

# **Relationship of Corporate Governance Indicators and Firm Value: A Study of Indian Companies from Bombay Stock Exchange, India**

Barnali Chaklader

Good corporate governance helps ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate. Literature review in most of the cases say that Firm value is positively correlated to corporate governance index. The objective of the study is to find out whether there is any correlation between firm value and the independent parameters such as growth in sales, promoter's holding, financial leverage, liquidity and dividend pay out ratio. We took a sample for study from Bombay Stock Exchange (BSE) 200 which is a well diversified index of 200 stocks . We used the technique of regression taking Tobin's Q as a dependent variable. The existing study covers a sample size of 200 companies for the period of two financial years starting from April 1, 2007 and ending at March 31, 2009. We divided 200 companies in three sections, namely manufacturing, financial and other services. We have taken four parameters namely; distribution of dividend, promoter's holding, income growth and financial leverage as our independent variables and Tobin's Q as our dependent variable. The statistical techniques of correlation and regression were used to explore relationship between these variables. We have done a comparative analysis among the sections to find out the variable which is statistically significant.

Key words: Corporate Governance, Bombay Stock Exchange, Johansen co integration test, Granger Causality test.

## **Introduction**

Corporate governance practices have received increasing attention in late 90's after the corporate frauds, with reports issued by Kumar Mangalam Birla, Narayanmurthy and Jayant Verma committee. These reports have resulted in various codes in corporate governance. As per OECD report on corporate governance (2004), The Principles are intended to assist governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. Following the corporate governance scandals in the US, the Sarbanes Oxley Act (2002) was enacted which brought about fundamental changes

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Barnali Chaklader, Ph.D. Associate Professor Finance, Institute of Management Technology  
Raj Nagar, Ghaziabad, Uttar Pradesh, India, 122001, [bchaklader@imt.edu](mailto:bchaklader@imt.edu)  
[barnaligautam@yahoo.com](mailto:barnaligautam@yahoo.com)

in virtually every area of corporate governance and particularly in auditor independence, conflict of interest, corporate responsibility and enhanced financial disclosures. Good corporate governance helps ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate. Further, it ensures that their Boards are accountable to the shareholders. This, in turn, helps assure that corporations operate for the benefit of society as a whole. E Dockery et.al(2000) feel that out of concern for public interest namely small investors, a supervisory commission requires that firms issuing stocks and bonds be registered with it and to comply with its own rules and regulations designed to ensure fair and complete disclosure of a firm's financial position to its current and potential investors. In an efficient market the rational investor makes just return and the companies incur just costs and no one makes abnormal profits. As per Kumar Mangalam Birla committee report, "It is important that insiders do not use their position of knowledge and access to inside information about the company, *and*