Journal of Information & Optimization Sciences
ISSN 0252-2667 (Print), ISSN 2169-0103 (Online)
Vol. 46 (2025), No. 8, pp. 2403–2412
DOI : 10.47974/JIOS-2055

A study on financial performance of Nifty 50 Indian companies with strong corporate governance

Aisha Banu *
Department of Management
Alliance University
Bengaluru 560076
Karnataka
India

Afzalur Rahman †
School of Business
Woxsen University
Hyderabad 502345
Telangana
India

Manjushree Murari §
Department of Academic Audit & School of Business
Presidency University
Bengaluru 560064
Karnataka
India

Abstract

The research investigates how management independence and size i.e., board independence and board size affect the financial success of Indian firms by examining Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin. This study

* *ORCID-ID:* **0000-0001-8174-3663**
† *ORCID-ID:* **0000-0002-1561-561X**
§ *ORCID-ID:* **0009-0004-5623-3089**

* *E-mail:* **aishabanupg@gmail.com (Corresponding Author)**
† *E-mail:* **afzalur@outlook.com; afzalur.rahman@woxsen.edu.in.**
§ *E-mail:* **manjushree.murari@gmail.com; manju.shree@presidencyuniversity.in**

© Taru Publications

quantitatively analyzed data from 2018-2022, encompassing a diverse range of Indian public companies and sectors. Studies indicate that a higher proportion of independent directors on company boards correlates with enhanced asset utilization and subsequently stronger ROA. More board members mean lower profits due to extra work and higher agency costs. Board independence and size don't really affect ROE or profit margins. To improve their financial standing, Indian companies must strengthen their boards and optimize asset utilization.

Subject Classification: *62P20, 62P25, 91B84, P1G50.*

Keywords: *Corporate governance, Nifty 50, ROA, ROE, Profit margin.*

1. Introduction

The financial success of companies in relation to corporate governance practices remains an important research topic while the Indian market provides an exceptional case study because of its fast-changing economy and unique governance mechanisms. Corporate governance represents a multifaceted framework that, 62P25regulates how a company's board members, management team, and shareholders interact to promote ethical behavior and accountability [16]. The analysis of board independence and size as governance structures becomes critical for Indian companies competing globally to maintain their success. In recent studies by [5], [15] researchers show that strong corporate governance leads to better financial performance through enhanced decision-making and operational efficiency.

Research shows a significant connection between strong corporate governance and better financial performance according to recent studies examining ROA, ROE, and NPM metrics. Studies demonstrate that boards which showcase diversity and independence achieve superior financial crisis handling and operational effectiveness resulting in elevated profits [8]. India's Securities and Exchange Board of India (SEBI) framework requires companies to adopt improved governance practices and reinforces the connection between strong governance systems and better financial outcomes [1].

The perspective on corporate governance in India has shifted to recognize it as a strategic tool that enables financial success and sustainability rather than just a compliance requirement. Studies demonstrate that businesses with strong governance frameworks including suitable board makeup and risk management practices achieve better financial performance [2]. The direct influence of governance on financial results remains difficult to measure because of different industry

practices along with variable market conditions and diverse governance frameworks in different sectors [16]. Research specifically targeting Indian businesses through empirical analysis of corporate governance will reveal helpful insights about financial performance which would equip stakeholders to make strategic decisions that benefit long-term economic progress.

2. Literature Review and Research Gap

2.1 *Corporate Governance Frameworks*

Theoretical researchers have extensively explored corporate governance which has produced multiple frameworks to understand its impact on organizational performance. Agency Theory stands out as a major framework in corporate governance because it describes how shareholder-management conflicts emerge from improperly aligned incentives. The theory advocates for governance mechanisms to resolve these conflicts through board oversight and executive compensation linked to performance [7]. Stewardship Theory presents an alternative view where managers naturally work towards shareholder benefits which leads them to perceive governance as less about transactions. The differing viewpoints demonstrate corporate governance complexity and the requirement for customized governance frameworks to suit unique organizational environments.

2.2 *Corporate Governance and Financial Performance*

Research examining the connection between corporate governance structures and financial outcomes has drawn substantial global interest as well as within India. Research evidence shows that robust corporate governance structures drive improvements in financial performance metrics such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin [14]. A thorough examination of scholarly literature demonstrates how independent boards are essential for supervising management operations and preserving financial reporting honesty [13]. Studies concerning these topics demonstrate significant methodological differences as some use cross-sectional analyses and others depend on longitudinal datasets to reach conclusions which may cause inconsistent findings [12].India has seen a rapid increase in research work that examines the subtle details of corporate governance in emerging market contexts. Indian firms that employ strong governance practices demonstrate

superior performance compared to their industry counterparts according to [11]. Despite progress in research, researchers still need to explore which contextual factors affect these relationships due to the region's swift economic transformations after liberalization.

