



IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF THE COMPANY

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ABSTRACT

Corporate governance has become a cornerstone of modern corporate practice, ensuring accountability, transparency, and fairness in organizational decision-making. In India, the evolution of governance frameworks—from voluntary codes in the 1990s to mandatory provisions such as Clause 49 of the SEBI Listing Agreement—reflects the growing recognition of governance as a driver of financial stability and investor confidence. This paper examines the historical development of corporate governance norms in India, recent regulatory reforms, and their impact on corporate financial performance.

The study highlights how mechanisms such as independent and diverse boards, robust audit systems, transparent disclosures, and aligned executive incentives reduce agency problems, strengthen oversight, and foster sustainable growth. Empirical insights suggest that well-governed companies not only achieve higher profitability and easier access to funding but also demonstrate resilience against financial and regulatory risks. Furthermore, the integration of governance with green financing initiatives underscores the strategic role of sustainability in enhancing firm value.

By analyzing governance structures and financial outcomes, the paper concludes that corporate governance is not merely a compliance requirement but a strategic tool for long-term value creation, financial stability, and sustainable competitiveness in the global economy.

Keywords :- *Corporate Governance, Green Financing, Financial Performance, SEBI, Clause 49, Sustainability*

Introduction

Corporate governance is basically the set of rules, practices, and systems that guide how a company is run and controlled. It involves the relationships between shareholders, the board of directors, management, and other stakeholders, making sure everything is fair and transparent. This whole idea really took off after major corporate scandals exposed problems like information gaps between owners and managers, and the classic issue of who really calls the shots. The main goal is to promote accountability, honesty, and clear decision-making so leaders act in the company's and investors' best interests.

When it comes to how corporate governance affects a company's financial performance, studies show it's a game-changer; well-governed companies often see better profits, easier funding, and less risk. Things like independent boards, strong audit teams, fair pay for executives, and

protecting smaller shareholders cut down on agency problems, improve oversight, and lead to smarter choices that boost returns and overall value. That's why digging into this topic matters for managers, investors, and even regulators who want to create rules that help companies grow strong and stay stable financially.

Historical background of corporate governance in India

Since the 1990s, corporate India has experienced rapid economic growth, which has highlighted the necessity for Indian businesses to implement corporate governance standards and procedures that comply with global norms. The Confederation of Indian Industries (CII) spearheaded the effort to make Indian businesses aware of corporate governance issues. This effort also resulted in the introduction of legislative reforms that specified how Indian businesses could put in place efficient corporate governance mechanisms. In 1998, *Desirable Corporate Governance: A Code* was published, with a focus on listed companies. The code had specific provisions and was voluntary. Even so, only a small number of businesses embraced the code. The establishment of corporate governance standards in India has been greatly aided by SEBI.

Over time, SEBI established two committees, the Narayana Murthy Committee (2003) and the Kumar Mangalam Birla Committee (2000), to offer recommendations on corporate governance for Indian listed companies. These committees issue a number of recommendations concerning the composition of listed companies' boards of directors, board meetings, audit committees, audit reports, independent directors, codes of conduct, financial disclosures, and other topics. The Committee acknowledges that reorganising the current boards of companies would be necessary to comply with the recommendations. Clause 49 of the Listing Agreements allowed SEBI to gradually implement the recommendations. The Equity Listing Agreement's clause 49 includes both required and optional information.

The eight sections of the clause address the board of directors, audit committee, director compensation, board procedures, management, shareholders, report on corporate governance, and compliance, in that order.

Companies that are listed in India must abide by clause 49.

The Naresh Chandra Committee on Corporate Audit and Governance (2000) was also established by the Ministry of Corporate Affairs to investigate and make recommendations regarding a range of corporate governance matters in India. The two main facets of corporate governance, financial and non-financial disclosures, independent auditing, and board management supervision were essentially taken into consideration by the committee.

In light of the expanding demands of the Indian economy and corporate sector, the MCA also established the J.J. Irani Committee in 2005 to examine global best practices in corporate governance. These committees' recommendations serve as the cornerstone of India's corporate governance legal framework.

