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An Analysis of the Emerging Nation's Corporate Governance Practices and Economic Performance

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Abstract

This study examines the impact of corporate governance practices on the financial performance of non-financial firms in India, an emerging economy, over the period 2015 to 2024. Using panel data from 400 publicly traded companies, employing regression analysis and the Generalised Method of Moments (GMM) to investigate the correlation between governance variables—namely board size, board attendance, CSR committees, and audit committee independence—and essential financial metrics (ROA, ROE, and EPS). The research also examines the moderating influence of Economic Policy Uncertainty (EPU) on this connection. The results demonstrate that the majority of corporate governance characteristics have a beneficial impact on financial performance, but economic policy uncertainty diminishes these impacts, especially with audit committee and board-related elements. The GMM analysis validates the reliability of these findings by addressing concerns of endogeneity and simultaneity. Overall, the study underscores the dual importance of strong internal governance and stable external policy environments in enhancing corporate performance in emerging nations like India.

Keywords: Corporate Governess, Performance, Economic Growth, Government Score, Emerging Markets

1. INTRODUCTION

The term "corporate governance" refers to the rules and guidelines that govern the leadership, supervision, and administration of companies. [1] It includes dealings with the general public, shareholders, and the board of directors, management, employees, customers, and suppliers. By ensuring transparency, accountability, fairness, and honesty in corporate decision-making, strong corporate governance aims to improve long-term shareholder value while protecting the interests of other stakeholders.

Metrics for financial performance are essential for determining not just the health of a company's finances but also its level of production and the degree to which it has been successful in achieving its objectives. When looking at essential variables such as profitability, liquidity, solvency, and efficiency, it is possible to have a better understanding of the financial performance of a firm or organisation. Return on equity (ROE) and return on assets (ROA) are two examples of profitability ratios that may be

used to evaluate a company's ability to convert its equity into earnings [2]. A company's ability to meet its short-term financial obligations and to manage its exposure to liquidity risk may be evaluated using a variety of liquidity ratios, including the current ratio, the quick ratio, and other liquidity measures [3]. Solvency ratios, which comprise the debt-to-equity ratio and the interest coverage ratio, are used in order to evaluate a company's financial stability and its capacity to meet financial obligations over an extended period of time [4]. The asset turnover ratio and the inventory turnover ratio are both efficiency ratios that evaluate how effectively a company put its resources and assets to work in order to generate revenue [5].

These financial performance indicators are used widely by analysts, creditors, investors, and other interested parties in order to evaluate the state of the company's finances, evaluate the potential for investment, and arrive at well-informed decisions. [6] Investors look at profitability ratios to determine how well a business can generate money, while creditors look at solvency ratios to see how well a company can pay back the debts it has taken out. Through the use of efficiency ratios, analysts are able to evaluate the effectiveness of operational efficiency and discover solutions to improve resource management. When investors, lenders, and other stakeholders have a solid understanding of these financial performance indicators and incorporate them into their evaluation of the company's present and future financial health, they may be able to make more informed decisions about strategic, tactical, and positional matters [7].

2. OBJECTIVES

- To assess the impact of corporate governance standards on the financial performance of non-financial enterprises in India.
- To investigate the moderating influence of Economic Policy Uncertainty (EPU) on the connection between governance and performance.
- To corroborate the results with the Generalised Method of Moments (GMM) for robustness.

3. HYPOTHESIS

H1: Performance is significantly improved by board size.
H2: Performance is significantly improved by board attendance.
H3: The presence of a CSR committee significantly improves financial performance.
H4: Performance is significantly improved by the audit board committee.
H5: Financial performance is significantly improved by the independence of the audit committee.
H6: Financial performance is significantly improved by the experience of the audit committee.
H7: The relationship between corporate governance characteristics and financial performance is significantly positively moderated by economic policy uncertainty.

4. RESEARCH METHODOLOGY

4.1 Sample size

To examine the impact of corporate governance practices on financial performance in the context of an emerging nation, this study analyzes a sample of 400 non-financial firms listed on Indian stock exchanges over a year period from 2015 to 2024. Governance and corporate practices were affected by

major legal and legislative reforms. Since the Reserve Bank of India and SEBI regulate the financial sector, non-financial firms were chosen for impartiality. Governance metrics, corporate size, and economic uncertainty were collected using Thomson Reuters DataStream. World Bank macroeconomic figures, including GDP, were used. Probability-based random selection allowed us to find organisations that reflect India's corporate environment and demonstrate how governance may boost company performance throughout economic development.

