



CORPORATE GOVERNANCE PRACTICES ON FINANCIAL PERFORMANCE OF TEXTILE MANUFACTURING INDUSTRIES IN TAMIL NADU

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ABSTRACT

Corporate governance or board governance is the standard of rules that allows organizations to ensure that they are serving the needs of their shareholders, stakeholders, management team and customers effectively and responsibly. The corporate governance practices included board size, independence of board and audit committees. This paper made an attempt to determine the influence of corporate governance practices on financial performance of textile manufacturing industries in Tamil Nadu. The impact of corporate governance has been tested through board meetings, board activity and board composition with PBDITA, PAT Net of P&E, Shareholder's' Funds, Long Term Borrowings, Net Fixed Assets, Net Profit Margin, Return Net worth, Return on Total assets, Return on Capital Employed and Total income/Compensation to Employees. However these factors have negative impact and less effective on performance.

Keywords: Corporate Governance, Financial Performance, Board size, Board Composition, Board Activity and Board Independence.

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INTRODUCTION

Corporate governance as a term connotes the mechanisms involved in discharging the governance mandate of corporate organizations. It refers to the mechanism that regulates and controls an organization. Corporate governance codes define the relationship between the management of the company, its boards and its shareholders as well as require management and directors to carry out their duties within an accountability and transparency framework (Gopinath, 2020a). Because of its immense contributions to the growth of modern economies, corporate governance has become a topical issue, where the private sector plays a key role in the growth process. The lack of good corporate governance is often blamed for the miserable success of companies (Bhawiya Roopaa. & Gopinath, 2020a). Developed private-sector driven economies consistently record high and predictable growth rates with history of proven corporate governance frameworks (Gopinath, 2020b). Thus low economic growth rates that characterize developing nations are often attributed in these economies to low levels of corporate governance practices.

The corporate governance impact has been tested through the four variables namely the board meeting, average meeting board of director attended in a year (board activity), the inside and outside directors (board composition) in the board are explaining the independent variables in the table below. The dependent variables namely like PBDITA, PAT Net of P&E, Shareholder's Funds, Long Term Borrowings, Net Fixed Assets, Net Profit Margin, Return Net worth, Return on Total assets, Return on Capital Employed and Total income / Compensation to Employees. To assess the corporate governance and performance variables the following test like descriptive statistics, T test and ordinary least square regression are used.

LITERATURE OF REVIEW

Velnampy, T. (2013), this study focuses on corporate governance and firm performance with the samples of 28 manufacturing companies using the data representing the periods of 2007-2011. To measure the firm performance were used as return on equity (ROE) and return on assets and determinants of corporate governance were used as board structure, committee, meeting, size including executive directors, non-executive directors and independent non-executive directors. The study found that determining factor of corporate governance is not correlated to the performance measures of the organization.

Achchuthan, S, & Rajendran, K. (2013), this study found that significant difference between working capital management efficiently on corporate governance practices in Sri Lanka listed manufacturing firms. Secondary data collection methods were conducted with twenty five samples listed manufacturing firms in Colombo Stock Exchange. The results shown that there is no significant different between the corporate governance practices as board committees, meetings and sizes of non-executive director excluding leadership structure among the working capital management level efficacy. The findings, recommended that the effective policies in the working capital management must be conveyed through the corporate governance practices in the Sri Lanka listed manufacturing firms.

Ahsan Akbar. (2014), this study examines the three important corporate governance tools such as board size, ownership concentration, CEO/Chair duality and two firm performance proxies like return on asset, (ROA) and Return on Equity (ROE). A sample of 12 textile Pakistan firms listed on the Karachi stock exchange. It indicates that ownership attention positively affects both performance variables ROA and ROE. This is justified because majority shareholders have more voting power so they can exert pressure on the management take decisions that optimize firm performance. Therefore the study found a significant positive relationship between small board size and ROA. There is no significant relationship was found between the board size and ROE.

The findings suggest a positive significant impact of CEO/Chair duality on ROA and ROE. The implication is that the limited board size to avoid delays in significant corporate decisions that can arise because of large board size.

Narwal, K.P., & Jindal, S. (2015), this study examines the corporate governance impact on the profitability of Indian textile sectors. The period of five years from 2009-2010 to 2013-2014 the data has been collected from annual reports of textiles companies. The independent variables are board meetings, non-executive directors, director's remunerations and dependent variable has been taken as profitability. The analysis for the data used in this study is correlation and OLS regression model. The audit committee members are observed negative associated with profitability. The study concluded that profitability is not significant associated with the board size, meeting and non-executive directors.

