Effect of Corporate Governance Disclosure on Financial Performance of BSE Listed Companies

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Abstract
The sole purpose of this study is to examine the impact of corporate governance disclosure on the financial performance of companies listed in BSE. Disclosure of corporate affairs is very important the interest groups of the companies and it effect the financial performance of the companies. Financial performance can be measured through the various financial ratios such as liquidity ratio, profitability ratio and solvency ratio. For the investigating impact of corporate governance disclosure on financial performance we have collected secondary data from the official websites. Data of three years of 10 companies listed in BSE have been collected. Various statistical tools with the help of E-views have been applied to do investigation. Finding of the study indicated that corporate governance disclosure significantly influences financial performance.
Keywords: BSE, Financial Performance, Corporate Governance, Disclosure
JEL: G3, G39,

Introduction:
As India is an emerging market for the investors around the world. It is very important to understand the various factors which influences the financial performance of the companies. In few past years Corporate Governance Disclosure (CGD) has become the area of interest for the researchers to know its influence over the financial performance (Benlemlih and Girerd-Potin, 2017). various theory like agency theory, legitimacy theory, stakeholder theory and political economy theory has described as to why CGD is necessary. Agency theory states that increase disclosure can assist in reduction of conflicts between principal and agents. Lobo and Zhou, (2001) argue that increase disclosure can help in enhancing firm value. Irrespective of different theoretical perspective, all agree on the same point that companies' issues information mostly for the people who find the information fruitful while making investment decision (Haniffa and Cooke, 2002)
Firm needs investors for introducing any expansion product. There is evidence that argues that the firm with good financial performance can easily get funds as comparative to firm having poor financial performance. Financial performance is in line with shareholder's value. Financial performance may be defined as indicator that investors take into account while making decision related to investment. Financial Ratio is used to describe an investor's perception about Financial performance of a company. It depicts investor's assessment about company past and future prospect.
Financial performance of the firm shall be measured with the following proxies; Profitability ratio, Liquidity ratio and Solvency ratio
A company's main motive is to earn maximum profit and thus main concern becomes "profitability" for both investors and analyst. Toto, (2008) argue that a company can survive by gaining sufficient return on risk only by maintaining consistent profitability. Petronila (2003) in Wahidahwati (2002) stated that performance of management in running a company can be determined by the profitability of a company. The main indicator of profitability is Net profit ratio. Profitability is the result of management's policy and decision making related to sources and utilisation of funds, stated in companies' financial statement (Brigham and Houston, 2001).

Higher profitability is directly proportionate to social information. n (Bowman and Haire (1976) and Preston (1978)). A company with high profitability conduct events that the company has both long term as well as short term goal to keep investors in confidence that the company focuses on both profitability as well as on social activities (Yuniasih and Wirakusuma, 2007).

The ultimate aim of the company is to increase the wealth of the shareholders. For that purpose, Liquidity ratio has become a centre of attention for everyone, Here Liquidity refers to the management of current asset and current liabilities of the firm. Growth and profitability are mainly affected by the firm ability to manage its short-term liabilities. Inadequate liquidity may act as hindrance in smooth operations of business. Liquidity risk is the risk that firm is unable to meets its cash obligation through its liquid assets. Some of the ratio like current ratio, quick ratio are the tools to measure the liquidity position of the company.

Solvency means ability of a company to meet its long-term obligations. Robinson et al., (2015) Solvency represents the Financial structure of the company. Solvency ratio helps in getting a fair view of company ability to pay its fixed expenses and its financial cost. Tze and Heng, 2011; Gitman, (2006). Assets are mainly financed from two sources internal and external including s, preference shares, bonds, bank loan and reserves, and short-term liabilities such as overdrafts and accounts payable

Company need to reassure that the firm operations are ultimately in the interest of the large group as whole but not just for itself and its stakeholders. (Ogletree, 2002) Without this realisation there will be no solidarity between society, business and government (Oketch, 2004)

Company depends upon the society for raw material, people, infrastructure for survival as well as for long term success of the business in turn company impact the society in three dimensions: Environmental, Social and Economic dimensions (Ketola, 2008). Emission of harmful substance, disposal of waste, recycle of waste, usage of energy, sustainable development falls under environmental impacts. Equal opportunities for all, Human rights, right to education and a better culture constitute the elements of social impact. Economic dimensions constitute enhancing the product value, exercising ethical practices, creation of job, avoiding culture of bribery and corruption. The way company choose to operate helps in determining whether business claims to be good corporate citizen or not.