4.2 Variables measurement

Dependent Variable: - When evaluating a company's financial performance, return on assets (ROA), return on equity (ROE), and earnings per share (EPS) are used. Earnings per share, equity utilisation, and asset efficiency are all shown by these metrics.

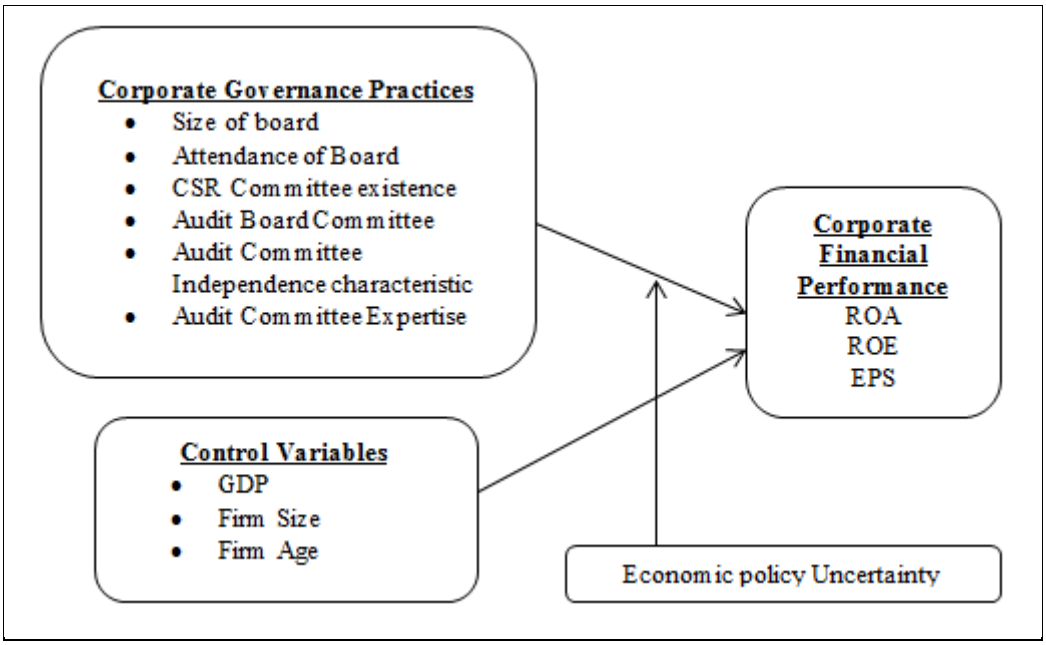

Figure 1: Conceptual framework of study

Independent Variable: - Corporate governance policies cover auditor independence, board size, board attendance, CSR committee, audit committee. These components mirror internal governance quality influencing business results.

Control Variables: - Company age (in years since formation), total assets, and India's GDP are all examples of control variables. Issues such as company size, maturity, and the macroeconomic climate are taken into account.

Moderator Variable: - An important moderator of the performance-governance relationship is economic policy uncertainty (EPU). Media attention, policy changes specific to India, and market volatility are all tracked.

4.3 The Econometric Model and Estimation Method

This study examines non-financial firms that are listed in India between the years 2015 and 2024 to determine the extent to which corporate governance influenced the financial performance of these organisations.To determine the connection between these governance traits and financial success, we use panel data regression analysis.

$$FP_{it} = \alpha_0 + \beta_1(CG)_{it} + \beta_2(EPU) + \varepsilon_{it}$$

$$FP_{it} = \alpha_0 + \beta_1(CG)_{it} + \beta_2(CG) * EPU_{it} + \varepsilon_{it}$$

Among such markers are the board's size, the existence of an audit committee, and CSR. Using regression analysis to investigate the nature of interactions in the financial sector has many possible limitations. Two instances of this sort are endogeneity and autocorrelation. We use the Generalised Method of Moments (GMM) technique to resolve these issues and guarantee validity of the results. Features of Indian firm-level data such as dynamic panel data, endogeneity, heteroscedasticity, and autocorrelation are ones the generalised method of moments (GMM) might possibly control. This environment is ideal for its objective assessments because it is flexible and makes the fewest possible use of distributional assumptions.

5 RESULTS

5.1 Descriptive statistics

Table 1 shows that the chosen non-financial firms in India may provide a return on total assets of 33%. Their ROA is 33% on average, according to this.A return on equity (ROE) that is about five times higher than the return on assets (ROA) is a measure of the average return on equity (ROE) that is created from the profits made from shareholders' equity.Over the course of the last ten years, profits have been steadily increasing and remaining stable, with average earnings per share of 1.13. The economic policy uncertainty (EPU) index for India has a range that went from zero to nineteen during the course of the study period, with a score of thirteen being the average.An audit board committee is present in about eighty-five percent of the firms that have been listed for a period of sixteen years, which is the average number of years these companies have been listed.On average, there are eleven members on the board, and more than half of those members are regular participants at board meetings.66 percent of the Indian firms that were sampled had a corporate social responsibility council in existence, which is an even more amazing statistic.

