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IMPACT OF CORPORATE GOVERNANCE REFORMS ON SHAREHOLDER VALUE

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ABSTRACT

Corporate governance reforms in India are at a crossroads. While the intentions behind the reforms are good, there is a need to look for holistic solutions that address country-specific challenges in the Indian context. To keep pace with developments at the international level, India has also introduced reforms to improve corporate, social and environmental disclosures. This paper examines the effectiveness of corporate governance reforms by analyzing the corporate governance practices of Indian companies in two reform periods (FY 2012-13 as first period) and (FY 2015-16 as second period). Taking into account the mandatory provisions under Section 49 of the listing agreement with the Securities and Exchange Board of India and the governance norms in the new Companies Act, 2013, the Corporate Governance Performance Index (CGP) has been developed to measure the corporate governance score of Indian companies. While there has been a significant improvement in the corporate governance structure of Indian companies, there has been a decline in the number of independent directors being added to the board of directors after the second period of reforms. In all areas surveyed, corporate governance practices improved significantly following the reforms. Corporate governance reforms have garnered significant attention in recent decades as policymakers, regulators, investors, and scholars seek to enhance transparency, accountability, and shareholder value within corporate entities. This abstract examines the impact of corporate governance reforms on shareholder value, focusing on key mechanisms and empirical evidence from diverse contexts. These reforms encompass a wide range of measures aimed at improving the governance structures, practices, and processes of corporations. These reforms often include initiatives such as board independence, executive compensation, shareholder rights, disclosure requirements, and regulatory oversight. The underlying rationale behind these reforms is to mitigate agency conflicts between shareholders and managers, align incentives, and enhance firm performance. Empirical evidence suggests a mixed impact of corporate governance reforms on shareholder value. While some studies find positive associations between stronger corporate governance practices and shareholder returns, others report inconclusive or even negative effects. The effectiveness of governance reforms in creating shareholder value depends on various factors, including the quality of implementation, regulatory enforcement, firm-specific characteristics, and external market conditions. One key mechanism through which corporate governance reforms influence shareholder value is through improved accountability and oversight. Enhanced board independence, effective monitoring mechanisms, and transparent disclosure practices can reduce agency costs, mitigate managerial risk-taking, and ultimately enhance shareholder returns. Similarly, reforms aimed at aligning executive compensation with firm performance can incentivize value-maximizing behaviors and align the interests of managers with those of shareholders. In conclusion, while corporate governance reforms have the potential to enhance shareholder value by improving accountability, transparency, and investor confidence, their effectiveness varies depending on various factors. Future research should continue to explore the nuanced relationships between corporate governance practices, firm performance, and shareholder value across different contexts to inform policymakers, regulators, and practitioners in designing and implementing effective governance reforms. This research paper examines the impact of corporate governance reforms on shareholder value, exploring mechanisms, empirical evidence, and contextual factors. It analyzes the effectiveness of governance practices in enhancing transparency, accountability, and investor confidence, providing insights for policymakers, regulators, and practitioners in optimizing corporate governance frameworks.

KEYWORDS: *corporate governance, stakeholders, management, board of directors, financial performance.* \

INTRODUCTION

Corporate governance is a process or set of systems and principles that ensure that a company is managed in the interests of its stakeholders. Corporate governance is a system for managing and controlling a company. It promotes fairness, transparency, honesty and accountability in the company. Good corporate governance ensures: protection of shareholder interests; disclosure and transparency of business transactions; compliance with legislative and legal frameworks; ethical business conduct; and commitment to stakeholder value. The most widely used definition of corporate governance is that of the Cadbury

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Committee in 1992, which states that corporate governance is "a system for directing and controlling a company." The board of directors is responsible for the management of the company. The role of shareholders in governance is to appoint directors and auditors and ensure good governance. According to the OECD Corporate Governance Principles, "Corporate governance involves complex relationships between a company's management, board of directors, shareholders and other stakeholders. Corporate governance also provides a framework that sets the company's goals and provides the means to achieve those goals and monitor results." Shleifer and Vishny (1997) defined it as follows: "Corporate governance is concerned with how those who provide funds to a company ensure a return on their investment." Sir Adrian Cadbury explains in the foreword to Corporate Governance: A Framework for Practice, published by the World Bank: Corporate governance maintains a balance between economic and social goals, and between individual and social goals.