When the complete knowledge as well as boon of CSD and CSR shall be understood the company shall automatically will start thrive towards CSR and CSD goals. Without it all the company shall heads towards different constituents.

Remainder of the study includes a brief review of literature of the existing studies followed by third section of the study exhibits methodology adopted for the study, second last section show the results and analysis and last part concludes the research.

Theoretical Framework and prior research

All researcher around the globe are keen in measuring the social performance of the corporate. CSD is the tool by which corporate tries to manifest the stakeholders of the company their sensitiveness towards need of the society. Now a days CSD is been called by various names like sustainability, environmental, social accounting and accountability reports, responsibility or more recent terms are corporate citizenship enterprise or social responsibility (ESR) (Parker, 1986). CSR has been explicated from different perspectives can be described in three words ‘‘Maximizing returns to shareholders’’ (Zenisek, 1979). Frederick (1986) has defined CSR as a liability of a company towards betterment of society and referred as CSR1. A company should be held liable for all its actions that affect society, environment and people (Frederick et al. 1992). Frederick (1994) has redefined CSR as the ability of a company to respond to social pressure and referred it as CSR 2.

Now there’s been a shift to managerial approach from philosophical approach. Ferrell et al. (2002) has told that’s it’s an organisation’s liability to minimise negative impact and maximise the positive impact on stakeholders. Rolland and Bazzoni, (2009) has stated that business ethics must consist of principles that how business should behaver in the world of business. CSR can be

defined as the adoption of strategic goal for achievement of social, economic, philanthropic, legal obligations expected by large group of stakeholders (Thorne et al. 2008).

There are many empirical studies have been done that studies the relationship between CSR and Financial Performance. Results were found to be mixed. Margolis and Walsh (2001) has studied the relationship between CSR and Financial performance which reported Approx. 50% of the studies have positive relationship whereas 25% shows no relationship, 20% had mixed results and 5% shows no relationship at all. Crisostomo et al. (2011) has observe that there is negative relationship between CSR and Financial Performance while studying Brazilian data. Whereas, Mallin et al. (2014) has studied about Islamic bank of 13 countries and observe that there's a positive relationship between CSR and Financial performance., Mallin et al. (2014) has further pointed that Financial Institution show less concern toward voluntary CSR disclosure and pays significant attention towards mandatory disclosure recommendation of Accounting and Auditing Organisation.

Descriptive theories like institutional theory, resource dependence theory and legitimacy theory helped to demonstrate CSR phenomenon by interviewing internal and external drivers of CSR. (Frynas and Yamahaki, 2016). Many researchers are considering one or more theory in order to explain how CSR behaves (Milne and Patten, 2002; Lee, 2011; Yang and Rivers, 2009). Frynas and Yamahaki (2016) in his studied has drawn the inference that 31 percent of the published researches has used institutional theory. Since 1990s the concept like, corporate responsibility (Andriof and Waddock, 2002; Waddock, 2002), sustainability (Hart, 1997; Zadek, 2004) and corporate citizenship (Andriof and McIntosh, 2001; Matten and Crane, 2005) were evolved which has much wider responsibilities and include responsibilities towards nation, environment and future generation. These new concepts have addressed one of the most prominent researcher's concerns who found "social" as cryptic in respect of CSR (Ghobadian et al., 2015). Despite of the fact that all the mentioned terms are somewhat different but the fundamental idea remains the same that is business have accountability towards its stakeholders and the elements of its environment. (Sharma, 2009)

Methodology

We lay down this paper by addressing the meaning and significance of CSR and financial performance then moving forward towards methodology. This research is to inspect the association of CSR and financial performance in India. The population of the study is BSE (Bombay Stock Exchange) listed top 10 companies. From inception of BSE many companies were included and excluded based on the calculation of base amount of 100 in 1986. BSE SENSEX constitutes 10 companies in which TATA Motors has two stocks. Data of financial performance for the period of 2018-19 to 2020-21 has been collected through the website of moneycontrol.com and the official websites of respective companies. Different ratios are calculated to judge the financial performance such as ROCE, NPR, CR, ROA and D/E ratio. All these ratios will be act as a standard on the basis of which the result shall be drawn. On the other hand, Expenditure on CSR of the respective years has been taken for the purpose of study

DATA ANALYSIS

Net profit shows the amount of profit earned by the firm on its sales. Its calculated by devising profit i.e. revenue – cost by sales. Higher net profit ratio indicates good position whereas low profit ratio considered to be negative situation. On a general rule, ratio below 5% is considered to be low 10% is considered to be average and profit above 20% is considered as high or good profit margin.