Chatterjee, S. (2016), this study examines the Ghanaian manufacturing sector the connected between employer-employee dataset and dispersion in Ghana analyse from the period post extensive economic reforms of 1992 to 2003. The study found that increased variance of earnings from 1992 – 1998 and decreased afterwards, similar to an inverted u-shaped relationship. The analysis of variance and variance decomposition approaches to understand the underlying factors that led to such a pattern in earnings inequality. The findings of the study that between firm factors explain this pattern more than within-firm factors. It also found that the means earnings gap among below the 90th percentile of income distribution and workers above can describe the majority of the initial surge in disparity as 61 % but only explains a very small fraction of the eventual decline 9%. The findings suggestive evidence of changing patterns of worker firm sorting which contributes to the decline in quality. These designs though hold up only for private domestic firms and not for foreign- owned firms.

Bashir, A, & Asad, M. (2018), this study examines the Pakistan stock exchange- listed textile firms the relationship of corporate governance tools namely board size, meetings with performance Return on Assets. The period of the study from 2017 to 2019, in that 30 textile firms' data has been collected and multiple regression techniques has been used for the research to assess the relationships among firm performance and corporate governance. The study found that both board meeting and size have a significant influence on the textile firm's performance furthermore the moderating effect of leverage was found to be a significant relationship between BM and textile performance but insignificant on the relationship of performance and size of the board. This study provides helpful information for regulators as well as management of textile firms to enhance policies relating to corporate governance ahead.

Maniruzzaman, M., & Hossian, S.Z. (2019), this study examines the effects of corporate board aspects on the financial performance of firm publicly traded manufacturing companies in Bangladesh or explicate based on Corporate Governance Notifications 2006 and mandatory CGN 2012 of Bangladesh Securities and Exchange Commission. The regression results show that the revised CG guidelines are not capable of influencing firm performance measured by ROA but when performance is measured using Tobin's Q, the revised guidelines are somewhat effective. The study is new research and it has led to an academic discussion on the efficiency of mandatory CG procedures on corporate qualities and performance of the firm.

OBJECTIVES OF THE STUDY

The study mainly focuses on the corporate governance practices on financial performance of textile manufacturing industries in Tamil Nadu.

- To identify any relationship between the corporate governance practices and the financial performance on selected company's variables.

- To test the variables like corporate governance and performance, the hypothesis framed bet namely,

H0: There is no significant difference between the mean of corporate governance and performance variables.

H0: There is no significant relationship between corporate governance and performance of Selected textile sector.

METHODOLOGY

The study comprises of 12 textile manufacturing industries of Tamil Nadu which was listed in NSE. The proposed model has considered the entire twelve textile industries namely as Celebrity fashions, Salona Cotspin, Gangotri Textiles, Shiva Texyarn, Bannari Amman Spinning Mills, Ambika Cotton Mills, Indian Terrain Fashions, Precot Meridian, Lambodhara Textiles, Super Spinning Mills, KPR Mill and Patspin India. The study period covers from 2010 – 2011 to 2019 – 2020 for ten years.

The secondary data collected for 12 textile manufacturing industries like Corporate Governance Report, Balance Sheet from Centre for monitoring Indian Economy and money control website.

Descriptive statistics method was used to analyse the variables of No. of inside directors, No. of outside directors, Board meeting, Average meeting, PBDITA, PAT Net of P&E, Shareholder's Funds, Long term borrowings, Net fixed assets, Net Profit margin, Return net worth, Return on total assets, Return on capital employed and Total income/ Compensation to Employees.

LIMITATION OF THE STUDY

The scope of the study is limited to the NSE listed textile manufacturing industries in Tamil Nadu.

ANALYSIS AND DISCUSSION

The corporate governance impact has been tested through the four variables namely the board meeting, average meeting board of director attended in a year (board activity), the inside and outside directors (board composition) in the board are explaining the independent variables in the table below. The dependent variables namely like PBDITA, PAT Net of P&E, Shareholder's Funds, Long Term Borrowings, Net Fixed Assets, Net Profit Margin, Return Net worth, Return on Total assets, Return on Capital Employed and Total income / Compensation to Employees. To assess the corporate governance and performance variables the following test like descriptive statistics, T test and ordinary least square regression are used.

The proposed model has considered the twelve selected textile companies namely as Celebrity Fashions, Salona Cotspin, Gangotri Textiles, Shiva Texyarn, Bannari Amman Spinning Mills, Ambika Cotton Mills, Indian Terrain Fashions, Precot Meridian, Lambodhara Textiles, Super Spinning Mills, KPR Mill and Patspin India. The Study period covers from 2010 - 2011 to 2019 - 20 for ten years.

