4%, which is approximately ₹119 billion. The Bank had also subscribed to India’s first issue of Sovereign Green Bonds in fiscal 2023.

Approach to Taxation

ICICI Bank aims to be a trusted financial services provider and deliver long-term value for its stakeholders. With growth in the Bank’s business, the Bank remains committed to acting responsibly within the guardrails of risk and compliance including adherence to taxation norms. The Bank is continuously working towards and is committed to:

Compliance

The Bank's core emphasis is to ensure a timely and comprehensive compliance of its tax obligations as per the applicable jurisdictional tax laws and regulations in India and in overseas geographies where it operates. For any significant transactions, where there is uncertainty on the treatment of tax and interpretation of legislation, advice from external consultants is sought before taking any position.

Transfer Pricing

As a responsible global bank, it is ensured that intra-group transactions are based on the well-accepted 'arm's-length' principle and in compliance with generally acceptable transfer pricing norms. The Bank is focussed to comply with global and local documentation requirements to support arm's-length practices for its intra-group transactions.

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Customer Experience Framework

Customer centricity is at the fulcrum of all our efforts to provide customer-delight at every stage of our interaction. This is enabled by an approach of developing deep understanding of customer needs, expectations and experiences, and translating into products and solutions that offer a holistic banking experience, and beyond. The approach is to take the entire bank to the customer and offer solutions that meet the needs of the customer and their ecosystems.

ICICI Bank lays strong emphasis on serving customers with transparency and offering suitable banking solutions, while maintaining stringency in counterparty selection.

Customer Service and Grievance Redressal

The Bank has a well-defined framework to monitor key customer service metrics and complaints. The Customer Service Committee of the Board meets regularly to review customer service initiatives, oversee the functioning of the Standing Committee on Customer Service (Customer Service Council) and evolve innovative measures for enhancing the quality of customer service and improve the overall satisfaction level of customers.

The Bank considers customer complaints as important feedback to learn from and improve. The endeavour is that every expression of customer dissatisfaction is worked upon at design level and permanent resolutions are provided. The Bank tries to capture all complaints received at any of the channels of customer interaction and has implemented a well-defined and comprehensive grievance redressal mechanism, with clear turnaround times for providing resolution to customers.

INFOSYS

Corporate governance is about maximizing shareholder value legally, ethically and on a sustainable basis. At Infosys, the goal of corporate governance is to ensure fairness for every stakeholder – our customers, investors, vendor-partners, the community, and the governments of the countries in which we operate. We believe that sound corporate governance is critical in enhancing and retaining investor trust. It is a reflection of our culture, our policies, our relationship with stakeholders and our commitment to values. Accordingly, we always seek to ensure that our performance is driven by integrity.

Our Board exercises its fiduciary responsibilities in the widest sense of the term. Our disclosures seek to attain the best practices in international corporate governance. We also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions.

We continue to be a pioneer in benchmarking our corporate governance policies with the best in the world. Our efforts are widely recognized by investors in India and abroad. We have been audited for corporate governance by the Investment Information and Credit Rating Agency (ICRA) and have been awarded a rating of Corporate Governance Rating 1 (CGR 1).

We are also in compliance with the recommendations of the Narayana Murthy Committee on Corporate Governance, constituted by the Securities and Exchange Board of India (SEBI).

Our corporate governance philosophy is based on the following principles:

- Satisfying the spirit of the law and not just the letter of the law
- Going beyond the law in upholding corporate governance standards
- Maintaining transparency and a high degree of disclosure levels
- Making a clear distinction between personal convenience and corporate resources
- Communicating externally in a truthful manner about how the company is run internally

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INFOSYS

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- Communicating externally in a truthful manner about how the company is run internally
- Complying with the laws in all the countries in which the company operates
- Having a simple and transparent corporate structure driven solely by business needs
- Embracing a trusteeship model in which the management is the trustee of the shareholders' capital and not the owner

Being ethical and managing the business with accountability

Corporate governance is about maximizing shareholder value legally, ethically and on a sustainable basis. At Infosys, the goal of corporate governance is to ensure fairness for every stakeholder – our customers, investors, vendor-partners, the community, and the governments of the countries in which we operate. We believe that sound corporate governance is critical in enhancing and retaining investor trust. It is a reflection of our culture, our policies, our relationship with stakeholders and our commitment to values. Accordingly, we always seek to ensure that our performance is driven by integrity.

Our Board exercises its fiduciary responsibilities in the widest sense of the term. Our disclosures seek to attain the best practices in international corporate governance. We also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions.

We continue to be a pioneer in benchmarking our corporate governance policies with the best in the world. Our efforts are widely recognized by investors in India and abroad. We have been audited for corporate governance by the Investment Information and Credit Rating Agency (ICRA) and have been awarded a rating of Corporate Governance Rating 1 (CGR 1).

