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Research Article

COMPARISION BETWEEN PRE AND POST COVID- 19 EFFECT ON FIRM PERFORMANCE OF CORPORATE GOVERNANCE

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A R T I C L E I N F O

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A B S T R A C T

The COVID-19 economic external shock may have severe consequences for corporate governance. The study looked at the non-financial sector in Bombay and surveyed 120 businesses in the city for the next two years (2019 and 2020). There is no statistically significant difference between the period before and after the COVID-19 epidemic in terms of company performance, governance structure, and dividend, liquidity, or leverage levels. The study also found that larger boards significantly improve company success. By dividing the sample by year, we discovered, however, that board size is irrelevant in the uncertain times of the current crisis, while board diversity appeared to significantly enhance firm performance during the crisis, in contrast to the prior year, when it had an inverse association with firm performance in both indicators. This research demonstrates how the Coronavirus has affected the connection between company success and corporate governance.

INTRODUCTION

The global economy was hit hard by two crises around the turn of the second decade of the 21st century: the coronavirus epidemic and the fall of prices for hydrocarbons, most notably crude oil. Since the world's issues and contradictions have recently been subjected to a double external shock (the coronavirus pandemic and the global economic recession), it is important to carefully analyse the concepts and solutions of the past that have justified and unjustified themselves.

A slow-burning or creeping crisis takes time to develop and may continue to bubble even after the "hot phase" has passed. There is no way to pinpoint when it starts or when it ends. There may not be a definite answer to the question of what it is until much later in its existence, and even then, the answer may be different. Slow-burning crises include the Iranian-American standoff, refugee flows, climate change, Australian bushfires, and, of course, the COVID-19 pandemic. These issues appear to be eternal and epochal in nature, causing periodic eruptions but never coming to a head.

Consequences of the COVID-19 viral pandemic are severe worldwide, and they have a major effect on the operations of businesses and governments across the world. To address the concerns raised by the pandemic, all stakeholders in the management process are actively seeking out information. Concerning the regulations regulating the conduct of material corporate actions of firms and the publication of information about their activities based on the outcomes of the previous period and in connection to the current period, regulators are considering what modifications are necessary and for how long.

In many ways, the novel coronavirus has been a game-changer for the world. We gained a lot of knowledge from that experience. The COVID-19 affects nearly every facet of human and economic life. People by the lakhs have been laid off from their work in India's corporate sectors. Although the impact on India's corporate sector was relatively minor in FY 2019-20, it would be far more significant in FY 2020 and beyond. Corporate Governance practises throughout Indian businesses have been affected by COVID-19. Disruptions to meetings, dividends, liquidity, disclosure, capital allocation, risk management, and internal control pose commercial risks that might have an effect on corporate operations.

Corporate Governance

In modern economics, the word "corporate governance" is used in a wide range of contexts. The notion is so general that it defies a succinct explanation. One definition of corporate governance is "forms and procedures of firm administration and control over them," as put forth by the International Finance Corporation (IFC). In addition to this definition, experts from the Federal Service for Financial Markets note that capital raising and building up should be a part of corporate governance, since there must be a connection between management and economic performance of commercial units.

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Organization for Economic Co-operation and Development (OECD) definition is the most comprehensive: corporate governance is a system of management and control over a corporation with a mandated structure. Corporate relations players (management, shareholders, etc.) should have a clear understanding of their roles within the system, and the norms for making decisions should be established. Tasks for the corporation, as well as its budget for carrying them out, and its ability to exert authority, are all established within the context of corporate governance. However, there are several constants in business governance regardless of methodology:

- Organized method of running a business and keeping tabs on how it's doing. Top management is responsible for putting the choices made at the annual shareholder meeting into action.
- The organizational framework that specifies how corporate governance roles and duties are allocated.
- Decision-making guidelines, a plan for reaching objectives, and metrics for gauging progress.

Corporate governance, then, establishes consistent "rules of the game" for management, increases stakeholder confidence in the organization, and attracts and retains investors, regulators, and other important parties.

RESEARCH METHODOLOGY

Information on 120 companies trading on the Bombay stock exchange was gathered for this study. Factors pertaining to corporate governance, such as board size, independence, gender diversity, meetings, and audit committee size and audit committee meetings, were culled by hand from the annual reports. All other monetary information, such as financial indicators of business performance, was gathered with the use of DataStream. Before (in 2019) and after (in 2020) the pandemic, we utilized a standard t-test to compare how COVID-19 affected several aspects of governance (2020).

