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A Study of Corporate Governance in Selected Small and Mid-Cap Companies in India[1]

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Abstract

The concept of corporate governance which is now an indispensable component of the regulatory system governing corporations worldwide, gained its popularity in the eighties and nineties. Its genesis lies in business scams and failures which took place in many countries. In response to such scams, the issue of corporate governance has risen to prominence amongst the policy makers and researchers. Most of the theories in the literature have accepted the positive association between good governance and superior performance of the firm. However, the focus has mostly been on large listed companies which are more visible. The lack of research on the governance practices of small and mid-cap companies is the key motivating factor behind this study.

The focus of the study is to analyze the extent to which small cap and mid cap companies comply with the best practice corporate governance norms and to empirically study the impact of corporate governance practices on the performance of such companies. Investigations are made to determine whether they are simply 'box ticking' in complying with Corporate Governance norms or are they really going beyond the minimum standard mandated by the company laws and exchange regulations.

***Keywords**: Corporate Governance, Small and Mid-Cap Companies, Firm.*

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INTRODUCTION

Globally, corporate governance has become a buzzword in the corporate jargon especially after a spate of corporate failures, frauds and accounting scandals. The dramatic failures of Enron, WorldCom, Tyco, Arthur Anderson in USA, Northern Rock in UK, Satyam computers in India and the recent financial meltdown culminated in an increased interest in the importance of corporate governance and thus the formulation of various new CG codes and frameworks across different countries. The key elements of corporate governance, as accepted world over are transparency, disclosure, accountability and control. In addition, several studies conducted globally, highlight that good governance mechanisms result in improved

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firm's performance and its value. The prior studies examining the impact of CG on firm's performance have focused mainly on the larger band of companies i.e. the large cap companies. This study aims to bridge the void in the published literature by focusing on the governance practices of such small and mid-cap companies.

LITERATURE REVIEW

The following studies examine the relationship between corporate governance and performance of small and medium sized companies.

Disclosure of governance information by small and medium-sized companies in UK was examined by authors Sepideh Parsa, Gin Chong and Ewere Isimoya. The paper investigates the extent of compliance with the governance regulatory requirements by small and medium-sized companies listed on the alternative investment market (AIM) in UK. The paper focuses on AIM-listed companies over a period of three years (2002, 2003 and 2004) and concentrates on their extent of compliance with the corporate governance disclosure guidelines set out by the regulatory bodies. The relationships between the level of governance disclosure and the chosen characteristics were examined in order to highlight those factors that are associated with and affect the level of governance disclosure.

Another empirical study was conducted in New Zealand by authors Krishna Reddy, Stuart Locke, Frank Scrimgeour, Abeyratna Gunasekarage to analyze the corporate governance practices of small cap companies and their financial performance. The purpose of the paper is to examine the effect of corporate governance practices of small cap companies have had on their financial performances. This analysis focuses on the governance variables that have been highlighted by the New Zealand Securities Commission (2004) governance principles and guidelines and also on the governance variables that are supported in the literature as providing an appropriate structure for the firm in the environment in which it operates. The data for 71 small cap companies listed in New Zealand over a five-year period from 2001 to 2005 was analyzed. Pooled data, OLS and 2SLS regression techniques were used and Tobin's Q, ROA and OPINC were used as the dependent variables. The evidence does support the hypothesis that the existence of board independence and audit committee has enhanced firm financial performance, as measured by Tobin's Q.

Corporate governance practices of smaller listed companies in Australia have been analyzed by Gerry Gallery, Natalie Gallery and Kevin Plastow of Queensland University of Technology in 2010-2011. The paper investigates the internal corporate governance attributes of a sample of smaller Australian listed companies (non- top, 300- ASX listed companies) and assesses the extent to which these firms have adopted the Australian Stock Exchange (ASX) corporate governance recommendations. While conformance with the ASX recommendations has increased over time, it is unclear whether the increased conformance has translated into improved performance or if firms are engaged in 'box-ticking' that adds little or no value. If firms have engaged in 'box-ticking' more for the sake of appearance rather than effect, then little or no performance effect could be expected. However, the lower rate of adoption of some of the structural recommendations suggests that 'box-ticking' is not the sole motivation for the changes observed and that firms are being judicious in determining their optimal governance structure.