Table 1: Net profit ratio

Name of companies	Mar 21	Mar 20	Mar 19
SBI Life Insurance Company Ltd.	61.49	73.333	88.2
Cipla Ltd.	17.75	18.31	15.26
ONGC	16.5	13.98	24.37
Piramal Enterprise	2.18	7.19	-23.47
Tata Motors	-5.09	-16.59	2.91
Vedanta	28.05	-18.77	13.13
Bharti Airtel	-39.17	-66.43	-3.76
Tata Steels	20.97	11.15	14.91
Havells India	9.96	7.77	7.86
Adani Ports and SEZ Ltd.	44.04	41.65	49.42

Table 1 shows the Net profit ratio of different companies, NPR is very useful to understand that how much profit company is earning on its sales. From the above data is clearly evitable that despite of decreasing NPR of SBI life insurance from 2019 it's still the highest among the other company. If we'll take it from above criteria than company like Cipla ONGC Tata steel are earning average profit whereas Havells, Piramal group is earning low profits with Tata motors and Bharti airtel is incurring losses and Adani ports and Vedanta is earning huge profits.
Current ratio of the company is judged on the basis of discharging its short-term liabilities. It's been calculated by formula current asset / current liabilities. 2:1 is considered to be the ideal current ratio. Ratio between 1.5- 3 is considered to be healthy while the acceptance level varies with the specific industry type. In general Ratio below 1 is believed to have poor liquidity management whereas ratio above 3 indicates poor working capital management.

Name of companies	Mar 21	Mar 20	Mar 19
SBI Life Insurance Company Ltd.	2.81	1.93	1.78
Cipla Ltd.	3.79	3.45	4
ONGC	.86	.67	.61
Piramal Enterprise	.78	.3	.21
Tata Motors	.6	.53	.58
Vedanta	.57	.43	.46
Bharti Airtel	.56	.63	.32
Tata Steels	.81	.65	.67
Havells India	1.92	1.5	1.51
Adani Ports and SEZ Ltd.	1.56	1.59	1.51

Table 2: Current ratio

Table 2 is depicting the current ratio that is showing liquidity as well as working capital management. From the data mentioned in table 2, Adani ports, Havells India and SBI Life insurance are said to be in healthy position whereas Cipla is said to have poor working capital management and rest all companies are indicating poor liquidity position.
Return on capital employed checks the efficiency of company in using its capital. Its computed by the formula, dividing earnings before interest and tax by capital employed. High return on capital invested indicates good position as it reflects maximum utilisation of resources. All though ratio varies from industry to industry but in general ratio above 10% is considered to be good and if it's less than 10% than it reflects that still there is a scope of improvement.

Table 3: Return on capital employed

Name of companies	Mar 21	Mar 20	Mar 19
SBI Life Insurance Company Ltd.	.7	.86	.96
Cipla Ltd.	16.75	16.86	15.63
ONGC	6.12	10.96	16.61
Piramal Enterprise	4.71	7.87	8.19
Tata Motors	-3.46	-7.18	11.57
Vedanta	16.83	5.68	8.2
Bharti Airtel	4.05	.95	-.12
Tata Steels	13.56	9.49	17.12
Havells India	24.8	19.44	25.14
Adani Ports and SEZ Ltd.	9.79	8.35	13.25

Table3: is showing return on capital employed where we have kept a criterion of 10%. If is above 10 than company's capital is being used efficiently but if its less than 10% than there is some inefficiency in capital utilisation. From the table 3 data its being viewed that despite of being top companies of BSE, SBI, Airtel, Tata motors, Piramal enterprise are inefficiently using its capital. SBI, Tata motors performance is deteriorating from the past years but Airtel and Piramal are improving on its part. from the given table Cipla, Vedanta, Tata steel, Havells are performing phenomenal. Where ONGC and Adani are performing average.

