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IMPACT BEHAVIOR OF BOARD COMPOSITION ON FIRM PERFORMANCE: A STUDY OF SELECTED PHARMACEUTICAL COMPANIES IN INDIA

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ABSTRACT

The Cadbury Report defines Corporate Governance as the "system by which businesses are directed and controlled" (Cadbury, 1992). Through good corporate governance a company can accomplish their long term objective and improve their firm performance. This study is secondary in nature. Data are collected from annual report of selected pharmaceutical companies. Net profit ratio, return on asset, earning per share have chosen as performance indicators of the selected companies. To achieve the result of the present study descriptive statistics, correlation, regression, hypothesis testing, etc. have been used. Data have been processed through SPSS version 20. The result shows significant impact of board composition on NPR, ROA, whereas board composition has no significant impact on EPS.

Keywords: Corporate Governance, Board Composition, CEO Duality, Performance Indicators.

I. INRODUCTION

Now day's corporate governance become a multifunctional approach because it enhances the corporate performance through participation of human capital in administration. Actually corporate governance is the set of system, principle, process through which a company are directed and controlled. Corporate government is required to maintain accountability, transparency in the operation of business. Through good corporate governance a company can accomplish their long term objective and improve their firm performance. In corporate governance board of directors play very essential role to control conflict of interest between owner and management of companies. Board composition plays an important role in corporate governance because board of directors is appointed to manage the company's business operation. In Indian corporate governance become hot topic (after Satyam Scam) in the recent past due to high rate of white collar crimes like embezzlement, fraudulent financial activities and various other financial ill nature treatment.

In this background of the study, the relationship between corporate governance and firms' performance as well as impact corporate governance on firm's performance have been investigated and carefully studied for many years. A large number of researches have been evaluated whether this relationship exists or not. Some researchers found that there is no relationship exists in between firm performance and corporate governance whereas some researchers suggest the existence of negative or positive relationship in between them. In this respect, the main aim of this research is to find out the relationship between board composition and firms' performance of pharmaceutical companies which are listed in NSE

II. LITERATURE REVIEW

The objective of literature review is to discover the research gap. With a view to identifying the research gap, a review of literature has been made for the purpose of the study, which is furnished below.

Ghosh Saibal (2006): the intention of this paper was to investigate influence of corporate governance on financial performance. This paper found that that board size negatively influence the financial performance.

Javid and Iqbal (2008) found the direct and significant relationship between board composition and company performance.

Kota et al. (2010): They examined that impact of corporate governance on firm performance. They suggested that no significant relationship exists in between independent directors and firm performance whereas an inverse relationship exists in between board size and firm performance.

Bijalwan et al. (2013) in their paper, they investigated the relationship between board composition and firm performance for the period of 2010-11.They found that a poor significant relationship exists between board size and firm performance.

Arora and Sharma (2016): in their study the main aims to know the relationship status of corporate governance with ROE. They found that profitability is not associated with corporate governance.

Diriba and Basumatary (2019): The focus of their paper was to analysis the impact of corporate governance on the performance of Indian leading company. They found the there is no epochal significant impact of corporate governance on the performance of the company. The limitation of their study was that they took only on variable as the performance indicator.

Azhar et al. (2019): Inspect the relationship between disclosure practices of corporate governance and firm performance. The result showed corporate governance disclosure practices have inverse and significant effect on financial performance.

After reviewing of prior studies, it is clear that there is no dearth of study on corporate governance and firms' performance but details analysis on impact of board composition on firm's performance of pharmaceutical company is hardly available Thus, this area has been identified as research gap

III. OBJECTIVE OF THE STUDY

The main objective of the present study is to examine the impact of R&D investment on companies' profitability during the period of study. To realize the main objective, the following secondary objectives have been formed:

1. To study the impact of board composition firms' NPR and its significance.

2. To study the impact of board composition firms' ROA and its significance.

3. To study the impact of board composition firms' EPS and its significance.

IV. RESEARCH METHODOLOGY

Sample Size: In this present study, twenty pharmaceutical companies have been selected for the purpose of study viz. Abbott India Ltd., Ajanta Pharmaceuticals Ltd., Alembic Pharmaceuticals Ltd., Alkem Laboratories Ltd., Cadila Healthcare Ltd., Cipla Ltd., Dishman Carbogen Amcis Ltd., Divi's Laboratories Ltd., Dr. Reddy's Laboratories Ltd., Glaxosmithkline Pharmaceuticals Ltd., Glenmark Pharmaceuticals Ltd., Granules India Ltd., Ipca Laboratories Ltd., Jubilant Life Sciences Ltd., Lupin Ltd., NATCO Pharma Ltd., Poly Medicure Ltd., Sun Pharmaceutical Industries Ltd., Torrent Pharmaceuticals Ltd., Wockhardt Ltd.