The corporate governance of Australia's mid-cap companies came into the spotlight after the 2006 Horwath Mid-Cap Corporate Governance Report and the 2007 BDO Kendalls Mid-Cap Corporate Governance Report revealed that corporate governance standards of mid-cap companies were deteriorating. In fact, the reports found a disturbing trend - both a decrease in companies with excellent corporate governance, and an increase in companies with significant corporate governance deficiencies.

Tek Bahadur Lama of University of Western Sydney investigates whether there is economic rationale for governance of best practices particularly as stipulated in the Australian Stock Exchange's (ASX) corporate governance guidelines. This study extends the findings of the 2006 Horwath Mid-Cap Corporate Governance Report that found relatively weak corporate governance practices among Australian listed 'mid-size' companies. The analysis of 126 companies, included in the report based on the availability of necessary data, shows that the firm's level of compliance with governance of best practice is associated with its performance but the association appears tentative only.

OBJECTIVES OF THE STUDY

The study has been conducted to empirically study whether the compliance of Corporate Governance (CG) best practices by Indian listed small cap and mid cap companies has a positive impact on firm's performance. And to explore the nature and degree of compliance of CG best practices in small cap and mid cap companies.

RESEARCH DESIGN AND METHODOLOGY

The research design can be categorized into the following two sections. Each of the approaches has been discussed along with the methodology employed.

Empirical analysis of the impact of Corporate Governance mechanisms on the performance of Small and Mid-Cap Companies

A sample of 188 companies (94 small cap and 94 mid cap) is selected from the BSE small cap index and BSE mid-cap index respectively using the technique of stratified sampling where the different sectors were the different sub groups or strata. The finance and banking companies are excluded out of the sample as the governance provisions for these companies are different from those of other corporate. Data for the 188 companies in the sample were collected for a period of five years i.e. financial year ending 2007, 2008, 2009, 2010 and 2011. Hence the sample consists of 940 observations (188 firms * 5 years). Data relating to CG variables was collected from the 'CG reports' annexed to the 'Annual Reports' of the companies. The performance ratios are computed from the financial data provided by the 'Prowess' database of the Centre for Monitoring Indian Economy (CMIE). The data were analysed using multiple regression models, descriptive statistical tools, ANOVA and processed by using the Statistical Package for the Social Sciences (SPSS) program.

Dependent Variables: Firm's performance in the study is measured using Tobin's Q and Return on Assets.

Independent Variables: The study examines the various dimensions of CG such as board structure and independence, board procedures and effectiveness, audit committee procedures, remuneration committee procedures, disclosure and transparency. On this basis, the empirical model includes the thirteen CG variables as independent variables as shown in the table below.

Control Variables: Based on the literature, two control factors, leverage and firm size, are included in the theoretical model designed for this study.

Table 1: Description of Variables

Variables	Description	Measurement
NNEID	Percentage of non-executive independent directors to the total number of directors on the board of the company	(No. of independent directors)/ (Total No. of Directors)
TNBM	Total number of board meetings held	Actual number of board meetings held
IDABM	Independent directors' percentage attendance in board meetings	Value zero if percentage is 60% or less and one if it is 61% or more
IDPAAGM	Independent directors' percentage attendance in AGM	Value zero if percentage is upto 50% and value one if it is 51% or higher.

