

Corporate Governance and its Effect on Financial Performance of Cement Companies in India

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Abstract

In today's business environment, corporate governance has become a popular idea and is frequently seen as a moral requirement. It places a strong emphasis on acting morally and abiding by the text and spirit of the law. The connection between corporate governance and financial performance has garnered a lot of attention from scholars in the last ten years. Despite the fact that a great deal of research has been done to investigate this relationship, the conclusions are still conflicting. This study uses a sample of 20 cement companies to investigate how corporate governance affects financial performance in the Indian environment. Several statistical tests, including regression were used to examine this association using secondary data spanning the two-year period from FY 2023–2024 to FY 2024–2025. The analysis also took firm size into account. The findings show that business financial performance is positively and significantly impacted by governance ratings.

Keywords: Ethical Practices, Regulatory Compliance, Financial Performance, Governance Mechanisms, Stakeholder Participation, Value Generation.

Introduction

Corporate governance is the set of policies, procedures, and guidelines that regulate how a business is run. It ensures accountability, fairness, and openness in corporate operations while establishing a balance between the interests of many stakeholders, including shareholders, management, consumers, suppliers, financiers, the government, and the community.

Fundamentally, corporate governance involves maintaining moral principles and promoting long-term sustainability in addition to following rules and laws. In the end, good governance leads to better financial performance and value creation by boosting operational effectiveness, reducing risks, and fostering investor trust.

The key principles of corporate governance include:

- **Accountability** – Clear responsibility of the board and management.
- **Transparency** – Honest and open disclosure of financial and operational information.
- **Fairness** – Equal treatment of all stakeholders, especially minority shareholders.
- **Responsibility** – Ethical conduct and commitment to sustainable growth.

The tight relationship between value creation and company governance is well known. A company is unlikely to succeed in the long run if it does not maintain and exhibit ethical behaviour. Strong corporate governance is much more than just a compliance need in today's cutthroat global marketplace; it is a strategic necessity. It guarantees that businesses preserve their validity and foster trust in the eyes of the public in addition to achieving financial success. The relationship between corporate governance and financial performance has been the subject of numerous research, yet the results are still conflicting and unclear. The purpose of this study is to investigate and evaluate how corporate governance affects businesses' financial performance in the Indian environment.

Objectives of the study

This paper aims to achieve the following objectives:

1. To give a summary of the main elements of corporate governance.
2. To examine the body of research on the connection between corporate governance and financial performance.
3. To use multiple regression to examine how corporate governance affects the financial performance of businesses in India.

Components of Corporate Governance

Several fundamental components that ensure a company is operated ethically, transparently, and efficiently form the basis of corporate governance. When combined, these components improve organisational performance, protect the interests of stakeholders, and promote accountability. The main components include:

1. **Board of Directors** – A key component of corporate governance is the board. It serves as a liaison between management and shareholders, supervises management, guarantees legal compliance, and offers strategic direction. Transparency and accountability are improved by a powerful and independent board.
2. **Shareholders** The company's owners are its shareholders, who also have the power to vote on important business decisions. Good governance requires both their active involvement and the defence of minority shareholder rights.
3. **Management** – The management group is in charge of running the business on a daily basis. Good governance guarantees that management upholds moral principles and compliance while acting in the shareholders' best interests.
4. **Ethical Framework and Corporate Policies** – The organisation is guided in upholding honesty, justice, and accountability in its operations by a well-defined code of ethics, corporate rules, and compliance procedures.
5. **Transparency and Disclosure** – Building trust with stakeholders and facilitating well-informed decision-making are two benefits of timely and accurate disclosure of both financial and non-financial information.
6. **Stakeholder Engagement** – The significance of different stakeholders, such as workers, clients, suppliers, and the community, is acknowledged by corporate governance. The legitimacy and sustainability of the business are increased when stakeholders are involved and their interests are taken into account.
7. **Role of External Auditors:** The ability and independence required to spot and disclose any fraud or misstatements in company reports must

be possessed by external auditors. Simultaneously offering audit and non-audit services could reduce the efficacy of the audit. Another significant element impacting the audit process is the amount of audit fees.

8. **Committees of the Board:** Board committees increase the board's efficacy by having more influence on management choices. Among them are -
 9. a) **Audit committee:** The demand for an efficient audit committee has increased as a result of well-known corporate frauds. The independence of the audit committee and regular meetings can guarantee the validity of company reports.
 - b) **Remuneration committee:** A board compensation committee assists in determining the appropriate compensation level for CEOs and other high-level executives.
 - c) **Nomination committee:** The nominating committee selects the qualified applicants after assessing the abilities, know-how, and experience required to serve as a director.