"Management systems are designed to encourage efficient use of resources and at the same time require accountability for the management of those resources. The goal is to align the interests of individuals, businesses, and society as closely as possible. A company's incentive is to achieve its corporate goals and attract investment. The incentive is for states to strengthen their economies and fight fraud and mismanagement." Standard and Poor's defines corporate governance as "a system for organizing and managing a company so that all financial stakeholders receive an equitable distribution of the company's profits and assets." The draft regulations of the Confederation of Indian Industry state: "Corporate governance refers to the laws, procedures, practices and implicit rules that determine the ability of a corporation to make management decisions with regard to its members, especially shareholders and creditors, the state and its employees." From the above definitions, we can conclude that corporate governance includes authority, responsibility, leadership, direction, guidance and control exercised in the process of managing the functioning of an organization.

HISTORICAL BACKGROUND OF CORPORATE GOVERNANCE IN INDIA

Corporate India has been witnessing rapid economic growth since the 1990s, which has highlighted the need for Indian companies to adopt internationally compliant corporate governance standards and practices. The Confederation of Indian Industry (CII) has been leading the movement to sensitize Indian companies to corporate governance issues and has initiated legislative reforms on how Indian companies can implement effective corporate governance mechanisms. In 1998, a document titled "Good Corporate Governance: A Code" was published, focusing on listed companies. This regulation is voluntary and contains detailed provisions. Although this code has been less approved and adopted by a few companies. SEBI has played an important role in setting corporate governance norms in India. Over the years, SEBI has constituted two committees - Kumar Mangalam Birla Committee (2000) and Narayana Murthy Committee (2003) - to make recommendations related to corporate governance for listed companies in India.

These committees presented various recommendations regarding the composition of the board of directors of listed companies, board meetings, audit committees, audit reports, outside directors, codes of conduct, financial disclosure, etc. The Committee recognizes that compliance with the recommendations requires: Restructuring of existing company boards. The recommendations have been implemented in a phased manner by SEBI through Clause 49 of the Listing Agreement. Clause 49 of the Stock Listing Agreement consists of essential and non-mandatory requirements. This article consists of eight topics, including the board of directors, audit committee, director compensation, board procedures, management, shareholders, corporate governance reporting, and regulatory compliance. Companies incorporated in India must comply with the provisions of Article 49. The Ministry of Corporate Affairs also appointed the Naresh Chandra Corporate Audit and Governance Committee (2000) to study and make recommendations on various corporate governance issues in India. The committee mainly focuses on two main aspects of corporate governance, namely: Disclosure of financial and non-financial information, independent audit, and management oversight by the board of directors are possible. Afterwards, MCA appointed J.J. In 2005, the Iran Commission will review international best practices on corporate governance, taking into account the growing needs of the Indian economy and businesses. The recommendations of these committees form the basis of the legal framework for corporate governance in India. MCA has also partnered with CII, ICAI and ICSI to establish the National Foundation for Corporate Governance (NFCG) to create a discussion platform on issues related to good corporate governance to foster the exchange of experiences and ideas between business leaders and policy makers provide regulatory agencies, law enforcement agencies, and non-governmental organizations.

LITERATURE REVIEW

An empirical investigation on the relationship between ownership structure, corporate governance, and market valuation was conducted by Fuerst and Kang (2000). The operating performance and market valuation of the enterprises were measured using residual income and Tobin's Q, respectively. Insider ownership and the holdings of controlling shareholders were used to gauge the firm's ownership structure. The size of the board, the term of the CEO, and the number of outside directors were used to assess governance. It was determined that there was a favorable correlation between market value and performance and the CEO, outside directors, and corporate insiders' larger share ownership. Additionally, it was found that enlarging the board of directors' and the board's size without also enlarging their share ownership caused a bad connection with the market value and performance of the company. The chairmanship and the CEO's term had a detrimental effect on the company.