CMD	Chairman of board and managing director's position is held by the same person or not	Value zero if it is same and one if it is different.
NACM	Number of audit committee meetings held	Value zero if up to four meetings are annually, and value one if five or more meetings held being held
NMemAC	Number of members in audit committee	Value zero if number is upto three and value one if it is four or more
PID in ACM	Percentage of audit committee members attending the audit committee meetings.	Value zero if percentage is upto 75%, otherwise it is one
CC	Chairman of company being independent or non-independent	Value zero if chairman is non-indepe-ndent, otherwise it is one
RDP	Disclosure of Retiring directors' profile in the CG report.	Value zero if there is no disclosure, otherwise one.
NSHM	Disclosure of the number of shareholders general meetings in the CG report.	Value zero if no disclosure, otherwise one.
CompC	Compensation or remuneration committee existing in the company or not.	Value zero if no such committee has been formed otherwise one.
NCM	Disclosure of number of compensation meetings in the CG report	Value zero if details are not given in the report, otherwise one.
Fsize or Log TA	Firm's Size	Natural log of total assets as reported annually
Lev or DE ratio	Leverage	Total Debt/Total Equity
TQ	Tobin's Q	Total Market Value of a Firm/ Total assets
ROA	Return on Assets	[Net income + Interest expense (1-Tax total assets rate)]

Empirical Model: The multiple regression analysis is performed on the dependent variables, Tobin's Q and ROA, to test the relationship between the independent variables with firm performance.

$$TQ = \beta_0 + \beta_1 NNEID + \beta_2 TNBM + \beta_3 IDABM + \beta_4 IDPAAGM + \beta_5 CMD + \beta_6 NACM + \beta_7 NMemAC + \beta_8 PID\ in\ ACM + \beta_9 CC + \beta_{10} RDP + \beta_{11} NSHM + \beta_{12} CompC + \beta_{13} NCM + \beta_{14} Fsize + \beta_{15} Lev + \varepsilon$$

$$ROA = \beta_0 + \beta_1 NNEID + \beta_2 TNBM + \beta_3 IDABM + \beta_4 IDPAAGM + \beta_5 CMD + \beta_6 NACM + \beta_7 NMemAC + \beta_8 PID\ in\ ACM + \beta_9 CC + \beta_{10} RDP + \beta_{11} NSHM + \beta_{12} CompC + \beta_{13} NCM + \beta_{14} Fsize + \beta_{15} Lev + \varepsilon$$

Examination of the Nature and Degree of Compliance of Corporate Governance Best Practice in Small and Mid-Cap Companies

In order to determine whether the small and mid-cap companies are simply 'box ticking' or complying with the best practices of CG in letter and spirit, an analysis is conducted exploring the nature and degree of compliance of CG best practice in small and mid-cap companies. Statistical techniques are employed using Microsoft excel to compute the percentage of sample companies which have adopted the best practice CG norms for each of the five years under study (i.e. 2007-2011).

ANALYSIS AND RESULTS

The analysis has been categorized under two sections- section A (small cap companies) and section B (mid cap companies). Analyses for the first and last year under our study are presented below.

Section A – Small Cap Companie's Analyses: The following section analysis the impact of corporate governance mechanisms on companies' performance. The output tables produced using SPSS software are interpreted and presented for the first and last year under study.

Financial Year 2006-2007

Case I: Linear multiple regression is run on the independent variables under study using ROA as a dependent variable.

Table 2: Model Summary

R	R^2	Adjusted R^2	Std. Error of the Estimate	R^2 Change	F Change	Df1	Df2	Sig. F Change
0.600	0.360	0.237	10.182	0.360	2.926	15	78	0.001

R^2 equal to 0.36 which means 36% of the variation in the dependent variable i.e. ROA is caused by the independent variables i.e. CG variables. The p value for F statistic is .001 i.e. less than 0.05 which indicates that at least one of the independent variables is a significant predictor of the dependent variable.