2.3 *Specific Governance Mechanisms*

The structure of company boards remains a prime subject of study for its role in corporate governance success through elements of independence, size, and diversity. The findings from recent studies show that board expansion does not guarantee better performance and that there exists an optimal number of board members which improves decision-making efficiency[13],[9].Independent directors provide essential unbiased oversight which significantly affects financial performance according to [14]. When organizations structure executive compensation to match management incentives with shareholder interests, they achieve superior organizational results. According to [12] effective compensation systems play a key role in reducing agency costs that stem from conflicting goals between managers and shareholders.

Different ownership levels among institutional, managerial and individual stakeholders have a substantial impact on corporate governance by affecting strategic choices and risk preferences. Studies indicate that related party transactions threaten governance integrity because they create conflicts of interest [3],[9]. According to [4],[13] robust internal controls and audit procedures are essential for preventing financial reporting errors and building stakeholder confidence.

2.4 *Hypothesis Development*

The reviewed literature enables the creation of testable hypotheses regarding the effects of particular corporate governance variables on financial performance.

1. Hypothesis 1 (H1): Indian companies that have independent directors on their boards demonstrate a positive and significant effect on their Return on Assets (ROA).
2. Hypothesis 2 (H2): The Return on Assets (ROA) of Indian companies declines as board size increases.
3. Hypothesis 3 (H3): The presence of independent directors on boards fails to create a statistically significant effect on the Return on Equity of Indian companies.

4. Hypothesis 4 (H4): The size of the board does not create a significant effect on the Return on Equity achieved by Indian companies.
5. Hypothesis 5 (H5): The presence of independent directors on corporate boards fails to demonstrate any significant statistical effect on the Net Profit Margin of Indian businesses.
6. Hypothesis 6 (H6): Research data shows that the number of directors on the board does not affect Indian companies' Net Profit Margin.

2.5 *Research Gap*

The existing research covers multiple dimensions of corporate governance and its financial performance effects but important research gaps persist. There exists a significant demand for studies that focus on specific contexts within emerging markets such as India because cultural and regulatory influences strongly determine governance practices [10]. The current research studies analyze individual governance elements separately while neglecting how different governance mechanisms interact which reduces comprehension of their combined performance outcomes [6].The varied governance structures present across different industries make general conclusions difficult to establish which leads to a need for detailed sector-specific analysis [14].

3. Research Methodology

This investigation examines how board independence and board size as elements of corporate governance structures affect financial outcomes in Indian enterprises. The study analyzes the financial performance of Indian companies using Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin as its main performance indicators. This research seeks to identify connections that demonstrate how corporate governance affects company achievement throughout India's business environment.

3.1 *Data Analysis*

During the study period descriptive statistics given in Table 1 show that boards had an average of 5.73% independent directors with a standard deviation of 2.05% demonstrating variability in board independence across companies. The average board size counted approximately 10.77 members while the standard deviation was 2.89 which indicates moderate diversity in the sizes of boards. Analysis of financial performance revealed that firms averaged an ROA of 8.80%, an ROE of 18.25%, and a Net Profit

Table 1
Descriptive Statistics of Data Collection

	Year	Independent Directors %	Board Size	ROA	ROE	Net Profit Margin
count	150	150	150	150	150	150
mean	2021.5	5.726666667	10.76666667	8.801333	18.24853	13.37833333
std	1.713546501	2.052651475	2.890430094	7.396675	14.93023	9.192754764
min	2019	0	6	-9.38	-47.9	-9.58
25%	2020	5	9	3.1675	11.435	7.055
50%	2021.5	6	10	6.99	16.635	12.67
75%	2023	7	12	13.285	22.0325	19.0375
max	2024	13	22	31.34	66	40.34

Margin of 13.38%, with standard deviations of 7.40%, 14.93%, and 9.19% indicating significant disparities in financial results across the firms.

Table 2, reveal the following correlations

Governance and Performance Correlation: An effective governance structure featuring more independent directors and an ideal board size tends to lead companies toward better financial results as measured by ROA, ROE, and net profit margin.

