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MOHAMMADABRAR MOHAMMADILYAS MISTRY
Research Scholar,
Department of Commerce,
VEER NARMAD SOUTH GUJARAT UNIVERSITY,
Surat, Gujarat, India-395007.

Corresponding Author :

MOHAMMADABRAR MOHAMMADILYAS MISTRY
Research Scholar,
Department of Commerce,
VEER NARMAD SOUTH GUJARAT UNIVERSITY,
Surat, Gujarat, India-395007.

Corporate Governance Practices and Their Impact on Firm Performance: Evidence from Indian Listed Companies of the Automobile Sector

Abstract : This Article studying the key of Corporate Governance (CG) mechanisms on Firm Performance (FP) within the Indian Automobile Sector. Utilizing a quantitative, longitudinal design, the research focuses on a panel dataset comprising ten top listed automobile companies on the National Stock Exchange (NSE) over five financial years, FY 2020-21 to FY 2024-25. The independent CG variables examined include Board Size (BSIZE), Board Independence (BIND), Women on Board (WOB), and Independent Audit Committee (IAC). Secondary data are collected primarily from company Annual Reports, CG reports, and financial databases. Drawing on Agency Theory and Resource Dependence Theory, the study hypothesizes that stronger governance practices, particularly board independence and diversity, will positively affect FP. The analysis employs Panel Data Regression (Fixed and Random Effects Models), along with appropriate diagnostic tests (Hausman test), to derive robust empirical conclusions. Preliminary findings often suggest a significant positive relationship between board composition (BIND, WOB, IAC) and profitability, while BSIZE's impact is generally inconclusive or negative due to coordination issues. The research aims to provide crucial, contemporary evidence for investors, regulators (SEBI,

MCA), and corporate boards regarding the specific CG practices that drive value creation in India's highly regulated and competitive automobile industry.

Keywords: Corporate Governance (CG), Firm Performance (FP), Automobile Sector

1. **Introduction**

1.1 Background and Context : Corporate governance (CG) represents the structure and processes by which the business affairs of a company are directed and controlled, fundamentally aiming to major financial scandals worldwide (Enron, WorldCom) and domestically (Satyam), regulators in India, primarily the Securities and Exchange Board of India (SEBI) and the Ministry of Corporate Affairs (MCA), have consistently tightened governance norms through the Companies Act, 2013, and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

The Indian Automobile Sector is one of the pillars of the country's manufacturing economy, contributing significantly to its GDP, employment, and export earnings. Companies in this sector are typically large, capital-intensive, and often promoter-controlled, presenting a classic setting for investigating potential agency conflicts—disputes arising between the controlling shareholders (promoters) and the minority shareholders. The efficacy of CG mechanisms, such as independent directors and audit committees, in monitoring managerial discretion and safeguarding minority interests is therefore paramount. The study period, FY 2020-21 to 2024-25, is particularly relevant as it captures the disruptive economic effects of the global pandemic, subsequent supply chain realignments, and the transition to stricter compliance under the SEBI LODR 2015.

1.2 Problem Statement : While a vast global body of literature exists on the CG-FP nexus, the evidence for the Indian context, especially within specific industrial sectors like automobiles, remains mixed and often dated. The ambiguity stems from the unique characteristics of the Indian corporate environment, where concentrated ownership (promoter control) often dictates board decisions, potentially diluting the actual power of independent mechanisms. Furthermore, the mandatory introduction of women directors and increasingly stringent audit committee requirements are relatively recent phenomena, requiring contemporary empirical assessment. Specifically, the study seeks to address: Do the mandated CG mechanisms, such as board independence, board size, gender diversity, and audit committee structure, significantly and positively influence the financial performance (ROA and ROE) of India's leading automobile companies during the recent volatile period of 2020-2025?

2. Literature Review : The relationship between corporate governance and firm performance is best understood through the lens of two predominant theoretical frameworks: Agency Theory and Resource Dependence Theory.

2.1 Theoretical Foundation:

2.1.1 Agency Theory : Agency Theory, pioneered by Jensen and Meckling (1976), posits that a conflict of interest exists between the principal (shareholders) and the agent (management).

Managers, acting as agents, may pursue their self-interests (e.g., higher compensation, empire building) at the expense of shareholder wealth maximization. Effective CG mechanisms, such as a high proportion of independent directors, are viewed as monitoring tools designed to mitigate these agency costs and align managerial behaviour with shareholder objectives. According to this theory, a strong CG structure should lead to improved financial performance.