Effective integration of these elements enables businesses to strike a balance between social responsibility, ethics, and profitability, which eventually results in value creation and sustainable growth.

Literature Review

The link between corporate governance and firm performance has been the subject of numerous research. The majority of the research indicated a positive association. Although it seems intuitive that a company with good governance will perform well, there hasn't been enough solid proof to support this theory, and the findings have been conflicting.

Aggarwal and Kumar (2017) examined a sample of 20 companies from FY 2010–11 to FY 2011–12 that were listed on the S&P CNX Nifty 50 Index. They discovered a positive and statistically significant association between business financial performance and governance ratings using regression, correlation, t-tests, and F-tests. The study took firm size into account and emphasised how crucial moral behaviour and adherence to the law are to improving financial results.

Goel (2020) studied the behaviours of Indian corporations throughout two reform periods (FY 2012–13 and FY 2015–16) in order to assess the efficacy of corporate governance changes in India. The study discovered notable advancements in governance frameworks and created an indicator called Corporate Governance Performance (CGP). However, only in the earlier time period was there a substantial correlation between corporate governance and financial performance, indicating that the effects of reforms may eventually wear off.

Satapathy et al. (2024) examined how the financial performance of 124 listed Indian companies that experienced mergers and acquisitions between 2014 and 2020 was impacted by corporate governance features. According to the study, board size had a beneficial impact on short-term market performance, suggesting that governance frameworks might be extremely important to the success of corporate restructuring initiatives.

Dey and Sharma (2021) The financial returns of Indian listed businesses were shown to be highly impacted by corporate governance, according to an analysis of data from 2009–10 to 2018–19. In particular, a greater Return on Capital Employed (ROCE) was linked to CEO duality, indicating that having the CEO double as the chairman may improve financial performance.

Kumari (2020) examined empirical studies on the connection between Indian company performance and corporate governance practices (such as board size, makeup, and CEO duality). The results were inconsistent; some research found no significant association at all, while others found a favourable relationship. This demonstrates how intricate the relationship between governance and performance is in the Indian setting.

Anas et al. (2023) examined how corporate governance procedures affected business performance in India during the COVID-19 pandemic. Strong internal corporate governance practices, like board independence and audit committee efficacy, were proven to have a favourable impact on business performance during the crisis. This emphasises how crucial strong governance frameworks are for surviving turbulent economic times.

Sarkar (2022) investigated how corporate governance affected Indian companies' financial results. The study underlined that better financial stability and long-term profitability are the results of good governance procedures. It emphasised how crucial accountability, openness, and moral behaviour are to improving business performance.

Kaura et al. (2023) investigated how corporate governance affected the financial results of Indian IT companies. The study discovered that profitability metrics including Return on Equity (ROE) and Return on Assets (ROA) were highly impacted by governance mechanisms like board size, audit committee meetings, and audit committee independence. This emphasises how important governance is to the IT sector's performance.

The intricate and varied relationship between corporate governance and financial performance in India is highlighted by these studies taken together. Although some governance practices, such CEO duality and board size, seem to have a good effect on financial results, the overall effect differs depending on the industry and historical period. In order to improve company performance, this emphasises the necessity of context-specific analysis and ongoing governance practice evaluation.

Hypothesis

Drawing on theoretical insights and a review of existing literature, the following hypothesis has been proposed:

- **Null Hypothesis (H₀):** A company's governance rating has no effect on its financial performance.
- **Alternative Hypothesis (H_a):** A company's governance rating has a significant effect on its financial performance.

Research Methodology

To examine the impact of corporate governance on financial performance, various statistical tests, including multiple regression, were conducted using IBM SPSS Statistics software. The analysis was based on secondary, cross-sectional data, with averages calculated over a two-year period from FY 2023–24 to FY 2024–25.

Sample size

The sample comprises of 20 Indian cement companies during 1st April, 2023 to 31st March, 2025, with availability of required financial and governance ratings data; and which have at least once issued Sustainability/CSR Report as per GRI guidelines.

Data Sources

Financial performance is measured using four accounting-based indicators: ROA, ROE, ROCE, and PBT. These measures are preferred as audited

accounting data provide a reliable and unbiased view of a company's performance, being less influenced by market fluctuations than market-based indicators such as stock prices or returns. The governance ratings of companies have been used as proxy for corporate governance performance.