Table 3: Coefficients

Dependent Variable	Unstanda-rdized coeffiecients		Standar-dized Coefficients				95% Confi-dence Inter-val for B		
	B	Std Error	B	t	Sig. 2 Tail	Sig. 1 Tail	Lower Bound	Upper Bound	VIF
Constant	18.93	15.0		1.26	0.21	0.11	-11.10	48.95	
NNEID	-12.41	7.95	-0.16	-1.56	0.12	0.06	-28.24	3.42	1.21
TNBM	-0.73	0.43	-0.18	-1.71	0.12	0.06	-1.59	0.13	1.39
IDABM	-6.77	3.77	-0.21	-1.79	0.14	0.07	-14.28	0.75	1.64
IDPAAGM	9.85	4.25	0.24	2.32	0.02	0.01	1.38	18.32	1.28
CMD	5.47	3.63	0.21	1.51	0.10	0.05	-1.77	12.70	2.39
NACM	-0.36	2.62	-0.02	-0.14	0.89	0.45	-5.57	4.85	1.55
NMemAC	1.32	2.55	0.06	0.52	0.61	0.30	-3.76	6.39	1.45
PID in ACM	-0.72	2.50	-0.03	-0.29	0.78	0.39	-5.69	4.26	1.34
CC	-3.38	3.21	-0.14	-1.05	0.30	0.15	-9.76	3.01	2.26
RDP	-10.32	4.67	-0.23	-2.21	0.03	0.02	-19.62	-1.02	1.36
NSHM	15.19	11.7	0.13	1.30	0.20	0.10	-8.13	38.5	1.31
CompC	16.50	4.52	0.71	3.65	0.00	0.00	7.50	25.5	2.60
NCM	-17.20	4.61	0.72	-3.73	0.20	0.10	-26.37	-8.02	2.50
LogTA	-0.71	0.92	-0.08	-0.77	0.44	0.22	-2.55	1.13	1.34
D/E	-2.18	0.90	-0.24	-2.42	0.02	0.01	-3.97	-0.38	1.18

Two variables with p values less than 0.05 are IDPAAGM and CompC. Hence these two variables are significant in explaining variations in ROA. Therefore it can be said that independent directors' attendance in board meetings and existence of a compensation committee are good predictors of ROA. Furthermore, multicollinearity does not exist because the VIF (variance inflation factor) scores are less than 3.

Case II: Linear multiple regression is run on the independent variables under study using Tobin's Q as a dependent variable- The p value obtained for F statistic is 0.002 which is less than 0.05. Hence the model is useful in predicting the variation in Tobin's Q. Three variables are good predictors of Tobin's Q at 5% level of significance. They are NNEID, IDABM and NACM as p value for these three variables is less than or equal to 0.05.

Financial Year 2010-2011

Case I: Linear multiple regression is run on the independent variables using ROA as a dependent variable- R^2 value obtained is 0.453 which means 45.3% of the variation in ROA is explained by the predictors in the model. The CG variable which contributes significantly in explaining variations in ROA are IDPAAGM and NSHM as the p value corresponding to the t statistic for these variables is less than 0.05. Hence they are statistically significant at a=5% level of significance.

Case II: Linear multiple regression is run on the independent variable using Tobin's Q as a dependent variable- In this case, 53.5% of the variation in Tobin's Q is explained by the predictors in the model. F statistic is statistically significant at 5% level of significance. The CG variables which contribute significantly in explaining variations in Tobin's Q are NNEID and IDABM.

Section B- Mid Cap Companie's Analyses

The sample of mid cap companies consists of 94 companies selected from the BSE mid cap index. The output tables produced using SPSS software are interpreted for the first and last year under study.

Financial Year 2006-2007

Case I: Linear multiple regression is run on the independent variables under study using ROA as a dependent variable- F statistic of 1.37 with p value of 0.189 is statistically insignificant at 5% level of significance. It means that the model is not useful in predicting the value of the dependent variable.

Case II: Linear multiple regression is run on the independent variables under study using Tobin's Q as a dependent variable- It was found that the F statistic of 3.02 with p value of 0.001 is statistically significant at 5% level of significance. It means that the model is useful in predicting the value of the dependent variable. The CG variables which contribute significantly in explaining variations in Tobin's Q are NNEID and CMD.