Table 1: Descriptive statistics of the samples

Variable	ROA	ROE	EPS	EPU	ABC	ACE	ACI	AGE	BA	BS	CSC
Mean	0.33	4.84	1.13	13.13	0.85	51.47	67	15.99	0.45	11	0.66
Maximum	6.2	7.28	2.81	19.22	1	100	100	120	1	19	1
Minimum	-1.1	-5.95	-12.37	0	0	0	0	1	0	7	0
Std. Dev.	6.18	2.48	6.7	5.7	0.36	32.33	37.16	14.97	0.5	7.09	0.47

Observations	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000

The non-financial businesses that were chosen in India have the potential to provide a return on total assets (ROTA) of 33 percent, which suggests that their average ROA is 33 percent. This information is shown in Table 2 above. When compared to the return on assets (ROA), the return on equity (ROE) is about five times greater on average. This may be attributed to the earnings that are earned from the stock that is owned by shareholders. Over the course of the last ten years, earnings per share have been steadily increasing while staying relatively unchanged, with an average of 1.13. During the course of the research, the economic policy uncertainty (EPU) index for India ranged from 0 to 19, with an average value of 13. An audit board committee is frequently present in companies, and the average number of years that a company has been listed is around sixteen years. More than half of the board members are frequent attendees at the meetings, and the average number of board members is eleven participants. It is even more interesting that 66 percent of the Indian businesses that were considered for the sample had a corporate social responsibility committee in existence.

Table 2: Correlation matrix

	ROA	**ROE**	**EPS**	**EPU**	**ABC**	**ACE**	**ACI**	**AGE**	**BA**	**BS**	**CSC**	**GDP**	**FS**
ROA	1	0.54	0.01	-0.03	-0.04	-0.03	-0.03	0	-0.01	0.01	-0.03	-0.01	0.03
ROE		1	0.03	-0.03	-0.04	-0.03	-0.03	-0.01	-0.01	0.01	-0.03	-0.01	0.04
EPS			1	0.08	0.06	-0.03	-0.06	-0.02	0.02	-0.01	0.01	0.03	0.04
EPU				1	0.59	0.43	0.47	-0.05	0.17	0.03	0.65	0.18	0.14
ABC					1	0.64	0.66	-0.04	0.35	0.02	0.54	0.21	0.01
ACE						1	0.55	-0.02	0.35	-0.02	0.42	0.12	0.01
ACI							1	-0.05	0.44	0.02	0.47	0.11	0.07
AGE								1	-0.01	-0.01	-0.07	-0.36	0.02
BA									1	0.03	0.24	0.08	-0.03
BS										1	-0.06	-0.08	0.01
GDP												1	0.02
FS													1

Table 3 shows the results of a regression study that looks at how non-financial companies in India do financially in relation to corporate governance processes. The researchers investigated the connection between the two. The presence of a CSR committee, the composition of the audit committee, and the board's overall structure are all governance-related factors that could explain a substantial amount of the variance in financial performance (R-squared values of 0.4210 for earnings per share, 0.7982 for return

on equity, and 0.7410 for return on assets). These explanatory variables demonstrate that they have an effect on the results of the firm at the percent, five percent, and ten percent significance levels, respectively. More evidence that the models are helpful for evaluating the connection between corporate governance and financial performance in India comes from the positive and large F-statistics, which show how well the regression models are fit overall.

Table 3: Results of regressions

Variable	ABC	ACE	ACI	AGE	BA	BS	CSC	EPU	FS	GDP	C (Constant)
ROA Coefficient	0.677	0.001	0.002	0.007	0.167	0	0.297	0.006	-0.001	0	1.775
ROA Prob.	0.134	0.017	0.018	0.09	0.001	0.834	0.083	0.025	0.008	0.667	0
ROE Coefficient	39.541	0.001	0.07	0.178	2.441	0	2.013	0.097	0.013	0	42.572
ROE Prob.	0.076	0.097	0.009	0.006	0.076	0.025	0.055	0.035	0.044	0.017	0.007
EPS Coefficient	3.871	0.02	0.033	0.009	-0.868	0	-0.934	0.021	0.008	0	0.358
EPS Prob.	0	0	0	0.155	0	0.302	0	0	0.071	0.919	0.307