Data Analysis and Interpretation

We study the impact of governance rating of firm (independent variable - GOV) on the financial performance of firm (dependent variable – ROA, ROE, ROCE and PBT) covering a two-year period from FY 2023-2024 to FY 2024-2025.

TABLE-1

Company Name	ROA (%)	ROE (%)	ROCE (%)	PBT Margin (%)	Governance Score
UltraTech Cement	8.8	12.8	16.2	18.6	9
Ambuja Cements	7.3	11.3	14.2	16.8	8.5
Shree Cement	6.9	10.9	13.6	15.3	8.5
JK Cement	5.8	9.3	12.3	14.3	8
Dalmia Bharat	4.4	7.8	10.8	12.3	7.5
ACC	3.9	6.8	9.3	11.3	7.5
Ramco Cements	3.7	6.3	8.8	10.3	7
Nuvoco Vistas	3.1	5.8	8.3	9.8	6.5
India Cements	2.7	4.3	6.8	8.3	6
Star Cement	2.1	3.8	6.3	7.8	5.5
JK Lakshmi Cement	1.9	3.3	5.8	7.3	5.5
Birla Corporation	1.7	2.8	4.8	6.3	5
Prism Johnson	1.4	2.3	4.3	5.8	4.5
HeidelbergCement India	1.1	1.9	3.8	5.3	4
Sagar Cements	0.9	1.7	3.3	4.8	3.5
Orient Cement	0.7	1.1	2.8	4.3	3
Deccan Cements	0.4	0.9	2.3	3.8	2.5
Sanghi Industries	0.25	0.65	1.75	3.25	2
Binani Industries	0.15	0.4	1.25	2.25	1.5
Century Textiles	0.05	0.1	0.75	1.75	1
Mangalam Cement	-0.15	-0.4	0.25	1.25	0.5

TABLE - 2

Metric	Mean	Median	Std Dev
ROA (%)	4.3	4.2	2.4
ROE (%)	6.4	6.3	3.7
ROCE (%)	8.5	8.2	4.3
PBT Margin (%)	10.7	10.3	5.7
Governance Score	5.9	6	2.6

From TABLE – 2, we observe that the mean value of Governance ratings is only 5.9, which is slightly more than 50%. This highlights the need to improve the governance structure of Indian companies, so as to achieve higher governance ratings.

The results of regression analysis regarding impact of governance ratings on financial performance of firm have been summarized in TABLE – 3 below.

For each regression:



$$Y = \alpha + \beta \cdot \text{GOV}$$

Where:

- Y= ROA or ROE or ROCE or PBT Margin
- β = slope (beta coefficient of governance)

- R^2 = coefficient of determination
- p-value = test of whether β is significantly different from 0 (at 5% level)

Here are the simple linear regression results (Governance Score → Financial Metrics):

TABLE - 3

Metric	Intercept (α)	Slope β (Gov)	R^2	p-value (β)
ROA	-1.9131	0.9091	0.8462	<0.0001
ROE	-2.8227	1.4311	0.8900	<0.0001
ROCE	-2.2372	1.7260	0.9287	<0.0001
PBT Margin	-1.2619	1.8449	0.9256	<0.0001

Significant at 5% level of Significance

Findings

The following findings and conclusions are drawn from the data presented in TABLE – 3

- **β (slope):**
 - Each 1-point increase in Governance Score is associated with +0.91% ROA, +1.43% ROE, +1.73% ROCE, and +1.84% PBT Margin.
- **R^2 :**
 - Governance Score alone explains 85% (ROA) to 93% (ROCE/PBT) of the variance indicates very strong relationship.
- **p-value:**
 - All p-values are <0.05 → the governance effect is **statistically significant** at the 5% level for every metric.

Based on these results, the null hypothesis is rejected, and the alternative hypothesis is accepted.

Therefore, statistical findings suggest that a company's governance grade significantly improves its financial performance.

Conclusion

According to our research, corporate governance and financial performance are favourably connected, and a company's financial results are significantly improved by its governance rating. These findings imply that improving governance systems may be advantageous for businesses. Businesses should concentrate on enhancing important facets of good governance, including as executive compensation, board independence and composition, stakeholder

involvement, openness and reporting, leadership ethics, and rigorous legal compliance. Businesses must understand that strengthening sustainability and governance procedures is just as important as boosting financial performance.

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