The Impact on Corporate Governance Disclosure: Evidence from the Top 10 Companies on the Bombay Stock Exchange

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ABSTRACT

This research examines the relationship between CGD and various independent variables, including Return on Assets (ROA), Firm Size, Net Profit (NP), and Dividend per Share (DPS), using a sample of the top 10 companies listed on the Bombay Stock Exchange (BSE) in India. "This research performs a quantitative analysis of data extracted from the yearly reports and corporate statements of the chosen companies, utilizing numerical data to identify trends, patterns, and correlations." The Corporate Governance Disclosure Index (CGDI) is employed to evaluate the extent of adherence to the mandatory disclosure requirement specified in clause 49 of the security exchange board of India (SEBI). The results indicate that Firm Size, DPS, ROA, and CGDI deviate significantly from normality distributions, while NP does not show a significant deviation. The regression analysis reveals that LOGDPS has a significant negative effect on LOGCGDI, while the other independent variables do not have statistically significant impacts. The overall fit of the regression model is moderate, with a Coefficient of determination value of 0.442260; the model suggests that around 44.23% of the variability in LOGCGDI can be attributed to the combined effects of the independent variables, implying a moderate level of explanatory power. These results emphasize the significance of dividends per shares in connection with corporate governance disclosures and indicate a necessity for further investigation into other factors may affect the CGDI.

Keywords: Corporate Governance Disclosure, Net Profit, Firm Size, Dividend per Share Return on Assets

Introduction

Corporate governance: the system that directs and holds accountable a company's leadership, encompassing stakeholders' roles, rights, and responsibilities as well as the mechanisms through objectives are defined and achieved, risk is proactively monitored and managed, and performance was continuously evaluated and optimized, leading to improved results. Effective corporate governance is essential for fostering investor confidence, ensuring transparency, and maintaining the integrity of the financial markets.

Disclosure of corporate governance practices is essential for transparency and accountability, enabling stakeholders to make informed decisions. It signals a company's commitment to good governance, enhancing its reputation and attracting investors.

In India, the SEBI has implemented regulations and guidelines to enhance corporate governance practices among listed companies. Clause 49 of the listing agreement, which mandates specific corporate governance disclosure requirements for companies listed on the BSE. Compliance with

Clause 49 is instrumental in ensuring transparency, accountability, and investor protection in the Indian capital market.

Extensive research has explored the link between corporate governance disclosure and company performance across various settings, yielding valuable insights into the impact of transparency on firm outcomes. (e.g., Adams & Mehran, 2012; Brown & Caylor, 2006; Deumes et al., 2018). However, limited research has focused specifically on the BSE and the implications of corporate governance disclosure among the top companies listed therein. This research aims to address a significant knowledge gap thereby enriching the existing literature and offering actionable insights for key stakeholders, including policymakers, regulators and market participants. (e.g., Mitra, 2016; Ntim et al., 2013; Sharma & Iselin, 2018). However, the study addresses the research gap in corporate governance disclosure compliance among top Bombay Stock Exchange-listed companies in India, aiming to contribute to the literature and provide valuable insights for regulators, policymakers, and market participants to strengthen Indian capital market governance.

Review of Literature

The reviewed research articles offers illuminating perspectives on the interplay between corporate governance and various factors in different countries and sectors. The studies explore the impact of company characteristics, voluntary disclosure practices, market risk, executive pay, and financial performance on corporate governance. The findings highlight the importance of corporate governance in ensuring transparency, accountability, and performance within organizations.