In collaboration with the CII, ICAI, and ICSI, MCA also established the National Foundation for Corporate Governance (NFCG) to give business executives, legislators, regulators, law

enforcement agencies, and non-governmental organisations a forum to discuss matters pertaining to sound corporate governance.¹

Recent developments in corporate governance norms in India

According to the most recent revision in 2014, clause 49 covers safeguarding the rights of shareholders, timely and appropriate disclosures, the Chief Financial Officer's (CFO) certification of financial statements, treating shareholders fairly, increasing board accountability, and standards for preventing insider trading. In conclusion, enhancing accountability and transparency, disciplining dominant shareholders, and safeguarding the interests of minority shareholders are the primary goals of corporate governance in India. In contrast, the US and the UK focus on increasing management's accountability to distributed shareholders.²

Financial performance

Corporate governance directly affects how a company essentially functions day to day, and that shows up in its financial results. When a company has clear rules, honest leadership, and active oversight, decisions tend to be more thoughtful and less impulsive. Managers know they are accountable, so money is spent more carefully, risks are evaluated properly, and long-term stability is prioritised over short-term wins.

Transparency plays a huge role in financial performance. When companies openly communicate their financial position and business decisions, investors and lenders feel more comfortable trusting them. That trust often means easier funding, lower interest costs, and stronger market confidence, all of which escalate profitability. Simply put, people are more willing to invest in companies they understand and believe in.

Good governance also helps companies avoid expensive problems. Strong internal controls and audits can spot issues early, preventing fraud, mismanagement, or regulatory trouble. This leads to steadier earnings and fewer financial shocks, especially during uncertain economic periods. Over time, companies with good governance don't just perform better on paper, they perform better in reality. By aligning leadership with shareholder and stakeholder interests, good governance builds consistency, resilience, and sustainable financial growth, making it a practical business strength rather than just a compliance requirement.

Impact of corporate governance on financial performance

The relationship between corporate governance and financial management practices has gained significant attention in both academic research and corporate practices. Scholars and practitioners recognize that strong corporate governance can positively influence financial

¹ Preeti Kumari, *Corporate Governance in India Impact on Firm Performance*, SSRN Elec. Journal (June 14, 2020), <https://ssrn.com/abstract=3626626> (DOI:10.2139/ssrn.3626626).

² Puneeta Goel, *Implications of Corporate Governance on Financial Performance: An Analytical Review of Governance and Social Reporting Reforms in India*, 3 *Asian J. of Sustainability & Social Responsibility* 4 (2018), <https://doi.org/10.1186/s41180-018-0020-4>

management decisions, leading to improved financial performance and long-term value creation. Understanding this relationship is crucial for policymakers, investors, managers, and other stakeholders to make informed decisions regarding corporate governance practices and financial management strategies.

Key Drivers of Effective Corporate Governance and Financial Management Practices

Based on the empirical findings, several key drivers of effective corporate governance and financial management practices can be identified. These drivers include:

1. **Independence and diversity on the board of directors:** The presence of independent directors with diverse backgrounds and expertise can enhance the decision-making process and improve the quality of financial management practices.
2. **Alignment of executive incentives:** Designing executive compensation structures that align executive incentives with shareholder value creation can promote responsible financial management and enhance performance.
3. **Institutional investor engagement:** The active involvement of institutional investors in monitoring and influencing financial management practices can contribute to more effective governance and decision-making.
4. **Robust audit and control mechanisms:** Implementing strong internal control systems and independent external audits can ensure the accuracy and reliability of financial information, promoting sound financial management practices.
5. **Integration of corporate governance and financial management:** Recognizing the interdependencies between corporate governance mechanisms and financial management practices and integrating them holistically can lead to better decision-making and improved financial outcomes.³

Conclusion

In conclusion, by enhancing accountability, transparency, and strategic decision-making, corporate governance significantly influences a company's financial performance. A growing understanding that sound governance is crucial for long-term corporate growth is reflected in the evolution of corporate governance standards in India from voluntary codes to mandatory frameworks like Clause 49. Strong audit systems, transparent disclosures, independent and diverse boards, and aligned executive incentives are examples of effective mechanisms that lower agency issues, stop financial mismanagement, and boost investor confidence. Because of this, well-run businesses typically have higher profitability, simpler access to funding, and more resilience to financial and regulatory risks. Corporate governance becomes a vital business tool that improves long-term financial stability and value creation rather than just a compliance requirement for shareholders and other stakeholders alike.

³ Preeti Kalra, *The Relationship Between Corporate Governance and Financial Management Practices*, 6(1) *Int'l J. of Research in Finance & Management* 390 (2023), <https://www.allfinancejournal.com/article/view/234/6-1-59> (DOI: 10.33545/26175754.2023.v6.i1d.234).