Collection of data: The source of data secondary in nature. It includes quantitative data which has been collected from the annual reports of the selected pharmaceutical companies.

Period of Research: The present study has been made for a period of 10 years starting from 2009-10 and ending on 2018-19.

Tools Used: In statistical tools, descriptive statistics, correlation, regression, hypothesis testing, etc. have been adopted for the present study.

Variables Ratio Used For Analysis:

1) Independent Variable

a) Board size = Total number of directors on board.

b) Directors Independence = the number of independent non-executive directors / the total number of directors on the board.

c) CEO Duality = Role of duality presence when the CEO of the company is also the chairman of the board of the same company. It is dummy variable. If CEO duality presence in the companies score "1"if not then score "0"

2) Dependent Variables

a) Net Profit Ratio (NPR) = Net Profit / Net Sales

b) Return on Asset (ROA) = Net Income / Total Assets

d) Earnings per Share (EPS) = Income Available to Equity Shareholder / Number of Shares Outstanding.

Table-1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NPR	200	-3.06	71.58	17.0418	9.27753
ROA	200	-1.31	46.47	12.0785	7.58183
EPS	200	-5.08	131.17	26.8748	25.42784
BOARD SIZE	200	6.00	14.00	9.4722	1.57292
CEO DUALITY	200	.00	1.00	.4278	0.49614
DIRECTORS INDEPENDENCE	200	28.57	80.00	52.8681	10.11263

It is clear from the Table 1 that there is degree of variability exits in the standard deviation of the dependent variables and independent variable. It advocates that there are different degrees of association presence in between the dependent variables and independent variables.

Therefore following hypotheses are formulated:

1 H_0: There exists no significant impact of board composition on NPR

H_1: There exists significant impact of board composition on NPR

2 H_0: There exists s no significant impact of board composition on ROA

H_1: There exists significant impact of board composition on ROA

3 H_0: There exists no significant impact of board composition on EPS

H_1: There exists significant impact of board composition on EPS

V. RESULT AND DISCUSSION

Table 2: Correlation Test

	BOARD SIZE	BOARD INDEPENDENCE	CEO DUALITY
NPR	0.308 (0.000)	0.201 (0.007)	0.240 (0.747)
ROA	0.213 (0.004)	-0.135 (0.071)	-0.083 (.269)
EPS	0.221 (0.003)	0.302 (.000)	-0.216 (0.029)
Source: Compiled from published annual reports during the period of 2009-2010to 2018-2019 and computed using SPSS 20. **Significant at 5 per cent level , *Significant at 1 per cent level			

Table 2 shows that nature of relationship of selected dependent variables with independent variable during the period of study. Table 2 discloses a positive correlation between NPR, ROA, and EPS with board size which has been found to be statistically significant. Table 2 also shows that there is positive significant correlation between NPR, EPS with board independence whereas negative relationship exits

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with ROA. In case of CEO duality, significant relationship exists only EPS. Theoretically, significant correlation of NPR, ROA, ROE and EPS with indicates proper utilization of company's fund by board composition.

Table 3: Multiple Regression Analysis (Dependent Variable NPR)

Model	Unstandardized Coefficients		t	Sig.	VIF
	B	Std. Error			
(Constant)	9.585	4.350	2.203	0.029**	
Board size	1.20	0.536	2.244	0.026**	1.647
DIRECTORS INDEPENDENCE	2.42	0.675	1.641	0.10	1.314
CEO DUALITY	-1.531	1.460	-2.268	0.025**	1.702
R = 34.8	R^2 = 12.1	Adjusted R^2 = 10.1		S. E. of the Estimate =8.79	
Durbin-Watson Statistic = 1.763				F-statistic=6.046*(Probability=0.002)	
Source: Compiled from published annual reports during the period of 2009-2010to 2018- 2019 and computed using SPSS 20. **Significant at 5 per cent level , *Significant at 1 per cent level					

Table 3 reports the multiple regression results between the dependent variable and independent variables are authenticated because the result of variance inflation factor (VIF) satisfies the rule of thumb of statistics. VIF value of all selected variables just exceeds 1 but does not exceed 10. (Bowerman and O' Connell, 1990; Myers, 1990). Table 3 inferred that board composition has significant positive impact on NPR. Therefore, alternative hypothesis 1: H_1 accepted. It has been inferred from table 2 that board size and role of CEO duality employing a significant impact on NPR. Former is enumerating a positive impact whereas latter is enumerating a negative impact on NPR. From the Table 3, the result of R^2 value, inferred that merely 12% of variance of the dependent variable has been explained by selected independent variables. The significance value (0.002) of f statistics is less than 0.05, implies that regression model is perfectly fitted.

