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IMPACT OF BOARD GOVERNANCE ON FINANCIAL PERFORMANCE OF FMCG COMPANIES LISTED ON BSE: EVIDENCE FROM A SYSTEM DYNAMIC PANEL-DATA ESTIMATION MODEL

Impact of Board Governance on Financial Performance of FMCG Companies Listed on BSE: Evidence from a System Dynamic Panel-Data Estimation Model

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ABSTRACT:

Corporate governance has gained significant importance due to its role in enhancing transparency, accountability, and organizational performance. This study investigates the effect of board governance mechanisms on the financial performance of Fast Moving Consumer Goods (FMCG) companies listed on the Bombay Stock Exchange (BSE).

Using a system dynamic panel-data estimation model, the study examines a balanced panel of 30 FMCG firms over a five-year period. Return on Assets (ROA) is employed as a proxy for financial performance, while board size, board independence, number of board meetings, chairman duality, number of women directors, and number of board committees are considered as board governance variables.

The findings reveal that board size has a significant positive influence on financial performance, whereas board independence exhibits a significant negative relationship with ROA. Other governance variables do not show a statistically significant effect. The results highlight the importance of an optimal board structure in improving firm performance within the FMCG sector

Keywords: Corporate Governance, Board Governance, Financial Performance, FMCG Sector, Panel GMM Model, Return on Assets

INTRODUCTION:

Corporate governance refers to the framework of rules, practices, and processes through which a company is directed and controlled. It establishes the distribution of rights and responsibilities among various stakeholders, including shareholders, management, the board of directors, and other interested parties. Effective corporate governance promotes ethical conduct, transparency, and accountability, thereby strengthening investor confidence and ensuring sustainable organizational growth.

In India, corporate governance has evolved significantly following major corporate failures and financial scandals, which exposed weaknesses in board oversight and managerial accountability. Regulatory bodies such as the Securities and Exchange Board of India (SEBI) introduced governance reforms, including Clause 49 of the Listing Agreement, to enhance board effectiveness and protect shareholder interests.

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The FMCG sector plays a vital role in the Indian economy due to its contribution to employment generation, consumption demand, and economic stability. Despite its importance, limited empirical evidence exists on the relationship between board governance and financial performance in the FMCG sector. This study attempts to bridge this research gap by examining whether board-level governance mechanisms influence the financial performance of FMCG companies listed on the BSE

LITERATURE REVIEW

Board Size

Prior studies provide mixed evidence regarding the effect of board size on firm performance. Several researchers argue that larger boards improve performance by offering diverse expertise and improved monitoring. Conversely, other studies suggest that excessively large boards may reduce efficiency due to coordination problems and slower decision-making.

Board Independence

Board independence is often associated with improved monitoring and reduced agency conflicts. While some empirical studies report a positive association between independent directors and firm performance, others find a negative or insignificant relationship, suggesting that excessive independence may hinder strategic decision-making.

Number of Board Meetings

Frequent board meetings are considered an indicator of active monitoring. Empirical findings remain inconclusive, with some studies reporting a positive impact on performance, while others observe no relationship or even a negative effect.

Board Committees

Board committees enhance governance by focusing on specialized oversight functions such as audit, remuneration, and risk management. Properly structured committees are generally expected to improve firm performance.

Chairman Duality

Chairman duality occurs when the same individual serves as both chairman and CEO. While unified leadership may enhance decision-making efficiency, it may also weaken board independence and oversight.

Women Directors

Gender diversity on boards has attracted growing attention in governance literature. Some studies suggest that women directors enhance ethical standards and decision quality, while others find no significant impact on financial performance.

STATEMENT OF THE PROBLEM

Corporate failures across the globe have highlighted the consequences of ineffective board oversight and weak governance structures. In India, incidents such as the Satyam scandal raised concerns regarding board accountability and composition. Although governance reforms have strengthened regulatory compliance, the effectiveness of board governance in improving firm performance remains an empirical question, particularly in the FMCG sector. This study addresses this gap by analyzing the impact of board governance variables on the financial performance of FMCG companies listed on the BSE.

AIM AND OBJECTIVES

Aim

To examine the impact of board governance mechanisms on the financial performance of FMCG companies listed on the BSE.

Objectives

To analyze the relationship between board size and financial performance. To examine the effect of board independence on firm performance. To assess the impact of board meetings on financial performance. To evaluate the influence of board committees on firm performance. To examine the effect of chairman duality on financial performance. To study the impact of women directors on the board on firm performance.

