

***THE INTERPLAY OF FIRM VALUE, CORPORATE  
GOVERNANCE AND PERFORMANCE OF A FIRM : A  
STRUCTURAL MODELLING APPROACH***

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# Introduction

- ▶ 250 corporate scams have happened in India from the year of independence i.e.1947 totaling to around \$20.23 Trillion (updated figures till May 2016).
- ▶ Recent Nirav Modi ,Vijay Mallya & other banking scams are approximately \$10 billion in 2017 (It is approx. \$8 per Indian citizen in a population of 1.3 billion)

# Objective of the Study

This study proposes to investigate the relationship among identified measures of firm performance, corporate governance and firm value for Fast Moving Consumer Goods (FMCG), Automobile and Information Technology (IT) sector companies in India.

# Sectors for the study

- ▶ FMCG
- ▶ Information Technology
- ▶ Automobiles

# Dependent and Independent Variables

## ▶ Dependent Variable

- Firm Value (Measured by Tobin's Q)

## ▶ Independent variables

- Debt/equity ratio
- Income growth
- Dividend payout
- Return on assets (ROA)
- Sales growth

## ▶ Mediating variable

- Corporate Governance

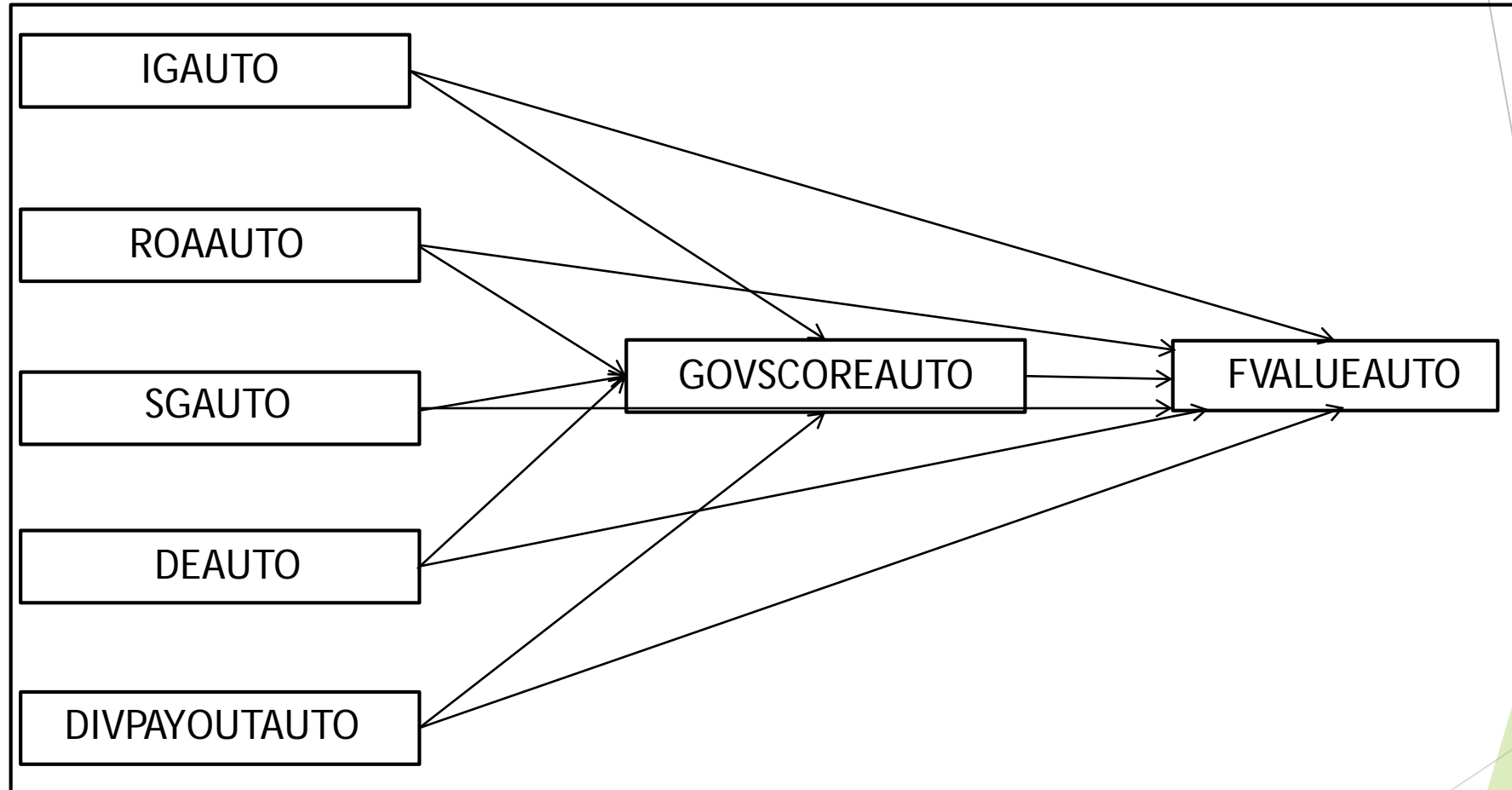