The research by Nurudeen et al. (2018), this research explores the link between company attributes and voluntary disclosure practices in the Nigerian financial service sector. It emphasizes the significance of voluntary disclosure alongside mandatory financial report disclosures, shedding light on the regulatory framework in Nigeria. Hossain (2008) focuses on Indian banking organizations' compliance with corporate governance disclosure requirements. The study reveals that Indian banks exhibit a high degree of compliance and identifies the factors of size, ownership, board composition, and profitability that impact the disclosure of Corporate governance (CG). Uddin and Hassan (2013) this research analyzes the correlation between CG and market risk in the United Arab Emirates. Their study finds that CG, measured by a weighted disclosure index, significantly influences market risk, while an unweighted index does not. This research contributes to understanding the impact of CG on market risk in the UAE capital markets. Elmagrhi et al. (2020) investigate the impact of CG structures on executive directors' pay. The findings indicate that high-quality CG at the firm level was associated with a stronger pay-for-performance relationship. The findings emphasize the importance of internal governance structures in determining executive compensation. Akhtaruddin et al. (2009) explore the levels of voluntary disclosure and corporate governance in Malaysia's listed companies. Their study reveals correlations between voluntary disclosures and board size, as well as the percentage of independent directors. The research provides policy implications for Malaysia and other East Asian nations with similar socio-cultural environments and corporate ownership structures. Lemos et al. (2022) analyze corporate governance disclosure in Euronext Lisbon listed companies. The study develops a disclosure index based on the Portuguese Securities Market Commission's recommendations and assesses the level of compliance with suggested disclosures. The research provides insights into corporate

governance practices in Portuguese-speaking countries. Boateng et al. (2022) present empirical data on CG and voluntary disclosures in a developing capital market after the adoption of IFRS. Their findings show that non-mandatory disclosures among enterprises remain low despite the adoption of IFRS. Khanifah et al. (2020) Researchers develop a corporate governance disclosure index for Islamic banks in three key markets - Iran, Saudi Arabia, and Malaysia - and discover a strong positive link between disclosure and bank performance, particularly in terms of return on assets. This breakthrough finding highlights the importance of transparency and good governance in driving the success of Islamic financial institutions. Prusty and Kumar (2016) examine the impact of CG on the financial performance of Indian IT companies. The study highlights the importance of board performance and its monitoring and control in achieving financial success. Robin (2019) discusses CG from the perspective of India. The study emphasizes the need for credit rating organizations to evaluate corporate governance policies and the continuous efforts required for further improvement in corporate governance practices in the country. Guluma (2021) investigates the effects of CG measures on firm performance in a Chinese listed company. The study explores the link between CG performances and also considers the contribution of management behavior to this relationship. Gwala and Mashau (2022) thorough examination of prior research on CG and industrial performance in the era of the Fourth Industrial Revolution reveals gaps in our understanding. To address this, the authors recommend conducting further comprehensive reviews and expanding the geographical scope of studies to better comprehend the evolving correlation between CG and business performance in today's rapidly changing technological landscape. Pillania (2015) examines the CG standards of the top 100 Indian corporations. Research has reveals corporate governance practices have a significant impact on company performance, but companies were unlikely to change their procedures soon, suggesting a continued gap between optimal and actual governance practices. Almaqtari et al. (2020) conduct a comprehensive analysis of CG in India, research on CG has focused on key areas, including independent boards and audit committees, foreign and institutional ownership, and governance issues, highlighting targeted efforts to address these critical themes.

Research Gap

Through a comprehensive analysis of existing studies, several research gaps identified: Many of the studies reviewed focus on specific industries or countries, such as financial service firms in Nigeria, UAE capital markets, or the corporate governance landscape of Islamic banks in Iran, Saudi Arabia, and Malaysia, with a particular focus on key mechanisms such as board size, board composition, and audit committee, there is a need for more comprehensive analysis that considers relationship between the Return on Assets, Firm Size, Net Profit, and Dividend Per Share and the Corporate Governance Disclosure of Indian Industries.

Objective

To investigate the relationship between the independent variables (Return on Assets, Firm Size, Net Profit, and Dividend Per Share) and the dependent variable (Corporate Governance Disclosure Index).

Research Hypothesis

(H01): There is no significant relationship between the independent variables (Return on Assets, Firm Size, Net Profit, and Dividend per Share) and the dependent variable (Corporate Governance Disclosure Index).

Research Methodology

Sample and Data Collection

For this research select top 10 companies on the BSE (Reliance, HDFC, ITC, TCS, Bharti Airtel, Infosys, HUL, HDFC Bank, SBI Bank and ICICI Bank) for the study period 2017-18 to 2021-22. This research will employ a quantitative analysis. Data from the yearly reports and corporate statements of the BSE's top 10 companies will be collected and analyzed to assess their corporate governance and financial performance to assess the extent to which they have complied with the disclosure requirements stipulated by Clause 49. Specific areas of focus will include board composition, director independence, audit committee effectiveness, executive compensation, and shareholder rights.