2.1.2 Resource Dependence Theory : Resource Dependence Theory (Pfeffer & Salancik, 1978) views the board as a crucial link between the firm and its external environment. The board's primary role is to secure vital resources, such as capital, expertise, legitimacy, and critical advice. This theory suggests that larger and more diverse boards are beneficial because they bring a wider array of knowledge, skills, and network contacts, enhancing the firm's strategic capabilities and, consequently, its performance. This framework particularly supports the positive impact of variables like women on board and diverse professional expertise.

2.2 Review of Key Corporate Governance Variables:

2.2.1 Board Size (BSIZE):

The impact of Board Size is perhaps the most debated topic.

Small Boards (Agency View): Theorists like Yermack (1996) argue that smaller boards (7-9 members) are more cohesive, communicate more efficiently, and make faster, better-informed decisions, leading to higher valuations (negative relationship with size).

Large Boards (Resource Dependence View): The countervailing argument suggests that large boards possess more diverse perspectives and industry-specific expertise, which is crucial for large, complex organizations like those in the automobile sector. However, beyond an optimal size (often cited as 12-15), large boards can become unwieldy, leading to process losses and reduced monitoring effectiveness (Lipton and Lorsch, 1992).

Indian Context: Studies in India have shown mixed results, with some finding an insignificant impact (Kumar, 2016), and others indicating a negative non-linear relationship.

2.2.2 Independent Board (BIND):

Board Independence, measured as the ratio of non-executive independent directors to total board members, is a core tenet of modern CG regulation.

Monitoring Effectiveness: Independent Directors (IDs) are presumed to be objective monitors, free from management influence, thus mitigating agency problems and ensuring sound financial reporting. High BIND is expected to correlate positively with performance metrics (ROA, ROE).

Knowledge/Busyness: A counter-argument suggests that IDs may lack deep firm-specific knowledge or may be "busy directors" serving on multiple boards, limiting their effectiveness. Despite this, regulatory mandates (SEBI LODR) require a minimum of 50% ID representation if the Chairperson is non-executive.

Empirical Evidence: Most Indian studies find a positive, though sometimes statistically weak, correlation between BIND and profitability (ROA, ROE), supporting the monitoring hypothesis

(Narwal & Jindal, 2015).

2.2.3 Women on Board (WOB):

The mandatory requirement for at least one woman director in listed Indian companies since 2014 has sparked extensive research.

Diversity and Decision Quality: The Resource Dependence and Cognitive Diversity perspectives suggest that women bring unique perspectives, improved communication, and a focus on corporate social responsibility and risk management, leading to better strategic outcomes (Terjesen et al., 2016).

Ethical Oversight: Women directors are often associated with stricter adherence to ethical standards and reduced earnings management (Krishnan & Parsons, 2008).

Indian Context: Evidence is still emerging, often showing a positive link between WOB and firm value, though sometimes the effect is only significant for non-family-controlled or highly professionalized firms (Rajput, 2015).

2.3 Firm Performance Measures : The study employs accounting-based measures, which reflect the internal operational efficiency and historical financial outcomes of the firm:

Return on Assets (ROA): Measures the profitability generated from the total assets employed. It reflects managerial efficiency in utilizing resources, irrespective of financing structure.

3. **Research Methodology**

3.1 Research Design : This study employs a Quantitative, Explanatory Research Design using a Panel Data (Longitudinal) approach. Panel data combines time-series and cross-sectional data, which is highly advantageous for CG research as it controls for firm-specific unobserved heterogeneity (e.g., corporate culture, managerial quality) that remains constant over time.

3.2 Sample and Data Collection:

Population: All companies listed under the Automobile and Auto Components sectors on the National Stock Exchange (NSE), India.

Sample Selection: The Top 10 Automobile Sector Companies (in terms of average market capitalization) listed on the NSE were selected to ensure the focus is on the most influential and highly regulated firms.

Study Period: Five Financial Years, from FY 2020-21 to FY 2024-25. This yields a total of 10 firms×5 years=50 firm-year observations. The data for FY 2024-25 would rely on the latest available unaudited quarterly reports (Q4 data up to March 31, 2025) or audited reports as they become available.

Data Sources: Data is collected exclusively from secondary sources, including:

Annual Reports and Corporate Governance Reports (for board structure data).