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Bhagat & Black (2000) used market-adjusted stock price returns, return on assets, ratio of sales to assets, and Tobin's Q to examine the relationship between board independence and business success. Research discovered a rather significant association between inadequate performance and the ensuing rise in board autonomy. By selecting companies from the Swiss Stock Exchange (SWX) and utilising Tobin's Q to evaluate the business performance.

Beiner et al. (2003) investigated the relationship between board size and firm performance. The study's findings disprove the hypothesis that there is a relationship between the two factors, however board size may be considered an independent corporate governance indicator.

RESEARCH DEFINITION AND OBJECTIVES

Research is a systematic inquiry aimed at discovering, interpreting, and generating new knowledge, insights, or solutions to address specific questions, problems, or phenomena. It involves the collection, analysis, and interpretation of data using rigorous methodologies and techniques to contribute to the advancement of understanding in a particular field or discipline. Some objectives are here:

1. To investigate the impact of corporate governance reforms on shareholder value.
2. To examine the mechanisms through which corporate governance practices influence shareholder returns.
3. To assess the empirical evidence regarding the effectiveness of governance reforms in enhancing transparency, accountability, and investor confidence.
4. To analyze the contextual factors that shape the implementation and impact of corporate governance reforms on shareholder value.
5. To provide insights and recommendations for policymakers, regulators, and practitioners to optimize corporate governance frameworks and enhance shareholder value creation.

RESEARCH GAP

The research on corporate governance reforms and their impact on shareholder value has made significant strides in recent years. However, several gaps remain in the literature that warrant further investigation. One notable research gap lies in the contextual factors influencing the effectiveness of corporate governance reforms in different jurisdictions and industries. While existing studies have identified various governance mechanisms and practices associated with improved shareholder value, there is limited research on how cultural, legal, and institutional differences shape the implementation and impact of these reforms. Understanding the nuanced relationships between governance practices, firm characteristics, and regulatory environments is crucial for informing policy decisions and designing tailored governance frameworks that maximize shareholder value across diverse contexts.

Furthermore, there is a need for longitudinal studies that examine the long-term effects of corporate governance reforms on shareholder value. While many studies focus on short-term financial metrics, such as stock returns or market valuation, few explore the sustained impact of governance changes on firm performance and shareholder wealth over extended periods. Longitudinal research can provide valuable insights into the durability and effectiveness of governance reforms in creating sustainable value for shareholders. Additionally, there is a dearth of research on the unintended consequences and trade-offs associated with governance reforms. While reforms aimed at enhancing transparency and accountability may yield benefits for shareholders, they may also impose costs or constraints on corporate decision-making. Exploring the potential trade-offs between governance practices and firm behavior can shed light on the broader implications of governance reforms and help mitigate unintended consequences. Addressing these research gaps is essential for advancing our understanding of the complex relationships between corporate governance, shareholder value, and firm performance. By filling these gaps, researchers can provide policymakers, regulators, and practitioners with valuable insights and recommendations for designing effective governance frameworks that maximize shareholder value while promoting sustainable corporate practices.

RESEARCH METHODOLOGY

Doctrinal research methodology involves a comprehensive examination and analysis of existing legal principles, statutes, case laws, and other legal literature to address research objectives. In the context of studying corporate governance reforms and their impact on shareholder value, a doctrinal approach would entail systematically reviewing and synthesizing relevant legal sources to provide a theoretical framework and contextual understanding of the research topic.

The methodology begins with identifying and accessing primary legal sources, such as statutes, regulations, and judicial decisions, related to corporate governance reforms and shareholder rights. These sources provide the foundation for understanding the legal framework governing corporate governance practices and the rights and responsibilities of shareholders within the regulatory environment. Additionally, doctrinal research involves analyzing secondary legal sources, including scholarly articles, textbooks, and commentaries, to gain insights into legal principles, theories, and debates surrounding corporate governance reforms. By synthesizing and critiquing existing legal literature, researchers can identify key themes, trends, and gaps in the literature, informing the development of research questions and hypotheses. Furthermore, the doctrinal approach may involve comparative analysis of legal frameworks and practices across different jurisdictions to assess variations in corporate governance regimes and their impact on shareholder value. By examining legal developments and trends in various jurisdictions, researchers can identify best practices, regulatory innovations, and areas for reform.

