Effect of Corporate Governance on Shareholders' investment decisions: An Analysis on the basis of Profession

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Abstract

System of Corporate governance tries tocontrol the environment of everyorganization with the help of its rules and regulationsto make it more trustworthy for all the stakeholders. This research intends to studythe effect of Corporate Governance on investment decisions with reference to Shareholders' profession. This paper is based on primary data collected from a sample of 495respondents through a well-structured questionnaire.The main statistical techniques used for subjecting the primary data include frequency distribution, mean, SD, f test and Factor Analysis.Major findings of the study revealed that the sampled respondents consider five factors, namely, 'shareholders rights', 'timeliness and adequacy of disclosure', 'trustworthiness of financial intermediaries', 'fairness and independence of the legal system' and 'treatment of foreign investors as equal to local investors', quite satisfactory across all independent variables.

Introduction

Modern form of business named corporate is the foundation of corporate governance because in corporate form the ownership and management are different. In this form the ownership is so widespread that the owners can't control the business. They appoint managers to do so. But the interest of owners and managers may be different which realizes the need of a framework with the help of some rules and regulations which can act as a watchdog on the behalf of all the stakeholders. This research piece aims to study whether the profession of shareholder plays any role in taking investment decisions on the basis of corporate governance practices followed by that organization.

Review of Literature

For several years, researchers in the field of corporate governance studied its various aspects. *Suresh* reported corporate governance as the mechanism by which the values, principles, management policies and procedures of a corporation are inculcated and made apparent. Adoption of good governance practices has emerged as an integral element of doing business, which can only be ensured with an indomitable code of conduct and self-regulation [*Suresh, 2012*]. However, *Okpara* considered effective enforcement of existing laws and regulations as a major challenge for the development and implementation of effective corporate governance system.The major barriers hindering the implementation and promotion of effective corporate governance consist of the abuse of minority shareholders' rights, lack of commitment on the part of the board of directors, lack of adherence to the regulatory framework, weak enforcement and monitoring systems, and lack of transparency and disclosure [*Okpara, J.O., 2011*]. SEBI's strict vigilance, convergence of Indian Accounting Standards with International Financial Reporting System, growing awareness among public shareholders and corporate governance taking central stage would make it increasingly difficult for promoters to indulge in unethical practices to make personal gains at the cost of the public shareholders [*Singh, 2014*].The firm level governance and performance is lower in countries with weak legal environment, suggesting that improving the legal system should remain a priority for policymakers [*Klapper and Love, 2002*]. By implication, a more complete understanding of the inter-relationship between governance and sustainability would lead better corporate governance as it would help firms in addressing issues like societal influence, the environmental impact, organizational culture and financial aspects more effectively [*Aras and Crowther, 2008*]. *Picou* in his study found that the adoption of corporate governance guiding principles practiced bandwagon effects and the bandwagon effects would dissolve any potential advantages for late-movers; although, companies who are first to announce the enactment of corporate governance guidelines, would not get any advantages because corporate governance guidelines, by their nature, are easily copied. Moreover, it was argued that the first-order imitation undertaken by the organizations was associated with board interlocks and the late adopters did not appear to cause additional guideline adoption [*Picou, 2005*]. *Leal et al,* in their study of Brazilian firms revealed that firm level corporate governance practices were steadily improving and it was appeared that firms that upgrade their listing environment subsequently improve their corporate governance quality. In addition, reducing the number of non-voting shares appeared as a strong determinant of good corporate governance practices; however, other factors such as prospects, firm size, firm value and ownership structure have no influence on the quality of corporate governance [*Leal et al., 2010*]. There is no comprehensive, ‘‘one size fits all’’ global corporate governance or CSR system, based on western codes and regulations that can be implemented in emerging markets, that means one set of standards which seem relatively effective in mature markets may not work at all in emerging markets [*Peters et al., 2011*].

Scope of the study

The present research work is based onthe shareholders’ perspective about governance in the context of Indian corporate sector. So, the consideration examined from the standpoint of minority shareholders only.

Objective of the study

To explore the effect of corporate governance in investment decisions of the shareholders with respect to their profession.

Research methodology

Research Design: The present piece of work is an exploratory cum descriptive study.

Sampling size and Design: For this study, sampling elements comprised of five hundred shareholders. The total numbers of questionnaires administered to shareholders are around seven hundred, but around five hundred twenty are received back as filled up. Of which, twenty five could not be included in the final sample due to the inadequacy of the information provided by the respondents. Finally, the responses of 495 respondents were included in the study. Five point measurement scales have been developed with a view to gaining insights, on the governance issues. Factor analysis as a data reduction technique has also been used in the present study.

Sources of Data Collection: Both primary and secondary data is used in present study.. Primary data were solicited with the help of a structured questionnaire administered to the sampled shareholders manually and electronically. Prior to finalizing the questionnaire, a pilot survey had been carried out and it involved fifty respondents.

Tools of Data Analysis: The primary data collected through sample survey are subjected to statistical analysis with the help of SPSS 13.0 software. The main statistical techniques used for subjecting the primary data include frequency distribution, mean, SD, f test and Factor Analysis.