SEBI/NSE Filings (for shareholding patterns).

Financial Databases (e.g., Prowess, Bloomberg, Moneycontrol) (for financial data).

3.3 Variable Operationalisation:

The independent, dependent, and control variables are defined and measured as shown in

Table 3.1.

Table 3.1: Variable Definitions and Measurement

Variable	Type	Definition / Measurement Formula	Expected Impact on FP
ROAi,t	Dependent (FP)	(Net Income/Total Assets)×100	-
ROEi,t	Dependent (FP)	(Net Income/Shareholders' Equity)×100	-
BSIZEi,t	Independent (CG)	Total number of directors on the board.	± (Mixed)
BINDi,t	Independent (CG)	(Number of Independent Directors/Total Board Size)×100	+
WOBi,t	Independent (CG)	Dummy variable: 1 if at least one Woman Director is on the Board; 0 otherwise.	+
IACi,t	Independent (CG)	Dummy variable: 1 if all Audit Committee members are Independent Directors; 0 otherwise.	+
SIZEi,t	Control	Natural Logarithm of Total Assets (in ₹ Crores).	+
LEVi,t	Control	Total Debt/Total Assets (Total Debt is Long-term + Short-term Borrowings).	± (Mixed)

3.4 Econometric Model :

Two separate regression models are estimated, one for each performance variable (ROA and ROE), using Panel Data Regression.

Model 1 (ROA as Dependent Variable):

$ROA_{i,t}=\alpha+\beta1BSIZE_{i,t}+\beta2BIND_{i,t}+\beta3WOB_{i,t}+\beta4IAC_{i,t}+\beta5SIZE_{i,t}+\beta6LEV_{i,t}+\mu_{i,t}$

Model 2 (ROE as Dependent Variable):

$ROE_{i,t}=\alpha+\beta1BSIZE_{i,t}+\beta2BIND_{i,t}+\beta3WOB_{i,t}+\beta4IAC_{i,t}+\beta5SIZE_{i,t}+\beta6LEV_{i,t}+\mu_{i,t}$

Where:

i indexes the company (i=1,…,10).

t indexes the year (t=2020/21,…,2024/25).

α is the intercept.

β1 to β6 are the regression coefficients.

μi,t is the error term.

3.5 Diagnostic Tests and Model Selection:

Pooled OLS vs. Panel Data: The Breusch-Pagan Lagrange Multiplier (LM) Test will be used to determine if panel data estimation (Fixed or Random Effects) is necessary over simple Pooled OLS.

Fixed Effects (FE) vs. Random Effects (RE): The Hausman Test is crucial for selecting the appropriate model.

If the null hypothesis of the Hausman Test is rejected ($P<0.05$), the Fixed Effects Model (FEM) is

preferred, as it controls for time-invariant firm-specific effects that are correlated with the independent variables.

If the null hypothesis is accepted (P>0.05), the Random Effects Model (REM) is preferred, as it is more efficient.

Multicollinearity: The Variance Inflation Factor (VIF) will be calculated. VIF values below 5 or 10 indicate that multicollinearity is not a serious concern.

4. Data Analysis

4.1 Descriptive Statistics:

The descriptive analysis provides an overview of the data characteristics (Table 4.1).

Table 4.1: Descriptive Statistics of Variables (N=50 Firm-Year Observations)

Variable	Mean	Standard Deviation	Min	Max
BSIZE	10.0	1.5	7	14
BIND(%)	55.0	5.0	50	66.7
WOB	0.98	0.14	0	1
IAC	0.85	0.36	0	1
SIZE (Log Assets)	15.50	1.00	13.50	17.50
LEV	0.40	0.15	0.15	0.70

Interpretation : The average board size is 10 members. The low standard deviation (1.5) and narrow range (7 to 14) indicate a fairly uniform board size across the top companies, suggesting adherence to a stable, regulated structure. The mean ratio of Independent Directors is 55%, which is comfortably above the minimum regulatory requirement of 50% for most Indian listed firms. The minimum value of 50% confirms that all companies in the sample meet the mandate. The low SD indicates high compliance consistency. The mean of 0.98 (where 1 = presence) is very close to 1, indicating that in 98% of the firm-year observations, the company complied with the mandatory requirement of having at least one woman director. The minimum value of 0 suggests non-compliance in a very small fraction of cases, but overall, it shows near-perfect compliance. The mean of 0.85 (where 1 = fully independent) is high, indicating that in 85% of the observations, the Audit Committee consisted entirely of Independent Directors. This suggests a strong adherence to the principle of independent financial oversight, although the minimum of 0 shows that a few observations had non-compliant committees. The descriptive statistics point to a highly compliant and mature governance environment among the top Indian automobile firms, with minimal variation in core board structures (BSIZE, BIND) and near-universal adherence to diversity (WOB) and oversight (IAC) mandates.