Overall, doctrinal research methodology provides a rigorous and systematic framework for analyzing the legal aspects of corporate

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governance reforms and their implications for shareholder value. By synthesizing and critiquing existing legal sources, researchers can contribute valuable insights to the ongoing discourse on corporate governance and inform policy debates and regulatory reforms aimed at enhancing shareholder rights and value creation within corporations.

IMPORTANCE OF CORPORATE GOVERNANCE

Corporate governance is important for the following reasons:

- It shapes the growth and future of the economy's capital markets.
- Helps in raising funds from capital markets. Effective management practices help increase investor confidence in a company's ability to attract long-term capital.
- It connects the company's management with its financial reporting system.
- This allows management to make innovative decisions for the effective functioning of the enterprise within the legal framework of responsibility. Evaluating the impact of corporate governance on overall economic performance requires the effectiveness of the regulatory framework. Good corporate governance sets corporate goals, determines the means to achieve those goals, and strengthens the structures for monitoring performance.
- Support investors by making corporate accounting practices transparent. Companies disclose the structure of their financial statements.
- This ensures appropriate and timely disclosure requirements, codes of conduct, etc. The company provides important price-sensitive information to outsiders and ensures that insiders refrain from trading in the company's securities until this information is made public. Therefore, it prevents insider trading.
- This improves the effectiveness and efficiency of businesses and improves economic welfare. Therefore, corporate governance is a tool for economic growth.
- Improves the international image of the corporate sector and enables domestic companies to attract global capital.

SHAREHOLDER VALUE: A CONCEPTUAL REVIEW

The assessment of shareholder value is typically based on the fluctuations in the market price of a company's shares and the dividends paid out by the firm. Simply put, creating shareholder value involves generating consistent returns on investments by providing dividends and, more importantly, by increasing the market value of the company's shares. The cash flow potential of the firm's business and the expected return by investors, in line with the risk they undertake, are the sources of shareholder value. Managing for shareholder value (MSV) focuses on maximizing cash flows over time to cater to the diverse categories of investors, offering them suitable returns based on the risks involved. MSV stresses that cash flows are crucial sources of value, and any corporate decision related to cash flows should only be justified if the discounted future cash flow, at an appropriate cost of capital, results in a positive net present value. Since the total value of any business at a specific point in time is determined by the present value of its future cash flows, the claims of different security holders must be met from this value pool. Equity shareholders, by definition, hold the residual claims to this value pool once the fixed obligations of other security holders are fulfilled. Shareholder value or wealth essentially represents this residual or equity portion of the value pool, as indicated by Pandya (2015).

Corporate governance is a system of accountability, oversight, and control within an organization that can positively impact shareholder value. Well-governed companies tend to perform better, reduce risk, and increase shareholder confidence, which can lead to higher market valuations.

Here are some ways corporate governance can impact shareholder value:

- Reduce conflicts of interest
- Corporate governance can help reduce conflicts of interest by putting in place appropriate control and oversight mechanisms.
- Investors perceive well-governed companies as less risky, so they may be more willing to invest in them at a lower cost. This can provide companies with the resources they need to invest, innovate, and create sustainable growth.
- Improve decision-making
- Quality decision-making can directly enhance shareholder value.
- Limit illegal activities
- Corporate governance can help limit illegal activities in companies, which can enhance shareholder wealth.

The prime objective for the amendments in the Companies Act was to improve the corporate governance in India. However, in reality number of issues had spring up as numerous organizations don't adhere to the new standards under the Act which is springing up the issues in the Corporate Governance.