Financial Year 2010-2011

Case I: Linear multiple regression is run on the independent variables under study using ROA as a dependent variable- It results in an F statistic of 4.02 with p value of 0.000 is statistically significant at 5% level of significance. The CG variable which contributes significantly in explaining variations in ROA is IDABM.

Case II: Linear multiple regression is run on the independent variables under study using Tobin's Q as a dependent variable- In this case, R^2 value of 0.483 means 48.3% of the variation in Tobin's Q is caused by the independent variables in the model. The CG variables which contribute significantly in explaining variations in Tobin's Q are TNBM and CMD.

Level of Compliance to Best Practice Corporate Governance Norms- Whether Simply 'Box Ticking' or Going beyond the Minimum Mandatory Standard

The Table 4 and 5 below show the percentage of sample companies which have adopted the best practice CG norm for each of the five years under study. Mid- Cap companies have moved progressively to adopt the best practices in CG, with over all percentage of adoption rising over the years i.e. 55% in FY07, 61% in FY08, 62% in FY09, 62% in FY10 and 66% in FY11. It can be seen that the adoption percentage of variable TNBM (range 70%-90%) is much higher and that of NNEID (range 20%-30%), IDABM (range 20%-45%) and IDPAAGM (range 10%-20%) is much lower i.e. although the number of board meetings held annually are more than the

Table 4: Level of Compliance of Mid Cap Companies

Variable	Best Practice CG Norm	FY 07	FY 08	FY 09	FY 10	FY 11
Percentage of sample companies complying above minimum CG standard						
NNEID	Value More than 50%	21	19	32	23	28
TNBM	Value More than Four	89	82	83	83	77
IDABM	Value more than 60%	24	29	29	40	45
IDPAAGM	Value more than 50%	13	16	11	21	20
CMD	Separated position of chairman from that of MD	61	67	76	71	77
NACM	Value more than five	53	57	61	61	52
NMemAC	Value more than three	56	67	71	68	77
PID in ACM	Value more than 75%	45	56	53	55	64
CC	Independent Chairman	56	74	65	68	73
RDP	Retiring directors profile disclosed	87	88	85	85	96
NSHM	Disclosure is made in annual report	100	100	99	100	100
CompC	Existence of compensation/ remuneration committee	59	76	76	70	80
NCM	Disclosure of the number of such meetings is made	48	66	67	62	68
Overall adoption	Average - 61.2% % by mid cap cos.	55	61	62	62	66

Table 5: Level of Compliance of Small Cap Companies

Variables	Best Practice CG Norm	FY07	FY08	FY09	FY10	FY11
Percentage of sample companies complying above minimum CG standard						
NNEID	Value More than 50%	30	35	35	40	38
TNBM	Value More than Four	79	80	80	84	77
IDABM	Value more than 60%	15	30	32	41	32
IDPAAGM	Value more than 50%	9	22	41	44	47
CMD	Separated position of chairman from that of MD	72	63	71	65	71
NACM	Value more than five	49	55	51	53	44
NMemAC	Value more than three	56	59	62	57	55
PID in ACM	Value more than 75%	38	69	78	65	55
CC	Chairman being independent	59	61	66	57	44
RDP	Retiring directors profile disclosed	93	96	93	93	66
NSHM	Disclosure is made in annual report	99	100	99	99	90
CompC	Existence of compensation/ remuneration committee	46	77	72	78	78
NCM	Disclosure of the number of such meetings is made	37	66	59	60	60
Overall adoption % by small cap cos.	Average-60%	52	62	64	64	58

minimum prescribed number of four but the percentage of independent directors attending such board meetings is very low. A good percentage of companies have formed a compensation committee (range 60%-80%) but the level of activity of this committee as measured by the number of meetings of compensation committee (range 45%-70%) held annually has remained low.