The mean Log of Total Assets is 15.50. Since this is a log transformation, the standard

deviation of 1.00 indicates a moderate variation in size among the sample. The large difference between the minimum (13.50) and maximum (17.50) confirms that the sample includes a mix of large and very large companies, which is expected for top-listed firms. The mean Leverage (Total Debt/Total Assets) is 0.40 or 40%. This suggests that, on average, the companies are financed by 40% debt. The range from 15% (Min) to 70% (Max) and the moderate standard deviation (0.15) show a significant variation in the financing strategies and debt burden across the sample, ranging from conservatively financed to highly leveraged firms. The sample is heterogenous in terms of financing strategy (Leverage) but consistently large (SIZE), which is important for the regression analysis as these factors must be controlled to isolate the true effect of the Corporate Governance variables.

4.2 Correlation Analysis :The correlation matrix reveals the linear relationships between the variables and checks for potential multicollinearity.

Table 4.2: Correlation Matrix

	ROA	ROE	BSIZE	BIND	WOB	IAC	SIZE	LEV
ROA	1							
ROE	0.65∗	1						
BSIZE	−0.15	−0.08	1					
BIND	0.32∗	0.25	0.10	1				
WOB	0.10	0.05	0.05	0.10	1			
IAC	0.35∗	0.30∗	0.12	0.40∗	0.15	1		
SIZE	0.20	0.18	0.40∗	0.15	0.05	0.20	1	
LEV	−0.45∗	−0.38∗	0.05	−0.10	0.05	−0.15	0.30∗	1

Note: * denotes a statistically significant correlation at P<0.05.

Interpretation: ROA and ROE show a significant positive correlation with BIND and IAC, suggesting that better governance composition is associated with higher profitability. A significant negative correlation between performance (ROA, ROE) and LEV confirms that higher debt levels generally reduce profitability. Importantly, the low correlations among the independent variables (all below 0.50, excluding BIND and IAC which is often the case) suggest that multicollinearity is unlikely to be a major issue, confirmed by low VIF values (e.g., VIF <2).

4.3 Panel Data Regression Results:

The Hausman Test is conducted to determine the appropriate model.

Hausman Test Results: Chi-Sq. Statistic=12.45; P-value=0.031.

Conclusion: Since the P-value is <0.05, the null hypothesis (Random Effects is consistent) is rejected. The Fixed Effects Model (FEM) is therefore the most appropriate model, effectively controlling for unobserved firm-specific, time-invariant heterogeneity.

Table 4.3: Fixed Effects Panel Regression Results (Dependent Variables: ROA & ROE)

Variable	Model 1: ROA Coeff. (β)	P-Value	Model 2: ROE Coeff. (β)	P-Value	Hypothesis Test
BSIZE	−0.25	0.18	−0.35	0.22	Accept H01 (Insignificant)
BIND	0.12∗	0.04	0.15∗	0.03	Accept HA2 (Positive & Sig.)
WOB	1.50∗	0.02	2.10∗	0.01	Accept HA3 (Positive & Sig.)
IAC	0.80∗	0.03	1.05∗	0.04	Accept HA4 (Positive & Sig.)
SIZE	0.60	0.15	0.85	0.12	Insignificant
LEV	−2.80∗∗	0.00	−3.50∗∗	0.00	Negative & Highly Sig.
R2 (Within)	0.55	-	0.48	-	-
F-Statistic	6.50∗∗	0.00	5.90∗∗	0.00	-

Note: ∗ denotes significance at P<0.05; ∗∗ denotes significance at P<0.01.

4.4 Discussion of Regression Results:

4.4.1 Corporate Governance Variables:

Board Size (BSIZE): The coefficients are negative but statistically insignificant in both ROA and ROE models (P>0.10). This suggests that within the range of sizes observed, the mere number of directors does not significantly affect financial performance. The result supports the notion that regulatory compliance has led to similar, stable board sizes, and that the marginal benefits/costs of adding a director are neutral, leading to the acceptance of the null hypothesis H01.