Secondary Data: The mandatory information required for CGDI and (Return on Assets, Firm Size, Net Profit, and Dividend per Share) had to be data from publicly available sources such as annual reports, corporate governance reports, company websites, and regulatory filings of the top 10 companies listed on BSE.

Statistical test

The study employed a range of analytical techniques, including the KS test to evaluate the normal distribution of the data, and multiple linear regression analysis to investigate the relation between variables and determine the significance of each variable in the model.

Data Analysis and Results

In this research article employed a regression model to examine the hypothesis, focusing on the relationship between the dependent variable, CGDI, and several independent variables, namely return on assets, Firm Size, Net Profit, and Dividend per Share. The CGDI was determined by evaluating the presence or absence of corporate disclosure content outlined in Clause 49 of SEBI for each company. The level of CG disclosure was quantified using the CGDI by analyzing the annual reports of selected companies listed on the BSE, providing a comprehensive measure of transparency and accountability. A value of "1" was assigned when the content was disclosed in the report, and a value of "0" was assigned when the content was not disclosed.

Tests of Normality

The table 1 presents the results of a Kolmogorov-Smirnov test for five variables: Firm Size, DPS (Dividends per Share), NP (Net Profit), ROA (Return on Assets), and CGDI (Corporate Governance Disclosure Index).

The first column represents the variables being tested, while the second column displays the corresponding test statistic values. The third column indicates the degrees of freedom (df) associated with each test, and the fourth column provides the significance level (Sig.) for each variable.

1. **Firm Size :** The Kolmogorov-Smirnov test statistic for Firm Size is 0.234. With 50 degrees of freedom, the associated significance level is reported as .000, indicating a highly significant result. This suggests that the distribution of firm sizes significantly deviates from a normality distribution.
2. **DPS :** The test statistic for DPS is 0.172. The test has 50 degrees of freedom, and the reported significance level is .001. This indicates a significant result, although the significance is lower compared to Firm Size. It suggests that the distribution of DPS significantly differs from the normality distribution.
3. **NP :** The test statistic for NP is 0.098, with 50 degrees of freedom. The associated

significance level is .200, which is higher compared to the previous two variables. This suggests that the distribution of Net Profit does not significantly deviate from the normality distribution at a conventional significance level of .05.

4. **ROA :** The test statistic for ROA is 0.254. With 50 degrees of freedom, the reported significance level is .000. This indicates a highly significant result, suggesting that the distribution of Return on Assets significantly deviates from the normality distribution.

5. **CGDI :** The test statistic for CGDI is 0.162. The test has 50 degrees of freedom, and the reported significance level is .002. This indicates a significant result, although the significance is lower compared to ROA. It suggests that the distribution of Corporate Governance Disclosure Index significantly differs from the normality distribution.

In summary, Firm Size, DPS, ROA, and CGDI show significant deviations from the normality distributions, while NP does not show a significant deviation. These results imply that the distributions of Firm Size, DPS, ROA, and CGDI are not normality distribution, while the distribution of NP is normality distribution.

Regression Analysis

A multiple regression model was used to investigate the association between the dependent variable, Corporate Governance Discloser Index (CGDI), and several independent variables, including Return on Assets (ROA), Firm Size, Net Profit, and Dividend per Share (DPS). Prior to employing the regression model, we transformed the actual data into log data due to the significant deviations from normality distributions observed in Firm Size, DPS, ROA, and CGDI.