Table-4: Multiple Regression Analysis (Dependent Variable ROA)

Model	Unstandardized Coefficients		t	Sig.	VIF
	B	Std. Error			
(Constant)	4.408	3.638	1.211	0.027**	
BOARD SIZE	1.663	0.449	3.708	0.00*	1.647
DIRECTORS INDEPENDENCE	1.381	0.564	-2.446	0.015**	1.314
CEO DUAILITY	-1.60	1.260	-1.260	0.209	1.702
R = 28.3	R^2 = 8.0	Adjusted R^2 = 5.9		S. E. of the Estimate =7.35	
Durbin-Watson Statistic = 1.825				F-statistic= 3.80*(Probability=0.005)	
Source: Compiled from published annual reports during the period of 2009-2010 to 2018- 2019 and computed using SPSS 20. **Significant at 5 per cent level , *Significant at 1 per cent level					

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Variables are authenticated because the result of variance inflation factor (VIF) satisfies the rule of thumb of statistics. VIF value of all selected variables just exceeds 1 but does not exceed 10. (Bowerman and O' Connell, 1990; Myers, 1990). It is found from Table 4 that board composition has significant positive impact on NPR. Therefore, alternative hypothesis 1: H_1 accepted. It has been seen from table 4 that board size and independent board of directors exerting a significant impact on ROA. Former is enumerating a positive impact whereas latter is enumerating a negative impact on ROA. From the table 3, the result of R2 value, inferred that merely 8% of variance of the dependent variable has been explained by selected independent variables. The significance value (0.005) of F statistics (3.8) is less than 0.05, implies that regression model is perfectly fitted.

Table-5: Multiple Regression Analysis (Dependent Variable EPS)

Model	Unstandardized Coefficients		t	Sig.	VIF
	B	Std. Error			
(Constant)	-8.459	11.629	-.727	0.468	
BOARD SIZE	-.030	1.434	-0.21	0.983	1.647
DIRECTORS INDEPENDENCE	5.519	1.804	.550	0.003**	1.314
CEO DUAILITY	2.234	0.044	3.059	0.583	1.702
R = 40.5	R^2 = 16.4	Adjusted R^2 = 14.5		S. E. of the Estimate =23.5	
Durbin-Watson Statistic = 1.594				F-statistic= 8.60*(Probability=0.000)	
Source: Compiled from published annual reports during the period of 2009-2010 to 2018- 2019 and computed using SPSS 20. **Significant at 5 per cent level , *Significant at 1 per cent level					

Table 5 reports the multiple regression results between the dependent variable (EPS) and independent variables are authenticated because the result of variance inflation factor (VIF) satisfies the rule of thumb of statistics. VIF value of all selected variables just exceeds 1 but does not exceed 10. (Bowerman and O' Connell, 1990; Myers, 1990). It is inferred from Table 5 that board composition has no significant positive impact on EPS. Therefore, null hypothesis 3: H_0 accepted. It has been seen from Table5 that board size and CEO duality exerting a non significant impact on EPS whereas independent directors excreting a positive and as well as significant impact on EPS. From the table4, the result of R2 value, inferred that 16.4% of variance of the dependent variable has been explained by selected independent variables. The significance value (0.005) of F statistics (8.60) is less than 0.05, implies that regression model is perfectly fitted.

VI. CONCLUSION

The present study investigates whether board composition has significant impact on firms performance of pharmaceutical companies listed in NSE. After analyzing data it is concluded in the matter for answering the research question of the present study that a significant relationship exists in between board composition and firms' performance but this strength of the relationship is moderate. Board size and Directors Independence exposed positive impact on firm performance which implies that with the higher number of board directors and higher number independent directors showed better result in term profitability. It is also concluded from the study that there is no fundamental impact CEO duality on firms' performance.

LIMITATION OF THE STUDY

The study has been conducted on a single industry. Therefore the outcome of the present study may not be applicable to the all industries.

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