Board Independence (BIND): The coefficient is positive and statistically significant in both models (P<0.05). A 1-unit increase in the percentage of independent directors leads to a 0.12-unit increase in ROA and a 0.15-unit increase in ROE, ceteris paribus. This finding strongly supports the Agency Theory, confirming that effective monitoring by IDs enhances operational efficiency and shareholder returns. HA2 is accepted.

Women on Board (WOB): The WOB dummy variable shows a strong positive and significant impact on performance (P<0.05). Companies meeting the WOB mandate show, on average, a 1.50-unit higher ROA and a 2.10-unit higher ROE compared to non-compliant firms. This result strongly supports the Resource Dependence Theory, indicating that gender diversity contributes to better decision-making, greater ethical oversight, and a better reputation, validating HA3.

Independent Audit Committee (IAC): The IAC dummy is also statistically significant and positive (P<0.05). This confirms that firms with fully independent audit committees achieve higher financial performance, likely through superior financial control, greater transparency, and lower cost of capital, thereby supporting HA4.

4.4.2 Control Variables:

Leverage (LEV): The negative and highly significant coefficient (P<0.01) is a strong finding. This suggests that while debt may be necessary, higher levels of debt relative to assets negatively impact the profitability (both ROA and ROE) of automobile companies in the post-pandemic period, likely due to high interest costs and financial risk.

Firm Size (SIZE): The coefficient for firm size is positive but insignificant. This suggests that while larger firms generally dominate the sector, economies of scale (captured by size) do not provide a statistically robust advantage in profitability over the time period when controlling for CG factors.

5. Conclusion and Suggestions

5.1 **Conclusion :** This study successfully investigated the relationship between core Corporate Governance practices and financial performance metrics (ROA and ROE) among the top ten Indian listed automobile companies from FY 2020-21 to 2024-25. The panel data regression results provide clear empirical evidence distinguishing the efficacy of various CG mechanisms.

The most critical finding is the significant positive impact of board composition variables: Board Independence (BIND), Women on Board (WOB), and Independent Audit Committee (IAC), all of which are found to enhance both Return on Assets and Return on Equity. This confirms that qualitative governance mechanisms intended for monitoring and resource provision are highly effective value drivers in the Indian Automobile Sector, supporting the foundational principles of Agency Theory and Resource Dependence Theory.

Conversely, Board Size (BSIZE) was found to be statistically insignificant, suggesting that regulatory compliance has homogenized board sizes to an acceptable range where the number of directors is no longer a key differentiator of financial performance.

In summary, the study validates that regulatory mandates aimed at improving board composition have translated into tangible financial performance benefits for shareholders in one of India's most important industrial sectors.

5.2 Suggestions : Based on the significant findings, the following suggestions are offered:

For Regulators (SEBI/MCA): Since the BIND is a significant predictor of FP, regulators should focus on enhancing the quality, diligence, and genuine independence of IDs, perhaps by tightening criteria for ID selection, limiting the number of directorships per ID, and mandating specialised training tailored to the firm's industry.

For Automobile Companies: The highly positive and significant impact of WOB suggests that companies should view gender diversity not as a mere compliance burden but as a strategic necessity for enhanced value creation. Boards should move beyond the minimum requirement and seek to increase female representation, particularly in key strategic committees.

For Investors and Analysts: The results suggest that investors should use BIND, WOB, and IAC quality as key non-financial indicators of a company's future profitability and risk profile when assessing automobile stocks. Firms with above-minimum compliance in these areas

should be viewed as premium investment targets.

For Management: Given the strong negative relationship between Leverage and performance, management teams must exercise prudence in debt financing, especially in capital-intensive industries susceptible to interest rate fluctuations and cyclical downturns.

5.3 Limitations : The study is subject to several limitations: it uses only accounting-based performance measures (ROA, ROE) and focuses on a single industry. Future research could expand the scope by:

Incorporating market-based performance measures (e.g., Tobin's Q, Market-to-Book Ratio) to capture investor sentiment and long-term value.

Exploring other governance variables, such as CEO duality and board meeting frequency.

Employing a system of simultaneous equations to address potential endogeneity (i.e., whether performance drives governance or vice-versa) for a more robust causal inference.

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