Table 1 Kolmogorov-Smirnova

Variable	Statistic	Df	Sig.
Firm Size	.234	50	.000
DPS	.172	50	.001
NP	.098	50	.200
ROA	.254	50	.000
CGDI	.162	50	.002

Source: Own Compilation

Table 2 Regression Analysis

Dependent Variable: LOG CGDI Method: Ordinary Least Squares Date: 04/11/23 Time: 13:45Sample: 1 50 Included observations: 43				
Variable	Coeff.	Standard. Error	t-Stat.	Probability
C	1.460389	0.084401	17.30307	0.0000
LOG ROA	0.013306	0.028116	0.473253	0.6387
LOG FSIZE	-0.012164	0.026667	-0.456169	0.6509
LOG NP	-0.003587	0.026818	-0.133763	0.8943

LOG DPS	-0.064896	0.013135	-4.940708	0.0000
R^2	0.442260	Mean dependent varialble		1.318062
Adjusted R^2	0.383551	S.D. dependent var		0.033627
S.E. of Regression	0.026402	Probability (F-stat.)		0.000143
F-stat.	7.533032			

Source: Own Compilation

Based on the regression results, the model estimates the relationship between the dependent variable CGDI and several independent variables (ROA, LOGFSIZE, NP, and DPS).

1. Coefficients

Constant (C): The estimated coefficient is 1.460389. The intercept (1.460389) is the expected LOG CGDI value when all independent variables are zero.

LOGROA: for every 1% increase in ROA CGDI increase by 0.01336 suggesting strong link between a company financial health and its level of corporate governance disclosure.

LOGFSIZE: The negative coefficient (-0.012164) indicates an inverse relationship between LOG FSIZE and LOG CGDI, meaning that as FSIZE increases, CGDI tends to decrease, and vice versa.

LOGNP: For every one-unit increase in LOG NP, LOG CGDI is expected to decrease by 0.003587 units, with other variables remaining unchanged, suggesting that higher profits are slightly associated with lower levels of corporate governance disclosure.

LOGDPS: A 1% increase in Dividend Per Share leads to a 0.064896 decrease in CGDI, assuming other variables remain constant.

2. Statistics

R-squared (R^2): 0.442 (44.23% of LOGCGDI variance accounted for by predictor).

Adjusted R2: 0.384 (adjusts R^2 for number of independent variables and sample size).

S.E. of Regression: 0.0264 (average distance between actual and predicted LOGCGDI values).

F-statistic: 7.53 (p-value = 0.000143, indicating statistical significance) Suggests that at least one independent variable has a significant effect on LOGCGDI.

Durbin-Watson Statistic: 0.831 (no significant autocorrelation in residuals, since value is close to 2).

Overall, based on the given p-values in table 2, the only variable that appears to have a significant relationship with the dependent variable LOG CGDI is LOG DPS. The other variables, LOG ROA, LOG FSIZE, and LOG NP, do not have statistically significant relationships with LOG CGDI in this analysis.

In summary, the model suggests that LOGROA, LOGFSIZE, LOGNP, and LOGDPS have limited or no significant impacts on LOGCGDI, as their coefficients are not statistically significant ($p > 0.05$). However, LOGDPS appears to have a statistically significant negative effect on LOGCGDI. The model's accuracy is moderate, as performed by the R-squared value of 0.442260.

Estimated Regression Equation

LOGCGDI = 1.460389 + 0.013306(LOGROA) -

0.012164(LOGFSIZE) - 0.003587(LOGNP) - 0.064896(LOGDPS)

Conclusion

In conclusion, the regression analysis revealed significant positive relationship between the CGDI and several independent variables. By examining this relationship, we have gained valuable understanding of the key factors that shape corporate governance disclosure practices. The study found that Firm Size, Dividends per Share (DPS), Return on Assets (ROA), and CGDI significantly deviate from normality distributions. However, the distribution of Net Profit (NP) does not show a significant deviation.

The regression analysis revealed that the independent variables, including LOGROA, LOGFSIZE, LOGNP, and LOGDPS, had limited or no significant impacts on LOGCGDI, except for LOGDPS, negatively affects LOFCGDI, suggesting an inverse relationship between two variables. The overall accuracy of the regression model was moderate.

In conclusion, the study suggests that LOGDPS has a Adversely impacts on LOGCGDI, notably, the remaining independent variables did not exhibit a significant on the dependent variable, suggesting that their effects are negligible or non-significant. The findings highlight the importance of dividends per share in relation to corporate governance disclosure, and further research may be required to explore other factors influencing CGDI.

The findings of this study extend existing knowledge and inform future research in corporate governance and policy development aimed at enhancing transparency and accountability in corporate practices.

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