The average of all five years adoption percentage of small cap companies (60%) is lower than that of mid cap companies (61.2%). The adoption percentage of variable TNBM (range 70%-80%) is much higher and that of NNEID (range 30%-40%), IDABM (range 14%-32%) and IDPAAGM (range 8%-47%). CMD (range 60%-68%) has more or less the same percentage of adoption over the years. Although a compensation committee exists in most of the companies (range 45%-78%) but level of activity of this committee as measured by the number of meetings of compensation committee (range 35%-65%) held annually has remained low.

FINDINGS OF THE ANALYSES AND INTERPRETATION

The key findings of the analyses and its interpretations have been discussed in the following section.

Upward Trend in the Goodness of Fit over the Years

It is observed for both small cap and mid cap companies; the R Squared value of the regression model has shown an upward trend over the years. In other words the extent to which CG variables influence the firm's performance has become stronger in the recent years of our study. This increasing association can be attributed to the various reforms introduced in the Indian corporate law in the year 2006 and 2009.

After the corporate governance scams worldwide, SEBI revised and improvised Clause 49 of the Listing Agreement. Also in the year 2009, Ministry of Corporate Affairs released a set of voluntary guidelines which focus on various corporate governance matters to bring more transparency and objectivity.

Variables Showing Significant Impact on Firm's Performance

The independent directors are legally required to protect the interest of the shareholders, and to enhance the firm's return and value. A board which comprises of higher percentage of independent directors could signify objectivity and answerability to shareholders, and assurance of their compliance with necessary CG codes. Our empirical results also demonstrate a positive significant association between directors' independence and firm's performance. As observed under section A, IDPAAGM has a significant positive impact on firm's ROA in the year 06-07 and 10-11. Variable IDABM significantly and positively impacts Tobin's Q in the year 06-07 and 10-11.

Another important CG issue is related to separation of the position of chairman from that of managing director. As observed under section B, CMD positively and significantly impacts ROA in the year 06-07 and Tobin's Q in the year 06-07 and 10-11.

Compensation/Remuneration committees are responsible for structuring CEO remuneration packages, evaluating management's performance. Effective remuneration committee structures lead to appropriate remuneration packages linked to strong incentives. As seen under section-A, variable CompC has a positive significant impact on firm's performance measured by ROA in the year 06-07.

The audit committee is one of the most significant governance instruments which ensures that a corporation produces appropriate, sufficient and reliable information that stockholders can use to evaluate the performance of the business. The results obtained show audit committee's independence and frequency of its meetings, existence of an active remuneration committee have positive influence on firm's financial performance.

Impact of CG Provisions on Firm's Value (Tobin's Q)

ROA measures the operating performance of the firm where as Tobin's Q is a measure of the firm's value. Our empirical results demonstrate that the model's goodness of fit is stronger when firm's performance is measured using Tobin's Q rather than ROA. In other words, good corporate governance practices have a greater impact on firm's value than its operating performance. Reason being, firms which adopt good governance norms send positive signals in the market and it is this signal that affects firm value.

Level of Compliance of Mid Cap Companies Better than that of Small Cap Companies

It can be observed that the average of all five years adoption percentage to CG best practices for mid-cap companies 61.2% and that of small cap companies is 60%. The main reason which can be attributed for the same is the cost of compliance. Compliance with various structural and disclosure CG norms like formation of different committees, holding frequent meetings and disclosure of their details in the annual reports poses a financial burden on companies and thus cost becomes a constraint for smaller companies.

Some Firms engage in 'Box Ticking': A good percentage of mid cap companies have formed a compensation committee (range 60%-80%) but the level of activity of this committee as measured by the number of meetings of compensation committee (range 45%-70%) is relatively low. This hints towards window dressing of annual reports wherein simply formation of a committee leads to compliance with the non-mandatory clause of the listing agreement although the committee mostly remains inactive.

IMPLICATIONS AND SUGGESTIONS OF THE STUDY

The research findings are used to determine the issues and noteworthy features of corporate governance practices in Indian small and mid-cap companies, in order to make suggestions to improve the corporate governance environment of such companies.