Regression Model Summary Statistics			
Statistic	**ROA**	**ROE**	**EPS**
R-squared Value	0.2410	0.0982	0.4210
Adjusted R^2	0.2030	0.0871	0.4014
Probability (F-stat)	0.0000	0.0000	0.0000
Durbin-Watson	1.0104	1.1701	1.1214

Table 3 shows the findings of the regression analysis of return on assets (ROA), which reveal that for Indian enterprises, having an audit board committee (ABC) does not correlate with performance in a statistically meaningful way. That an audit committee may not be enough to affect asset returns on its own is suggested by the results, which lend credence to the idea of the null hypothesis. Return on assets (ROA) is positively and statistically significantly affected by the audit committee's competence and independence at the 5% significance level. With regard to audit committee expertise and independence, ROA increases by 0.001 and 0.002, respectively, for every unit increase. The most essential aspect, according to these studies, is audit quality, not formality. Strong governance directly promotes improved financial performance, as shown by other aspects of corporate governance that have shown beneficial and statistically significant relationships. We find the company's age, the proportion of board attendance, and the number of CSR committees on the board among these criteria. This strongly suggests that improved financial outcomes are a direct outcome of well-governance organisations.

Every measure of corporate governance and control variable correlates positively and significantly with the company's performance when it comes to return on equity (ROE).This emphasises how vitally important effective government is to Indian businesses in raising shareholder returns. Like other governance characteristics, the profits per share (EPS) model demonstrate that attendance and board size are the only two factors reducing profitability. Observing the significant negative effects of board attendance, one may deduce that an overflow of involvement or engagement in meetings can hinder effective decision-making and cause waste of resources. This may result from poor board policies instead of negligence. The results generally support the theory that the financial performance of Indian companies is much influenced by the corporate governance rules they follow.

5.2 Robustness analysis: Generalized Method of Movement (GMM)

There are too many moving parts in the relationship between corporate governance features and financial performance in the current Indian business climate for the regression analysis to adequately capture all of the relevant insight. A better return on investment (ROI) might encourage greater corporate social responsibility (CSR) efforts, which in turn could boost profits. This is due to the fact that many of the investigated variables are structural and endogenous, which allows for the prospect of several causalities operating simultaneously. The study makes use of a difference estimator that is derived from the Generalised Method of Moments (GMM) in order to circumvent these challenges and provide predictions that need greater credibility. It is possible to circumvent endogeneity and autocorrelation issues with the assistance of this strategy, which makes use of instrumental factors and delayed dependent variable values.

Table 4: Strong analysis using the GMM technique

Variable	ROA (-1)	ROE (-1)	EPS (-1)	ABC	ACE	ACI	AGE	BA	BS	CSC	EPU	FS	GDP
ROA Coefficient	0.011	–	–	0.423	0.098	0.018	0.17	0.231	1.52	0.176	0.012	-0.001	2.721
ROA Prob.	0.001	–	–	0.093	0	0	0	0	0	0	0	0	0
ROE Coefficient	–	0.001	–	37.871	0.012	0.18	0.179	2.331	2.191	2.13	0.097	0.019	3.912
ROE Prob.	–	0	–	0.057	0	0	0	0	0	0	0	0	0.01
EPS Coefficient	–	–	0.001	8.921	0.02	0.087	0.019	-0.976	3.171	-0.934	0.089	0.019	4.752
EPS Prob.	–	–	0.058	0	0	0	0	0	0	0	0	0	0.761

GMM Model Diagnostic Statistics			
Statistic	**ROA**	**ROE**	**EPS**
J-Statistic	0.721	0.951	0.802
Prob (J-statistic)	0.001	0.001	0.002
AR(1)	0.048	0.651	0.001
AR(2)	0.871	0.981	0.541

The outcomes of the GMM estimate are shown in Table 4. The J-statistic is extremely significant at the 1% level, which validates the general validity of the model as well as the adequacy of the instruments under consideration. The dynamic nature of financial success is further strengthened by the fact that the current values of ROA and EPS are substantially and positively impacted by their lagged values. This is a positive development that contributes to the dynamic nature of financial success. According to the results of conventional regression, key control variables like GDP and firm size (FS), in addition to fundamental governance measures, exhibit more robust GMM estimates and more powerful impacts than the traditional regression findings. When the direction of significance is consistent across all models, the results are accorded higher credence. The audit board committee (ABC), which did not play a significant role in the regression model, becomes big and positively correlated with return on assets (ROA) when GMM estimations are used. This is true even after accounting for simultaneity bias.