Table 1 Descriptive Statistics Results on Selected Companies Variables

Variables	Range	Mean	Std. Deviation	Variance
No. of Inside Directors	14.00	8.1833	2.43912	5.949
No. of Outside Directors	14.00	8.3917	2.36322	5.585
Board meeting	16.00	5.1833	2.01250	4.050
Average Meeting	10.00	4.1250	1.30005	1.690
PBDITA	6097.70	647.7408	1018.99500	1038350.803
PAT Net of P&E	3497.40	144.5692	516.33383	266600.626
Shareholder's Funds	17448.40	1567.1875	2724.64185	7423673.233
Long Term Borrowings	3900.40	793.4050	916.96527	840825.305
Net Fixed Assets	10895.50	2459.7400	2513.39034	6317130.985
Net Profit Margin	256.00	-3.1050	25.47229	648.838
Return Net worth	96.10	4.9350	18.64951	347.804
Return on Total assets	39.90	.6500	7.20193	51.868
Return on Capital Employed	49.10	.5833	9.12474	83.261
Total Income / Compensation to Employees	33.24	16.4657	8.69702	75.638

Source: Calculated from secondary data

Table 1, indicates that the descriptive statistics results considering on the selected variables of No. of Inside Directors, No. of Outside Directors, Board meeting, Average Meeting, PBDITA, PAT Net of P&E, Shareholder's Funds, Long Term Borrowings, Net Fixed Assets, Net Profit Margin, Return Net worth, Return on Total assets, Return on Capital Employed and Total income / Compensation to Employees. Each variable mean, standard deviation and range were calculated and the high mean observed in net fixed assets and net profit margin showed the negative mean values. The standard deviation is high observed in net fixed assets and low in meeting status. Nature of variable scale are completely different from one to another, the comparison of the descriptive value may not so sensible one.

Corporate Governance and Performance of Selected Textile Manufacturing Industries

The corporate governance and performance on selected company's variables are assessing with one-sample t test. The hypothesis framed is

H_0 : There is no significant difference between the Mean of corporate governance and performance variables.

Table 2 One-Sample T test on Selected Companies Variables

Corporate governance and performance	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
No. of Inside Directors	36.753	119	(.000)**	8.18333	7.7424	8.6242
No. of Outside Directors	38.899	119	(.000)**	8.39167	7.9645	8.8188
Board Meeting	28.214	119	(.000)**	5.18333	4.8196	5.5471
Average Meeting	34.758	119	(.000)**	4.12500	3.8900	4.3600
PBDITA	6.963	119	(.000)**	647.74083	463.5498	831.9319
PAT Net of P&E	3.067	119	(.003)**	144.56917	51.2379	237.9004
Shareholder's Funds	6.301	119	(.000)**	1567.18750	1074.6879	2059.6871
Long Term Borrowings	9.478	119	(.000)**	793.40500	627.6566	959.1534
Net Fixed Assets	10.721	119	(.000)**	2459.74000	2005.4257	2914.0543
Net Profit Margin	-1.335	119	.184	-3.10500	-7.7093	1.4993
Return Net worth	2.899	119	(.004)**	4.93500	1.5640	8.3060
Return on Total Assets	.989	119	.325	.65000	-.6518	1.9518
Return on Capital Employed	.700	119	.485	.58333	-1.0660	2.2327
Total Income / Compensation to Employees	20.740	119	(.000)**	16.46570	14.8936	18.0378
Source: Calculated from secondary data						
**Sig @ 0.00 per cent level						

Table 2, depicts that the one sample t test results on selected variables of 12 different textile companies. The proposed hypothesis as mean value are significantly difference between the two group of corporate governance and performance namely No. of Inside Directors, No. of Outside Directors, Board meeting, Average Meeting, PBDITA, PAT Net of P&E, Shareholder's' Funds, Long Term Borrowings, Net Fixed Assets, Net Profit Margin, Return Net worth, Return on Total assets, Return on Capital Employed and Total income / Compensation to Employees. To considering the test results the proposed hypothesis can be rejected in all the selected variables except Net Profit Margin, Return on Total assets, and Return on Capital Employed. The null hypothesis rejected explains that selected variables are significantly difference in the performance. Therefore there is significant between the Mean of corporate governance and performance variables like No. of Inside Directors, No. of Outside Directors, Board meeting, Average Meeting, PBDITA, PAT Net of P&E, Shareholder's' Funds, Long Term Borrowings, Net Fixed Assets, Net Profit Margin, Return Net worth, Return on Total assets, Return on Capital Employed and Total income / Compensation to Employees. (Bhawiya Roopaa &Gopinath, 2020b).

CONCLUSION

Probably in the textile sector facing the challenges and issues like high prices, shortage of raw materials, liquidity problems due to poor sales and accumulation of huge stocks due to poor demand in the market. Mainly because of has its own limitation such as accesses to latest technology, failures to meet global standard, highly competitive export market and GST implication by Government. It is understood that the organization are not made reasonably efficient use of capital in the textile sector. So the board composition and board activity haven't much impact towards the Total Income/Compensation to Employees in the organization for employee annual salary or hourly wages combined with bonus payments, benefits and incentives (Gopinath, 2019).

SCOPE FOR FURTHER RESEARCH

- Effect of Corporate Governance Practices on Performance of Manufacturing Industries.
- Board Size, Board Composition and the Performance of Manufacturing Industries.

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