- Variability Observations: The differences in financial performance indicators reflect how selected companies operate under distinct

Table 2
Correlation Analysis

	Year	Inde-pendent Directors	Board Size	ROA	ROE	Net Profit Margin
Year	1	0.020035119	-0.075205283	0.076578996	0.116063533	0.065990516
Independent Directors	0.020035119	1	0.774225013	0.074397467	0.120873621	-0.03796767
Board Size	-0.075205283	0.774225013	1	-0.097258789	0.064443932	-0.082048918
ROA	0.076578996	0.074397467	-0.097258789	1	0.781700389	0.339872842
ROE	0.116063533	0.120873621	0.064443932	0.781700389	1	0.436892214
Net Profit Margin	0.065990516	-0.03796767	-0.082048918	0.339872842	0.436892214	1

market conditions and strategic choices while maintaining individual operational efficiencies.

- Risk and Opportunity Analysis: Some firms display risky financial patterns through poor returns and narrow profit margins while successful companies demonstrate best practices for achieving high efficiency and profitability.

The analysis establishes a foundational point for additional research including the exploration of connections between governance attributes and fiscal outcomes as well as sector-based segmentation to delve into complex business dynamics.

Table 3

Regression Analysis

Analysis	R-squared	Adj. R-squared	F-statistic	Prob (F-statistic)	Inde-pendent Directors Coefficient	Inde-pendent Directors P-value	Board Size Coefficient	Board Size P-value
ROA	0.0654	0.0527	5.1435	0.0069	1.3466	0.0035	-0.9893	0.0026
ROE	0.0167	0.0034	1.2506	0.2894	1.2888	0.1724	-0.3758	0.5743
Net Profit Margin	0.0084	-0.0051	0.6198	0.5394	0.2857	0.6237	-0.4180	0.3128

Regression given in table 3, illustrates the relationship as follows.

- Relation between governance and performance: There are strong positive correlations between independent directors and board size and the financial metrics, which suggests that the governance framework can play a role in performance, but that role is rather nuanced and dependent on context.
- Efficiency and profitability: Strong correlations between ROA, ROE, and net profit margin indicate a strong relation between efficiency and profitability, and integrated management of these can potentially be beneficial.
- Board decision-making: The strong negative correlations between board size and the financial metrics indicate a negative impact of larger boards on quick decision-making, suggesting that there is an optimal board size.

Overall, some correlations are strong, but others are rather weak and indicate that the financial performance is not just a result of a single factor and that other factors play a role in determining financial performance as well. Additional analyses, such as a multivariate regression or causal analysis, could strengthen the analysis of the relation between governance and financial performance.

4. Conclusion

Research on corporate governance has emphasized board structure elements such as director independence and board size. Theoretical frameworks predict independent directors will enhance governance and financial outcomes but empirical studies show varied results. Bigger boards indicate greater diversity and resources yet struggle with operational inefficiencies and higher monitoring expenses. The analysis demonstrates a partial validation of these theories as independent directors show a significant positive impact on ROA which may suggest better monitoring effectiveness. The insignificant results for ROE and Net Profit Margin models demonstrate mixed empirical outcomes which might stem from the complexity of other uncontrolled variables that impact these results.

The research investigated how board independence and board size within corporate governance frameworks affected financial performance indicators like ROA, ROE, and Net Profit Margin in Indian companies. The analysis uncovers multiple insights concerning how governance affects company performance.

Hypothesis 1 (H1) received support from the findings which demonstrate independent directors have a positive and significant effect on ROA thereby indicating that more independent boards lead to better asset utilization. The second hypothesis (H2) receives support because research demonstrates that bigger board sizes lead to decreased ROA because of inefficiencies and higher agency costs.

Research shows that independent directors and board size together fail to produce any meaningful impact on ROE. Equity returns for Indian firms appear to be influenced by additional factors beyond board independence and size.

The results confirm that independent directors and board size have no significant effect on Net Profit Margin according to Hypotheses 5 (H5) and 6 (H6) because their influence does not directly translate to profitability ratios.

The research confirms that board independence boosts asset efficiency yet larger board sizes negatively affect company financial performance. The study results demonstrate vital aspects that should guide corporate governance reforms in India to improve company performance by refining board structures.

References

[1] F. Charão and O. Oliveira, "Overview of BRICS countries' initiatives on best corporate governance practices," *Developments in Interdisciplinary Research and Practices* (2023). doi: 10.56238/devopinterscie-028.