5.3Influence of the independent variable

The R-squared values for models exploring the moderating impact of economic policy uncertainty on company performance show that corporate governance factors and their interactions significantly explain financial performance differences. ROA was 0.449, ROE 0.439, and EPS 0.129. Values indicate that the models are well-fitted and appropriate for analysis. All models had positive F-statistics, validating the regression estimates' accuracy and explanatory power. The models' robustness and lack of autocorrelation were further supported by Durbin-Watson values around 2.00.

Table 5 reveals that Economic Policy Uncertainty (EPU) negatively and statistically significantly changes the relationship between corporate governance practices and firm financial performance in India. Lower ROA, ROE, and EPS indicate lower profitability and increased policy uncertainty. Audit committees and EPU's presence, independence, and competence are less effective during economic downturns. Policy stability is needed to strengthen corporate governance since even organisations with strong audit systems might fail in unpredictable economic or regulatory contexts.

Table 5: Results of moderation economic policy uncertainty (INDIA ONLY)

Variable (India)	**ABC * EPU**	**ACE * EPU**	**ACI * EPU**	**BA * EPU**	**BS * EPU**
ROA Coefficient	-0.008	-0.013	-0.135	-0.001	-2.132
ROA Prob.	0	0.007	0.002	0	0

ROE Coefficient	-0.231	0	-0.006	-0.178	-2.873
ROE Prob.	0.006	0.004	0.006	0.007	0.876
EPS Coefficient	-0.013	-0.001	-0.001	-0.004	-0.006
EPS Prob.	0.001	0.007	0	0.001	0.655

Moderation Model Summary Statistics			
Statistic	ROA	ROE	EPS
R-squared Value	0.449	0.431	0.129
Adjusted R^2	0.416	0.421	0.119
Probability (F-stat)	0.000	0.000	0.000
Durbin-Watson	1.991	2.001	2.101

The findings of the study indicate that in India, the independence of audit committees, the size of boards, and the attendance of board members are all variables that influence the financial success of a firm. The Economic Policy Uncertainty (EPU) significantly diminishes the association between these parameters.It would seem that governance systems are not as effective under economically unstable situations. This is due to the fact that the favourable impacts of an independent audit committee are diminished when there is a high level of policy uncertainty available.When policy is extremely unpredictable, the financial benefits of having a larger board and having board members actively engage are lessened. This is also true when the board members are actively participating.The results highlight the fact that external economic variables, such as regulatory instability and changes in the macroeconomic environment, have the potential to decrease the strength of the linkages between governance and performance. This demonstrates the contextual nature of strong corporate governance.That being said, policy stability is very necessary in order for emerging countries such as India to reap the monetary rewards that come with advances in governance.

6. DISCUSSION

Possible explanations for the lack of statistically significant influence on company financial performance in the Indian setting including audit board committees (ABCs) include the committees' nominal existence but lack of meaningful power and functional effectiveness. Consistent with other studies, the audit committee's autonomy has a significant and beneficial effect on business results [12]. The premise that strong governance processes improve financial results is supported by the fact that other important elements of corporate governance, such audit expertise, board attendance, and board CSR participation, also show substantial beneficial benefits.

These results are especially significant for Indian businesses because continuous attempts to improve transparency and responsibility in governance criteria (such as Listing Obligations of SEBI). Our findings align with those of earlier research demonstrating that, by removing prejudice and lowering agency conflicts, independent boards and other kinds of effective corporate governance improve

performance [13, 14]. Research shows that the connection between governance and performance in India is substantially influenced by economic policy uncertainty (EPU). This adds to the mounting evidence showing businesses coping with high degrees of uncertainty face a drop in financial performance, a loss of investor confidence, and a delay of investment [15, 16]. EPU in India might affect growth potential, financial expenses and strategic decisions as well as finance policies. Stable economic policy is thus essential for businesses to reach governance-driven gains, which in turn needs efficient governance, which is still vital for financial success.

7. CONCLUSION

The research found that non-financial companies in India's growing economy may greatly benefit from better corporate governance in terms of their financial success. Financial indices including ROA, ROE, and EPS were positively and significantly affected by important governance structures, such as an independent board, an experienced audit committee, and CSR participation. The research also shows that EPU moderates these associations in a negative way, which means that governance institutions are less successful when economic conditions are unstable. By tackling endogeneity and simultaneity problems, the Generalised Method of Moments (GMM) was used to further confirm these results, assuring their robustness. The findings highlight the significance of a steady and predictable policy climate in addition to the implementation of good internal governance processes. Fostering sustainable corporate and economic development in growing countries like India requires a concerted effort by policymakers, regulators, and business executives to enhance governance frameworks and decrease policy uncertainty.

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