MEDIATING ROLE OF FINANCIAL SUSTAINABILITY BETWEEN CORPORATE GOVERNANCE AND SHAREHOLER VALUE

According to Kukumba (2012), many businesses have increased their interest in corporate governance over the past decade in an effort to improve financial sustainability. As indicated by (Rudders, 2006) corporate administration expected to arrive at the organization's targets, which prompts the monetary maintainability of the organizations (Chenuos et al., 2014). (Manson and O'Neill, 2007) affirmed that applying corporate administration progressively helps firms' monetary manageability. Besides, (Przychodzen and Przychodzen, 2013) researched the impact of corporate maintainability on stock cost instability. These studies show that companies' unsustainable growth may put a lot of pressure on their financial and operational systems, which could affect the price of their shares. In addition, Rezaee (2017) suggested that firms might benefit from studying

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the effect of financial sustainability on market performance (stock prices). As indicated by (Michelon and Parbonetti, 2012) great corporate administration fortifies connections between an organization and its partners by advancing maintainability. Stakeholder management will benefit from improved sustainability and governance, according to this study. The study also found that the stakeholder theory links governance mechanisms and sustainability initiatives to align long-term stakeholder goals. The influence of corporate governance on financial sustainability is emphasized (Gupta & Bailey, 2001a). Notwithstanding, (Okoye, Erin, Ado, and Isibor, 2017b), obviously recognized the significance of corporate administration in the relationship with monetary supportability. According to the literature, a crucial determinant of a company's long-term survival is its financial health (Hasan, Omar, & Hassan, 2018a).

According to Creixans Tenas & Arimany-Serrat (2018) and FOO & Pathak (2016), the analysis also demonstrates and extends the fact that financial sustainability enhances shareholder value. These previous studies make it abundantly clear that when businesses report strong financial indicators, they can generate shareholder value. Furthermore, recent research suggests that the connection between shareholder value and corporate governance is based on financial sustainability. However, it is necessary to investigate the extent to which it mediates the relationship between shareholder value and corporate governance. The study suggests that financial sustainability will act as a mediator between shareholder value and corporate governance. Thus, to connect the information hole, the target of the current review is to analyze the intervening job of monetary manageability in the connection between corporate administration and investor esteem. As a result, this study uses financial sustainability as a mediator to investigate how shareholder value is affected by corporate governance.

ANALYSIS AND DISCUSSION

The results of the regression analysis for businesses that will be listed on the Vietnam stock exchange between 2019 and 2021 are presented in this section. Moreover, graphic measurements on the vitally autonomous factors, for example CG markers and the reliant factors, for example the monetary presentation of the review, are introduced in this segment. The main goal of this paper is to find out how corporate governance performance scores relate to a company's financial performance. Besides, the strategies used to check for potential mistakes in the relapse model are additionally itemized. The purpose of these tests is to make the results of the research more reliable. Finally, the findings of the study are discussed. The positive relationship among's organization size implies that the more straightforward the organization is, the more unstable the stock cost will be on the lookout. This demonstrates that investors now trust companies more because they are more aware of information transparency than they were in the past. As a result, domestic and foreign investors invested more in potential companies during the research period, despite the small volume of stock held. Likewise, when the quality and amount of data are improved, tremendous changes in stock costs in the market can be accomplished by financial backers who surf the market and hold stocks for a brief period. Whenever an organization distributes great data about valuable learning experiences or future speculation potential, this builds its engaging quality to different financial backers and makes its portion cost increment. As of now, wave financial backers will sell the stock. Investors are drawn in by the open disclosure of information, which drives market fluctuations in stock prices.

At long last, the review neglected to track down a connection among monetary execution estimated by the market (Tobin's Q or ROA). Since these researchers have found a positive relationship between (shareholder rights) and financial performance as measured by Tobin’s Q or stock returns, this result does not support the findings of previous studies by Cheung (2010), Gompers et al. (2003), or Klein et al. (2005). In any case, these examinations didn't track down proof of a connection between the directorate's liabilities and monetary execution. As a result, a subsequent study that compares the analysis results of two distinct research data sources—hand-collected secondary data and data from direct surveys or qualitative case studies—is required. Additionally, research on which aspects of management ought to be investigated would be welcome. Financial backers are the ones who can straightforwardly or in a roundabout way compress organizations to stringently and deliberately execute straightforward data revelation through share cost systems. Therefore, investors must evaluate each listed company's quality of CG practices in addition to evaluating company performance based on financial statements in order to reduce investment risks.