Enhance the Effectiveness of Independent Directors

Role of independent directors is of utmost importance in ensuring high standards of corporate governance and hence improving the firm's performance. The independent directors appointed on the board must possess the required skills, qualifications, knowledge regarding the company's affairs so as to fulfill the demands of their position. It has been observed in the present study, presence of higher percentage of independent directors on the board, independent directors' percentage attendance in AGM and board meeting has a positive influence on the firms' performance as it improves the quality of governance.

However this progressive impact on performance can be found when independent directors behave like 'external protectors' and bring about transparency, accountability and fairness in the governance of companies. They are instigated on board because of their high monitoring ability with aimed at reducing the agency cost arising out. Independent directors are delegated by law to protect the interest of stockholders and to enhance firm's return and value. Hence the independent directors appointed must possess adequate qualification, expertise and knowledge about business and management to carry out their responsibilities. They should continuously seek information which is necessary to carry out their charge and be informed about the changes in corporate laws and regulations which can contribute to an effective governance system.

Split Chairman and CEO Roles

Separating the position of chairman from that of CEO/MD is another factor which leads to better firm's performance. This has been confirmed by various other studies on corporate governance that one person holding both these positions can lead to a totalitarian form of structure which indicates conflict of interest and can be used to abuse power.

Independent and Active Audit Committee

The Audit Committee plays a crucial role in ensuring good corporate governance and thus enhancing firm's performance. Audit committee's effectiveness in discharging its oversight and monitoring function depends upon various factors like its independence, level of activity measured by its size and meeting frequency and financial literacy.

An important factor which determines the effectiveness of the audit committee to implement, monitor and continue good corporate governance practices for the benefit of the company and its stakeholders is its level of activity. An active audit committee with existence of a number of members (Two Third of which are independent directors as per Companies Act 1956) and which meets frequently can be more alert in reducing the probability of occurrence of errors, omission or fraud and thus reduce the probability of occurrence of corporate governance scams and scandals.

An Effective Remuneration Committee

The present study has found a positive association between firm's performance and existence of a remuneration/ compensation committee. This positive association can be attributed to the role of remuneration committee in fixing the pay packages in such a way that rewards are linked to corporate and individual performance.

However the remuneration committee can be effective if it has the crucial features grounded in global corporate governance codes and principles such as: it should be established and comprise of non-executive directors with the chairman and the majority being independent non-executive directors; the remuneration committee should be accountable to recommend to the board the compensation policy as well as all aspects of compensation for key officials including all the executive directors and the CEO.

CONCLUSION, CONTRIBUTION AND LIMITATIONS

With an attempt to bridge the gap in the existing literature on corporate governance, wherein, the focus of studies have mostly been the large caps, the present study provides evidence of governance and performance relationship in the context of small and mid-cap companies listed in India. The empirical results of the study suggest that the extent to which the CG mechanisms impact firms' performance has become stronger in the recent years of our study. Firms which adopt good governance norms send positive signals in the market which in turn leads to a more satisfied set of stakeholders. Both mid-caps and small-caps have shown an upward trend in the level of compliance to CG best practices. Although it has been observed that mid-caps have relatively better compliance than the small caps. This can be attributed to the cost of compliance which poses a financial burden on the smaller companies. The study raises concerns about the 'box-ticking' exercise merely to comply with mandated standards. This is suggested by the descriptive statistics, that a good percentage of sample companies have formed the committees but the level of activity of the committee as measured by the number of meetings of the committee is relatively low.

As with most empirical studies, our research is not free from limitations, and it must be acknowledged while interpreting the results. The direction of causality remains indeterminate, as profitable firms may have good governance practices rather than the other way round. Relatively small sample size can be another limitation of the study. However, despite the aforesaid limitations, sufficient data has been collected and empirically analyzed to find interpretable results which have answered the objectives of our study.

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