# Data Description

- ▶ The samples for the study are drawn from the FMCG, Automobile, and the IT sector in the Indian Economy.
- ▶ Within each sector, companies identified for the study are the constituents of their respective S&P BSE Sector Series (90/FF).
- ▶ Accounting data has been extracted from the annual reports of the identified companies in each sector for determination of the independent variables, namely:
  - Sales growth
  - Income growth
  - Return on assets
  - Debt equity ratio
  - Dividend payout
- ▶ Corporate governance is expressed in terms of governance score generated by the authors based on a few parameters of corporate governance index proposed by Sarkar et.al. (2012). The duration of the data is from 2003-2004 to 2016-2017

# Methodology

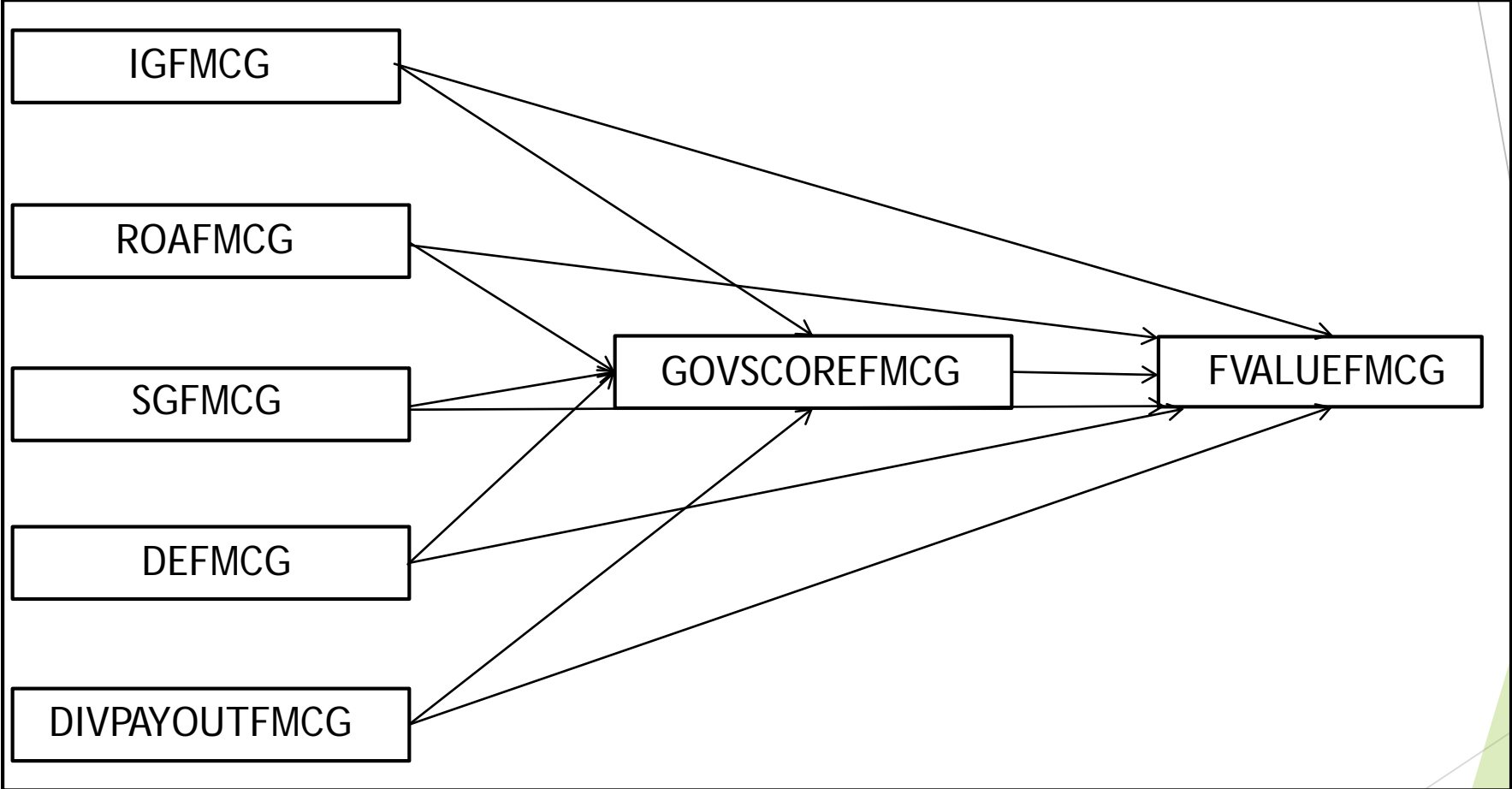
- ▶ In the model used for the study, average value of Tobin's Q for each sector under the study has been computed using accounting data for a period spanning 2003-2004 through 2016-17.
- ▶ Structural equation modeling (SEM) approach is applied to test if corporate governance mediates the effect of the five selected variables on firm value.