RESEARCH FINDINGS

In light of testing, the discoveries uncover that monetary manageability intervenes the connection between board size and offer cost, which suggests that these two factors are the main considerations of offer cost of organizations recorded in food and refreshments area on the Saudi Stock Trade (Tadawul). Corporate governance, according to Chenuos et al. (2014), is an important way to increase shareholder value and satisfy other stakeholders. In addition, according to Julizaerma & Sori (2012) and Nazir & Alam (2010), board size has a direct or indirect effect on a company's profit, efficiency, and shareholder wealth. In addition, (Alakeci and Al-Khatib, 2006) affirmed the positive and critical connection between board size capability and monetary manageability. Additionally, Przychodzen (2013) demonstrates that sustainable growth of businesses has a positive impact on stock prices, thereby increasing shareholder value. Because it makes it possible for them to make decisions regarding profitable investments, this research is of great assistance to shareholders and policymakers. By identifying the essential factors that cause share price fluctuations, the findings of this study may also be helpful to shareholders and portfolio managers in risk management. Also, future examination can be done by thinking about other macroeconomic and microeconomic elements.

Consider the market as a whole or different sectors for additional research on this framework.

CONCLUSION

In this paper, we introduce new findings regarding the impact of corporate governance regulations on the market value and overall performance of companies. By utilizing a regression discontinuity model based on the results of votes on governance proposals during shareholder meetings, we are able to establish a causal relationship. Companies that narrowly pass or reject a proposal are initially similar, making the passing of a provision "locally" exogenous and resulting in a distinct rise in the likelihood of implementation. This method allows us to provide a causal estimate and address the endogenity issues that have plagued previous research. Our empirical approach enables us to calculate the governance effect even if the market had already factored in the probability of proposal passage into stock prices prior to the vote. The uncertainty surrounding proposals near the majority threshold makes them the most unpredictable, leading to observable price reactions. On average, the market responds to the approval of governance-related shareholder proposals with positive abnormal returns of approximately 1.3% on the voting day, translating to a market value increase of 2.7% to 2.8% per implemented proposal. We observe variations in this reaction, particularly among companies with concentrated ownership, existing anti-takeover measures, and high R&D spending.

Changes in firm behavior are also noted following the implementation of new governance structures, such as reduced investments and acquisitions after dropping anti-takeover provisions. Furthermore, the long-term performance of companies, as measured by Tobin's Q or book-to-market ratios, shows improvement two to three years after the removal of anti-takeover provisions, although the impact on return on equity is more modest.

SCOPE FOR FUTURE RESEARCH

There are several ways in which this research can be expanded. In terms of the economies, future research can explore a comparison with other economies. This would allow the researcher to understand how different phases of various economies behave in relation to corporate governance and shareholder value creation. Additionally, it would facilitate the investigation of which country follows better corporate governance practices. Furthermore, there is potential for future research in this area by utilizing a different and more reliable corporate governance index that evaluates corporate governance practices in a more comprehensive manner. This would contribute to presenting a more precise depiction of the corporate governance status in India.

LIMITATIONS

There are always some restrictions to the research study carried through primary or secondary data. These limitations should be accepted with the due admiration. This study also suffers from following limitations:

i. The study's corporate governance index solely evaluates the presence or absence of specific items in the annual report, focusing on quantity rather than quality to some extent.
ii. The S&P transparency & disclosure index assigns equal weights to all items, despite some elements being more crucial in reality. Therefore, it is suggested that more weight should be given to these important elements compared to less significant ones.
iii. When examining the correlation between institutional investors and value creation, certain variables are controlled for, while others like annual stock return, average stock price, and annual dividend yield are not taken into account.

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