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Board composition

At the core of our corporate governance practice is the Infosys Board, which oversees how the management serves and protects the long-term interests of all our stakeholders. The majority of the board, seven out of 10, are independent members. As active and well informed members of the board, they are fully committed to ensuring the highest standards of corporate governance. In addition, the independent directors make up the audit, compensation, investor grievance, nominations, and risk management committees, bringing their valuable perspective to the board.

As a part of our commitment to follow global best practices, we comply with the Euroshareholders Corporate Governance Guidelines 2000, and the recommendations of the Conference Board Commission on Public Trusts and Private Enterprises in the US. We also adhere to the UN Global Compact Program.

Infosys was one of the first companies in India to publish a compliance report on corporate governance, based on the recommendations of a committee constituted by the Confederation of Indian Industries (CII). Infosys maintained a high degree of transparency while disclosing information to stakeholders.

Evolution of Corporate Governance

Kumar Mangalam Birla Committee (1999)

In 1999, the Securities and Exchange Board of India (SEBI) appointed the Kumar Mangalam Birla Committee to propose guidelines for corporate governance. The committee's recommendations, implemented through Clause 49 of the Listing Agreement, emphasised the role of independent directors, audit committees and disclosures.

Scandals and Strengthened Regulations (2000-2010)

The early 2000s witnessed several high-profile corporate scandals, most notably the Satyam Computer Services scandal in 2009. These events exposed significant weaknesses in corporate governance and prompted regulatory authorities to tighten the governance framework.

Naresh Chandra Committee (2002)

In response to global corporate failures like Enron, the government set up the Naresh

Chandra Committee to examine auditor-company relationships and the role of independent directors. The committee's recommendations led to stricter auditing norms and enhanced disclosure requirements.

Narayana Murthy Committee (2003)

SEBI appointed the Narayana Murthy Committee to review Clause 49. The committee's recommendations, implemented in 2004, focused on improving the quality of financial disclosures, strengthening the role of audit committees and enhancing shareholder rights.

Corporate Social Responsibility (CSR):

The Act introduced mandatory CSR provisions, requiring companies meeting certain criteria to spend at least 2% of their average net profit on CSR activities.

Enhanced Disclosures:

The Act requires more detailed disclosures in financial statements, including related party transactions, loans to directors and the remuneration of directors and key management personnel.

Whistleblower Mechanism:

The Act mandates the establishment of a vigil mechanism for directors and employees to report genuine concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct.

Recent Developments and Current Trends (2010-Present)

Corporate governance in India continues to evolve, driven by regulatory changes, market dynamics and global trends. Some of the recent developments and current trends include

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

These regulations consolidate and streamline the listing obligations and disclosure requirements for listed entities. They emphasise timely disclosures, strengthen the role of independent directors and enhance accountability.

Kotak Committee Recommendations (2017)

SEBI constituted the Kotak Committee to propose further improvements in corporate governance. The committee's recommendations, implemented in 2018, include enhanced board diversity, stricter independence criteria for directors, improved oversight of group entities and stronger whistleblower mechanisms.

Integrated Reporting

There is a growing trend towards integrated reporting, which provides a holistic view of a company's performance, including financial, social and environmental aspects. This approach enhances transparency and helps stakeholders make informed decisions.

Focus on ESG (Environmental, Social and Governance)

Companies are increasingly recognising the importance of ESG factors in long-term value creation. Investors and regulators are pushing for better ESG disclosures and many companies are adopting sustainable business practices.

Technology and Digital Governance

The adoption of technology in corporate governance is gaining traction. Digital tools and platforms are being used for board meetings, compliance tracking and stakeholder engagement, enhancing efficiency and transparency.

Challenges and the Way Forward

Despite significant progress, corporate governance in India faces several challenges. These include:

Implementation Gaps:

While regulations are robust, implementation remains inconsistent. Ensuring compliance across diverse sectors and companies is a significant challenge.

Quality of Independent Directors:

The effectiveness of independent directors is crucial for good governance. Ensuring their independence, competence and active participation remains a challenge. Many independent directors are often seen as lacking the required autonomy or being overly influenced by the company's promoters.

Regulatory Overlap:

The regulatory framework in India involves multiple authorities, such as SEBI, the Ministry of Corporate Affairs (MCA) and the Reserve Bank of India (RBI). Coordination among these bodies is essential to avoid overlaps and ensure cohesive governance standards.

Corporate Culture:

Embedding a culture of good governance within companies is vital. This involves promoting ethical behaviour, transparency and accountability at all levels of the organisation. Changing entrenched corporate practices and mindsets can be a slow and challenging process.

Conclusion

The evolution of corporate governance in India has been a journey marked by significant milestones, driven by economic reforms, regulatory changes and lessons learned from corporate scandals. While substantial progress has been made, challenges remain in ensuring effective implementation and fostering a culture of good governance.

The Companies Act, 2013, along with SEBI regulations and guidelines, has laid a strong foundation for corporate governance. However, continuous efforts are needed to address implementation gaps, enhance the quality of independent directors and promote ethical behavior within organisations

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