[2] A. Dash and S. Mohanty, "The mediating effect of a firm's corporate reputation and sustainability practices in translating CSR into competitive performance in Indian ESG companies," *Society and Business Review*, vol. 18, no. 4, pp. 691–709 (2023). doi: 10.1108/sbr-02-2023-0045.

[3] B. Fernandes and M. Dias, "Hidden politics? An empirical study on factors influencing business lobbying in Brazil," *American Journal of Industrial and Business Management*, vol. 14, no. 4, pp. 440–461 (2024). doi: 10.4236/ajibm.2024.144023.

[4] A. Grossman, N. Sahyoun, and I. Twardus, "'Et tu, bruté?': Do audit committees besmirch investors' desire for increased disclosures?" *Journal of Corporate Accounting & Finance*, vol. 35, no. 2, pp. 385–403 (2024). doi: 10.1002/jcaf.22692.

[5] I. Gulzar and S. Haque, "The implications of corporate governance on the working capital efficiency of manufacturing companies: Evidence from emerging market," *Jindal Journal of Business Research,* vol. 12, no. 2, pp. 160–173 (2023). doi: 10.1177/22786821231166789.

[6] Z. Hameed and K. Renganathan, "Papel dos intermediários de investimento institucional no controle corporativo: Uma análise crítica," *Revista de Gestão Social e Ambiental*, vol. 18, no. 2, p. e04862 (2024). doi: 10.24857/rgsa.v18n2-059.

[7] A. Hardana, L. Hasibuan, and S. Hasibuan, "Tax aggressiveness, capital structure, corporate governance dan firm performance," *International Journal of Economics, Research and Finance Applications* (IJERFA), vol. 1, no. 2 (2023). doi: 10.55227/ijerfa.v1i2.28.

[8] H. Helmi, M. Adam, and A. Amri, "The influence of organizational culture and internal control on corporate performance mediated by corporate governance in PT Medco E&P Malaka," *International Jour-*

nal of Scientific and Management Research, vol. 6, no. 3, pp. 71–81 (2023). doi: 10.37502/ijsmr.2023.6305.

[9] W. Idawati, S. Pranoto, and H. Prabowo, "Corporate governance mechanism towards earnings management: Does financial distress could make it better?" *Research Journal of Finance and Accounting* (RJFA), vol. 15, no. 2 (2024). doi: 10.7176/rjfa/15-2-06.

[10] G. Lisiantara, J. Jaeni, A. Nugroho, and P. Hardiningsih, "Corporate characteristics on firm values with moderation of good corporate governance," *Fokus Ekonomi Jurnal Ilmiah Ekonomi*, vol. 18, no. 2, pp. 209–220 (2023). doi: 10.34152/fe.18.2.209-220.

[11] B. Khan and N. Khan, "Corporate governance paradigm: Private healthcare providers of Dubai," *JSMS*, vol. 26, no. 3, pp. 401–417 (2023), doi: 10.47974/JSMS-1035.

[12] J. Oliveira, "Corporate governance mechanisms and financial performance: An analysis of listed companies in Brazil," *International Journal of Strategic Management* (IJSM), vol. 3, no. 1, pp. 53–67 (2024). doi: 10.47604/ijsm.2483.

[13] J. Ooko, "Ownership structure, agency costs, board independence and corporate risk among firms listed at the Nairobi Securities Exchange, Kenya," *Asian Journal of Economics, Business and Accounting*, vol. 24, no. 12, pp. 50–64 (2024). doi: 10.9734/ajeba/2024/v24i121591.

[14] T. Otto, "Corporate governance, agency costs, and financial performance: A systematic literature review," *International Journal of New Trends in Commerce and Justice* (INTCJ), vol. 1, no. 1, pp. 1–15 (2024). doi: 10.69659/rynzhy09.

[15] M. Poojan, N. Parikh, K. Rao, and S. Patel, "A study on impact of corporate governance on financial performance of the selected IT companies in India," *Gap Interdisciplinarities - A Global Journal of Interdisciplinary Studies*, vol. 6, no. 3, pp. 44–49 (2023). doi: 10.47968/gapin.630007.

[16] A. Pradhan, "Boardroom dynamics: Exploring the intersection of corporate governance and firm performance," *Journal of International Economics Research* (JIER), vol. 4, no. 3 (2024). doi: 10.52783/jier.v4i3.1681.

Received February, 2025