Reliability of the construct: Reliability of test refers to the degree to which a test is consistent and stable in measuring what it is intended to measure. The most widely used reliability coefficient is Cronbach's alpha which can range from 0 to 1, with higher figures indicating a better reliability. The reliability of this construct is 0.90 which indicates data is highly reliable.

Result and Discussions

This aspect covers nineteen statements which were evaluated on a five point Likert scale encompassing very low, low, neutral, high and very high. Factor analysis is used on these nineteen statements to find out the major consideration factors of corporate governance for making investment decision. Principal components method is used to find out the major factors of consideration and only the factors with eigen values greater than one were retained for analysis. Further, the varimax rotation method is used. In addition to this, factor ranking is assigned on the basis of the overall mean value of each factor. Table 1 shows the profession wise distribution of respondents. Table 2 reveals the four major factors from those 19 statements given as follows:

i. Board members' caliber and meeting schedule (F_1)

ii. Board's effectiveness and governance compliance status (F_2)

iii. Shareholders' privileges and communication means (F_3)

iv. Ownership structure and shareholders' activism (F_4)

Table 1 Profession wise Respondents' Distribution

Profession	Frequency	Percent
Businessman	79	16.00
Serviceman	170	34.30
Chartered Accountant	75	15.20
Teacher	76	15.40
Others	95	19.20
Total	495	100.00

Table 2 Factors extracted from 19 statements

Factors	Statements
. F_1: Board members' caliber and meeting schedule	Number and caliber of independent directors
	Caliber of members of audit committee
	Powers given to the audit committee
	Meeting schedule of audit committee
	Caliber of the members of remuneration committee
	Frequency of the board meetings held
	Number of directorships held by directors
i. F_2: Board's effectiveness and governance compliance status	Board effectiveness in discharging their duties and responsibilities
	Content and quality of directors' reports
	Effectiveness of shareholders/investors grievance committee
	Disclosure range in corporate governance report
	Compliance status of company to SEBI rules on corporate governance
	Board composition
i. F_3: Shareholders' privileges and communication means	Management profile
	Rights given to the shareholders
	Shareholders' protection rules
	Means of communication
i. F_4: Ownership structure and shareholders' activism	Ownership structure
	Shareholders' activism level in AGMs

Table 3 Profession-wise Attribution for Corporate Governance Factors of Consideration

	Businessman			**Serviceman**			**Chartered Accountant**			**Teacher**			**Other**			**Total**			**Test**	
Factors	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	F	Sig.
Board members' caliber and meeting schedule	79	2.78	0.86	170	2.87	0.89	75	2.39	0.61	76	2.69	0.84	95	2.75	0.99	495	2.73	0.87	4.21*	0.00
Board's effectiveness and governance compliance status	79	3.42	0.67	170	3.43	0.79	75	3.25	0.68	76	3.21	0.76	95	3.19	0.87	495	3.32	0.77	2.44*	0.04
Shareholders' privileges and communication means	79	3.45	0.77	170	3.51	0.73	75	3.12	0.67	76	3.28	0.76	95	3.19	0.88	495	3.35	0.77	5.20*	0.00
Ownership structure and shareholders' activism	79	3.20	0.77	170	3.55	0.80	75	3.20	0.83	76	3.31	0.77	95	3.47	0.85	495	3.39	0.82	4.31*	0.00

*Significant difference at five percent level.

Table 3 presents profession wise analysis with respect to all the consideration factors. The value of f-test shows that a significant difference exists for all the four factors at 5% level of significance among all the respondents belonging to different professions as all having $p < 0.05$ for their respective values of f-test. Further, the mean values show that businessmen consider factor F_3 (Shareholders' privileges and communication means) the most while investing their money with mean = 3.45 and SD = 0.77; and chartered accountants consider factor F_2 (Board's effectiveness and governance compliance status) as most important factor related to governance with mean = 3.25 and SD = 0.68, while making investment decision. Moreover, teachers and servicemen consider factor F_4 (Ownership structure and shareholder activism) with mean values 3.55 and 3.31 and SDs 0.80 and 0.77 respectively, as highly important among all the factors.

It concludes from the above that the sampled respondents considered mainly three factors, namely, F_2 "Board's effectiveness and governance compliance status" (mean = 3.32 and SD = 0.77), F_3 "Shareholders' privileges and communication means" (mean = 3.35 and SD = 0.77) and F_4 "Ownership structure and shareholder's activism" (mean = 3.39 and SD = 0.82), while making investment decision across all independent variables of sampled respondents.

Conclusions and Suggestions

It is concluded from the study that the sampled respondents consider five factors, namely, 'shareholders rights', 'timeliness and adequacy of disclosure', 'trustworthiness of financial intermediaries', 'fairness and independence of the legal system' and 'treatment of foreign investors as equal to local investors', quite satisfactory across all independent variables. Moreover, significant differences between respondents occur across different professions.The study revealed that shareholders' expectations are significantly high in regard to other stakeholders' rights and therefore, Indian corporate sector will need to meet these expectations with a mutually beneficial approach.The sample respondents have high expectations with respect to all the variables related to companies' board.It can be stated through results that shareholders' expectations are significantly high in regard to disclosure and transparency related variables and therefore, Indian corporate sector should have more transparency and adequacy in business information system to meet shareholders' expectations.

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