Debt equity ratio that shows how much of the capital of the company comes from debt and equity. Ideal debt equity ratio varies from industry to industry. In general, healthy debt equity ratio is believed to be 2:1 which represent that out of every penny invested in the business 66% comes from debt and remaining comes from company's equity.

Name of companies	Mar 21	Mar 20	Mar 19
SBI Life Insurance Company Ltd.	0	0	0
Cipla Ltd.	0	0	0
ONGC	.07	.07	.11
Piramal Enterprise	.27	.31	.58
Tata Motors	.99	1.14	.79
Vedanta	.37	.57	.48
Bharti Airtel	1.22	.81	.85
Tata Steels	.3	.3	.38
Havells India	.08	0	.01
Adani Ports and SEZ Ltd.	1.51	1.36	1.19

Table 4: Debt equity ratio

Table 4: is depicting the debt equity ratio that tell how much of capital is being financed by Debt. Although the criteria vary from industry to industry but the basic presumption is if debt equity is more than 1 then it implies that most of the funds comes from debt and if it is less than 1 than the most of the capital comes from equity. From the below data it's clear that SBI life insurance, Cipla totally rely on equity funds whereas ONGC, Piramal enterprise, Vedanta, Tata steel, Havells too majorly rely on equity funds on the other hand Airtel, Adani ports majorly rely on debt for their finance.

Return on asset indicates the efficiency of company in utilising its asset in increasing shareholders value. It can be computed by the formula Net income/ total assets. Higher the ratio the more good position it reflects. In general sense if ROA of any company is 5% than it is considered as good and if its more than 20% than it considers as great but if its less than 5% than its assumed that assets are being underutilise.

Table 5: Return on asset

Name of companies	Mar 21	Mar 20	Mar 19
SBI Life Insurance Company Ltd.	.65	.85	.9
Cipla Ltd.	10.74	11.36	10.25
ONGC	3.53	4.53	8.83
Piramal Enterprise	.12	.42	-2.26
Tata Motors	-3.68	-11.64	3.31
Vedanta	7.62	-4.82	3.36
Bharti Airtel	-9.07	-12.01	-.83
Tata Steels	8.24	4.48	7.76
Havells India	11.78	10.4	11.02
Adani Ports and SEZ Ltd.	3.29	3.73	5.56

If we conclude the result of Table5: Return on asset than we can judge that apart from Cipla, Vedanta, Tata steel and Havells India all are underutilising its assets. Although if we judge only on the basis of return on asset then Tata motors and Bharti airtel are performing the worst among this list.

Table 6: Amount spent on CSR

Name of companies	Mar 21	Mar 20	Mar 19
SBI Life Insurance Company Ltd.	26.25	18.96	15.36
Cipla Ltd.	42.84	36.31	33.42
ONGC	552.98	606.96	614.63
Piramal Enterprise	7	19.55	32.30
Tata Motors	23.99	25.19	22.21
Vedanta	331	296	309
Bharti Airtel	31	31.62	49.55
Tata Steels	221.98	193	314.94
Havells India	10.47	20.32	17.44
Adani Ports and SEZ Ltd.	16.69	69.5	68.37

Table 6: depict the amount of CSR spent by the companies. From the above data we could observe that ONGC, Vedanta and Tata steels are spending heavy part of their income on CSR activities that is above the limit prescribed by Companies act 2013. From the above data ONGC has spent the highest and Piramal has spent the least although all companies are meeting their mandatory requirements. Most of the companies except SBI, Cipla, Vedanta and Tata steel has decreased their expenditure on CSR in 2021 as to 2020.

Conclusion

This study has aimed to examine the relationship between corporate governance disclosure i.e. CSR and financial performance of the companies for the period of 2018-2019,2019-2020,2020-2021. During the study we have observed that there is a direct relationship between the amount spent on CSR to company's financial performance. During the study we have witness that the companies are meeting up their requirements with the companies act 2013 and all companies are witnessing a positive impact on the financial performance with the increase in their spending on CSR.

However, the result of the study contradicts with the view point of Crisostomo et al. (2011), Mallin et al. (2014) who argued that there is no direct relationship between CSR Disclosure and Financial performance. There is a scope of further research in the section as further research could ask for more sample size or could consider cross-sectional study. Similarly, our research has not taken into account many factors like impact of covid-19, industry, employees' performance, customer perspective. Further research could be done by taking above mentioned or industry specific factors in account.

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