Conceptual Model: Automobile Sector

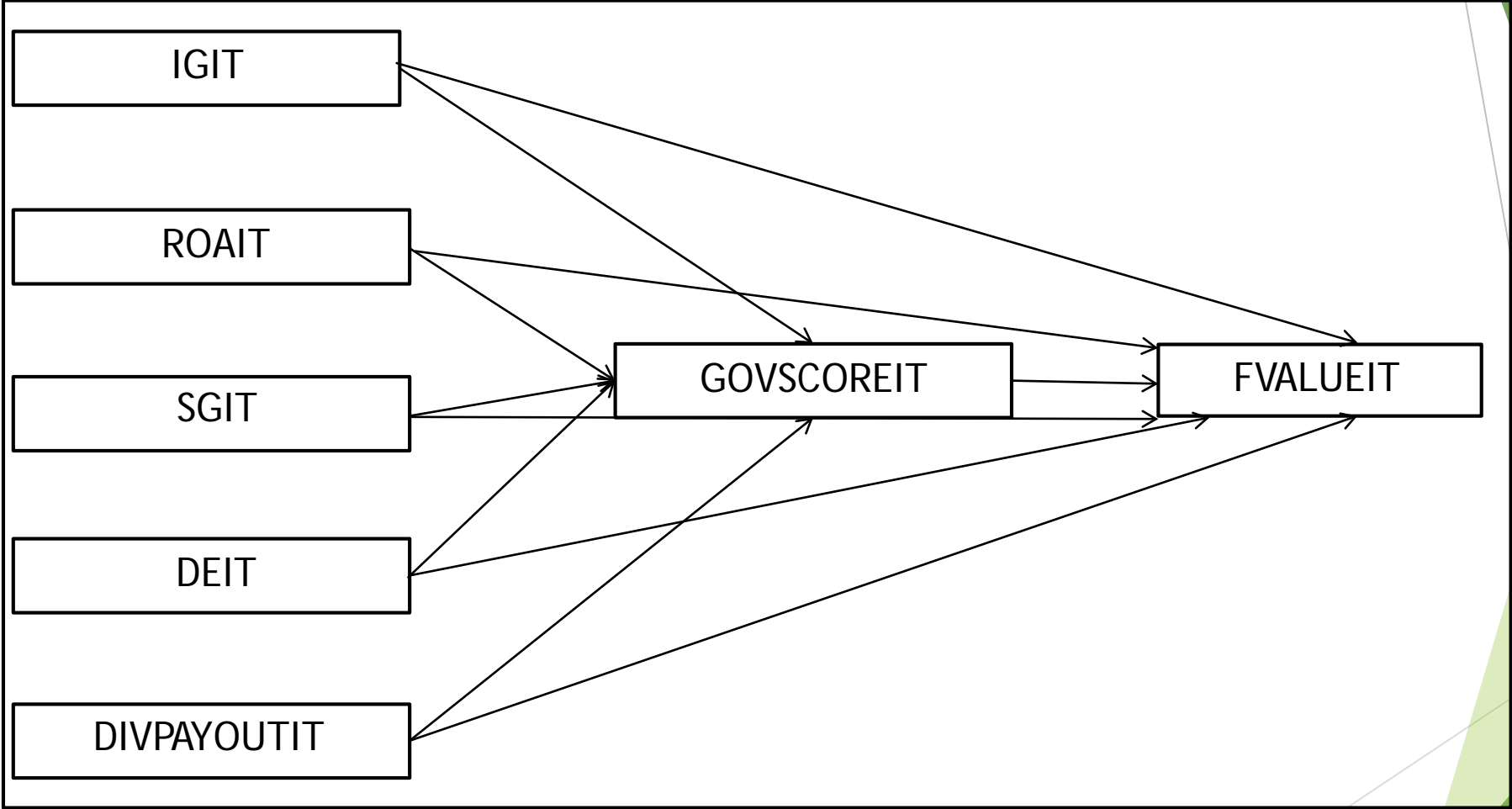




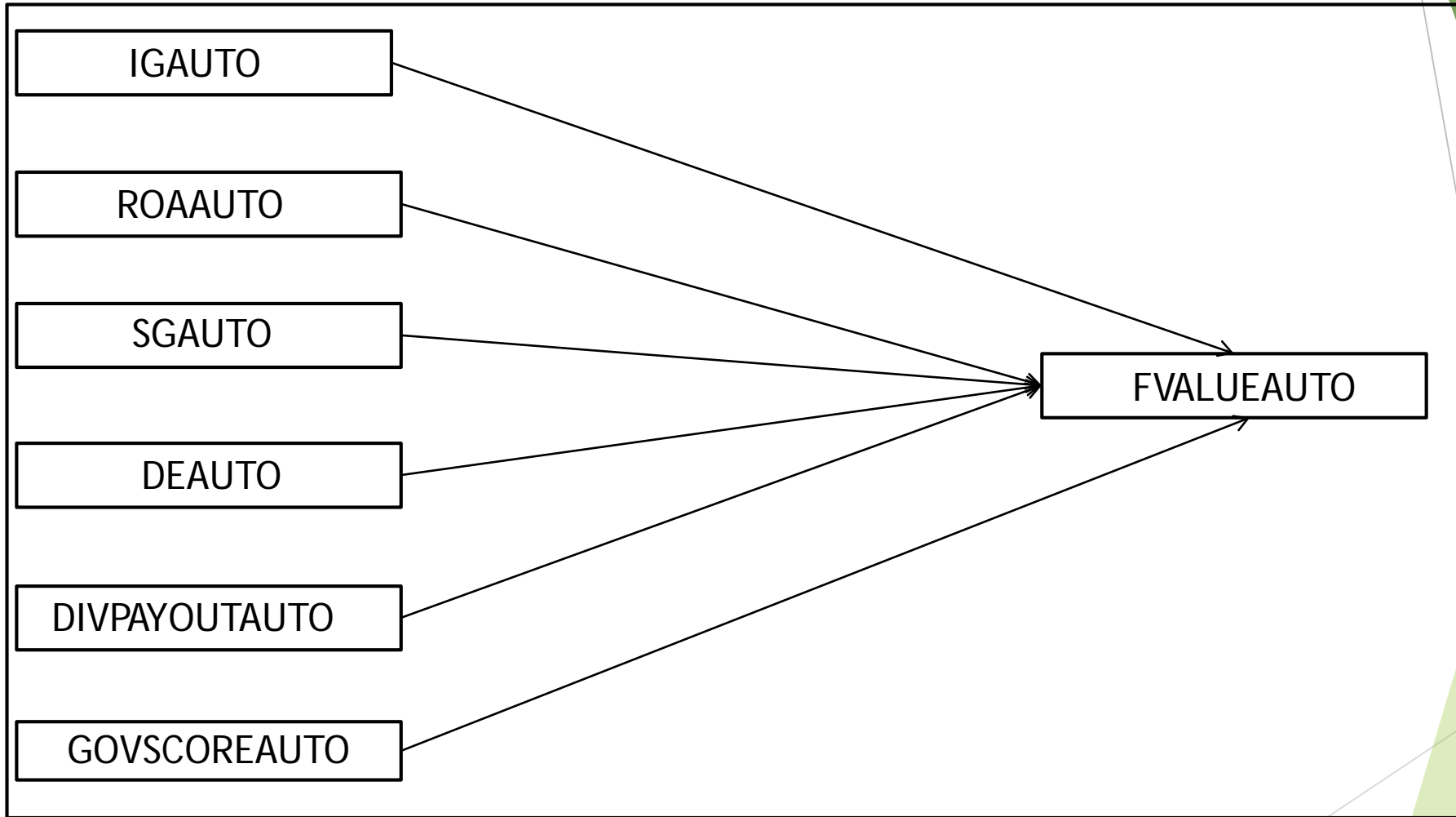
Conceptual Model: FMCG Sector



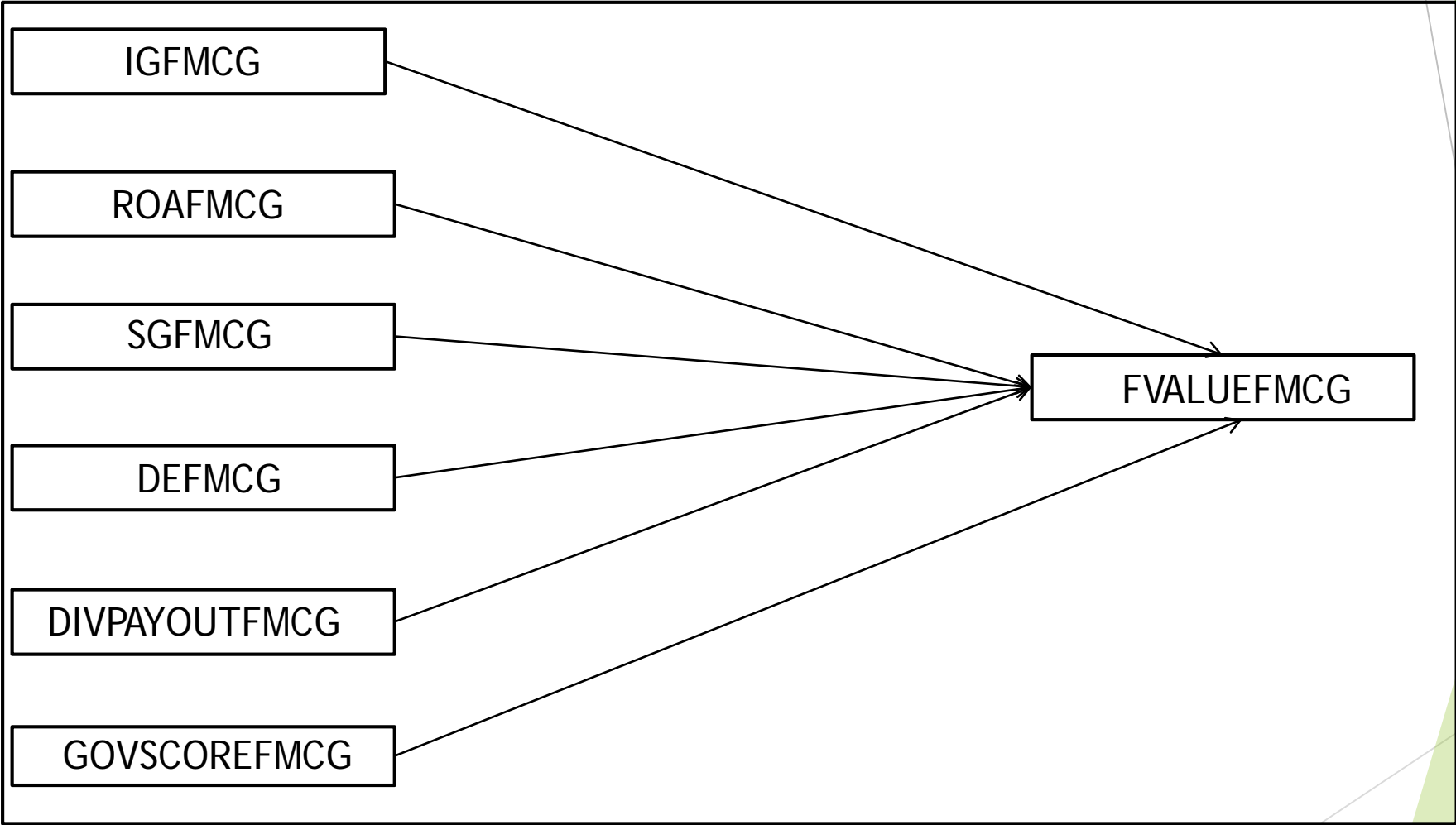
Conceptual Model: IT Sector



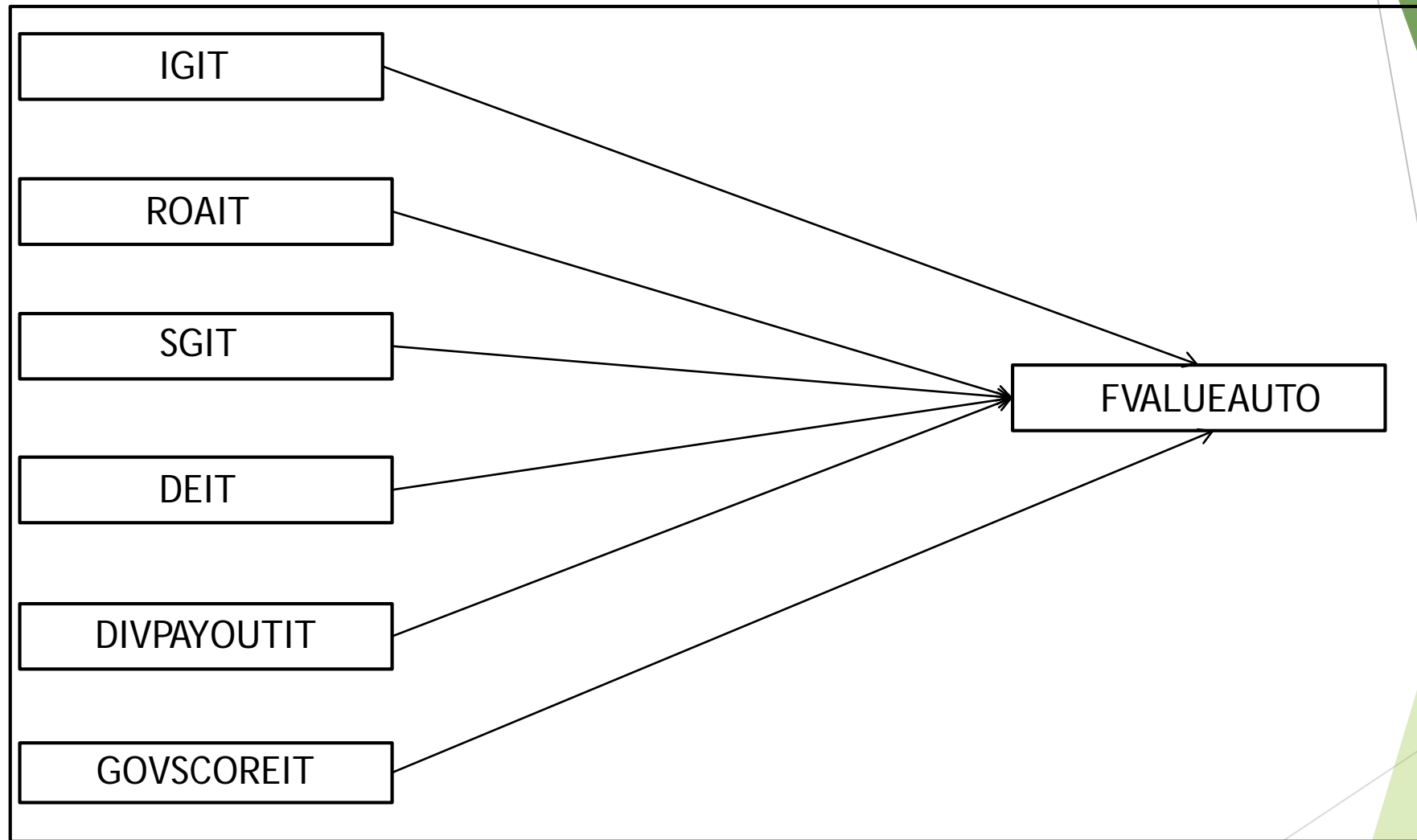
Rival Model: Automobile Sector



Rival Model: FMCG Sector



Rival Model: IT Sector



**Table 2.** Model fit indices for the conceptual and rival models

Model	CMIN	DF	CMIN/DF	GFI	AGFI	FI	TLI	CFI	RMS EA
Default model	0	0		1		1		1	
Saturated model	0	0		1		1		1	

Source: Authors' calculations

# Conclusion

- ▶ The analysis and the test outcome do not support any of the ten hypotheses proposed by the authors for the study.
- ▶ As exhibited in the preceding sections, the analysis of all six path models returned zero value of degrees of freedom. We cannot test model fit with zero degrees of freedom. Therefore, it would be best to test other constructs to explore the interplay of sales growth, income growth, return on assets, debt equity ratio, dividend payout ratio and corporate governance and their impact on firm value.

# Future scope of Research

- ▶ The authors propose to take the study further by exploring alternative designs and models to establish a deeper understanding of the extent to which governance can impact firm value.



Thank You

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