MATERIAL AND METHODS:

Research Design

The study adopts a quantitative and explanatory research design to examine the impact of board governance mechanisms on the financial performance of FMCG companies listed on the Bombay Stock Exchange (BSE). A panel data approach is used, as it allows simultaneous analysis of cross-sectional and time-series variations among firms.

Population and Sample

The population of the study consists of all FMCG companies listed on the Bombay Stock Exchange. From this population, a sample of 30 FMCG companies was selected using the simple random sampling technique. The study covers a period of five financial years, forming a balanced panel dataset.

Data Source

The study is entirely based on secondary data, collected from:

- Published annual reports of selected FMCG companies
- Bombay Stock Exchange (BSE) database
- Corporate governance disclosures available on company websites

The data collected were cross-verified to ensure reliability and consistency.

Variables of the Study

Dependent Variable

Financial Performance: Measured using Return on Assets (ROA), which reflects the efficiency of firms in generating profits from their total assets.

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For econometric analysis, the natural logarithm of ROA was used.

Independent Variables

Board governance is represented by the following variables:

- Board Size (BSIZE): Total number of directors on the board
- Board Independence (BINDE): Number of independent directors on the board (log transformed)
- Board Meetings (BMEET): Number of board meetings conducted in a financial year
- Board Committees (BCOMM): Total number of committees constituted by the board
- Chairman Duality (CEODUA): Dummy variable (1 if chairman and CEO are the same person, 0 otherwise)
- Women Directors (WOM): Number of female directors on the board

Model Specification

To examine the relationship between board governance and financial performance.

Analytical Tools and Techniques

The analysis was carried out using econometric techniques suitable for panel data. The following tools were employed:

- Descriptive statistics
- Correlation analysis
- Pooled Ordinary Least Squares (OLS) model
- Fixed Effects and Random Effects models
- Hausman specification test
- Tests for linearity, multicollinearity, autocorrelation, heteroskedasticity, and stationarity
- Endogeneity tests using Durbin and Wu-Hausman procedures

Since the dataset exhibited heteroskedasticity, non-normality, and endogeneity, the study employed a System Dynamic Panel-Data Estimation Model (System GMM) to obtain consistent and unbiased estimates.

Software Used

The statistical analysis was performed using STATA software, which is widely used for advanced panel data econometric analysis.

METHODOLOGY

The study is based on secondary data collected from the annual reports of FMCG companies listed on the Bombay Stock Exchange. A sample of 30 FMCG firms was selected using a simple random sampling technique. The study period covers five financial years, forming a balanced panel dataset.

Variables of the Study

Dependent Variable:

- Financial Performance measured by Return on Assets (ROA)

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Independent Variables:

- Board Size
- Board Independence
- Number of Board Meetings
- Number of Board Committees
- Chairman Duality
- Number of Women Directors

Analytical Tools

The study employs descriptive statistics, correlation analysis, panel regression techniques, and diagnostic tests for linearity, multicollinearity, autocorrelation, heteroskedasticity, stationarity, and endogeneity. Due to the presence of endogeneity and heteroskedasticity, a System Dynamic Panel-Data Estimation Model (Panel GMM) is applied for final analysis.

RESULTS AND DISCUSSION

The empirical results from the system GMM estimation reveal that board size has a statistically significant positive effect on financial performance, indicating that a moderately larger board enhances monitoring efficiency and strategic decision-making in FMCG firms. Conversely, board independence shows a significant negative relationship with ROA, suggesting that excessive reliance on independent directors may limit firm-specific knowledge and strategic flexibility.

Other governance variables, including board meetings, board committees, chairman duality, and women directors, do not exhibit a significant impact on financial performance. These findings suggest that merely increasing governance mechanisms does not guarantee improved performance unless they are optimally structured and effectively implemented

CONCLUSION

The study provides empirical evidence on the relationship between board governance and financial performance in the Indian FMCG sector. The findings emphasize the importance of board size in enhancing firm performance, while also cautioning against excessive board independence. The results highlight that governance quality matters more than governance quantity. Policymakers and corporate decision-makers should focus on optimizing board composition rather than merely complying with regulatory requirements.

Limitations of the Study

- The study considers only board-level governance variables.
- The sample size is limited to 30 FMCG companies.
- The analysis is confined to a single industry.
- The study period is restricted to five years.

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Future research may include multiple industries, a longer time horizon, and additional governance variables to provide more comprehensive insights

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