Data Analysis and Interpretation

Descriptive and Correlation Analysis

All of the variables in the research were subjected to a descriptive analysis. Based on the data in Table 1, it appears that the average performance of Bombay-listed businesses has been much worse in recent years compared to the previous period, which may be attributable to the COVID-19 problem. Regardless of the variations, the outcome is an evidence of Bombay companies' dismal performance in recent years. There is a wide range of business performance, as shown by the minimum and greatest values of return on assets (ROA; -.692 and .456, ROE; -2.687 and.973). The median number of directors on a board is 7.109, and over half of those directors are non-executive.

To assess the multicollinearity, we also performed a correlation analysis on all model variables. It can be seen from Table 1 that all of the independent variables have correlation coefficients that are lower than 0.5. Values lower than or equal to 0.7 are often used as evidence against the existence of multicollinearity problems in research. The variance inflating factor (VIF) test was also used to the analysis. All factors ended up with a result of 2.0 or below. Multicollinearity has been disproved by these investigations. Because of this, we were unable to identify any evidence of multicollinearity between these factors.

T-test Analysis

All of the study's variables, both before and after the COVID-19 pandemic, had their means compared in a t-test analysis. Table 2 shows that the COVID-19 epidemic has had a profound impact on all aspects of businesses. This includes their overall performance, corporate governance, dividend payouts, cash flow, and leverage. But the t-test results indicated that there was no statistically significant change between pre- and post-COVID-19. It is important to highlight that the COVID-19 problem has led to the bad performance of corporations, since in 2020, the vast majority of businesses have not demonstrated a profit. This is seen by a decline in ROA, ROE, and EBIT when compared to the previous year. The epidemic has the greatest impact on corporate governance, including board financial qualification, board meeting size, and audit committee membership. The government's response to the pandemic may have discouraged board members from attending meetings, or some board members may have been infected with the disease and unable to continue working or attending board meetings. Directors need to reorganize the board and its operations as soon as possible, if not immediately, because they cannot take on responsibilities during a pandemic.

Table 1 Statistic analysis and correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
ROA	1.000												
ROE	0.812	1.000											
EBIT	0.375	0.411	1.000										
BSIZ	0.196	0.188	0.317	1.000									
BIND	0.137	0.090	0.270	0.603	1.000								
BGD	0.133	0.087	0.349	0.385	0.274	1.000							
BM	-0.179	-0.144	0.208	0.131	0.179	0.150	1.000						
BFQ	0.075	0.072	0.226	0.475	0.287	0.275	0.049	1.000					
ACS	0.103	0.071	0.098	0.332	0.458	0.212	0.023	0.149	1.000				
ACM	-0.163	-0.163	0.081	0.017	0.040	0.047	0.238	0.004	0.016	1.000			
LEV	-0.033	0.048	0.301	0.262	0.150	0.174	0.082	0.205	0.106	0.041	1.000		
LIQ	0.184	0.118	-0.202	-0.152	-0.134	-0.134	-0.197	-0.125	-0.032	-0.079	-0.367	1.000	
DPS	0.375	0.269	0.350	0.078	0.035	0.101	-0.085	-0.044	0.164	-0.084	-0.092	0.213	1.000
VIF	-	-	-	2.03	1.81	1.24	1.12	1.32	1.29	1.06	1.24	1.22	1.09
Mean	.003	-.003	-.046	7.109	3.582	1.173	5.468	3.061	3.314	5.053	.1946	2.21	.027
Std. Dev.	.098	.225	1.404	1.744	1.065	1.082	1.853	1.332	.613	1.883	.1454	3.178	.061
Min	-.692	-2.69	-26.5	4	1	0	2	0	2	1	.001	0	0
Max	.456	.973	.7242	14	8	5	15	7	6	12	.664	34.2	.493
Obs.	376	376	358	376	376	376	376	376	376	376	357	376	376

Table 2 T-test prior and post COVID-19

Variables	Before COVID-19 (2019)		After COVID-19 (2020)		Mean difference	t-test
	mean	Std. Dev.	Mean	Std. Dev.		Mean (post.)- mean (prior)
ROA	.0090714	.0806635	-.014394	.1117991	.0124202	**0.2175**
ROE	.0090714	.1607156	-.014394	.2740242	.0234657	**0.3118**
EBIT	.0296641	.0779113	-.119499	1.973028	.1491633	**0.3156**
BSIZ	7.148936	1.796952	7.069149	1.693178	.079787	0.6580
BIND	3.579787	1.038827	3.585106	1.093584	-.005319	0.9615
BGD	1.170213	1.08108	1.176471	1.085527	-.006257	0.9554
BM	5.611702	1.927363	5.324468	1.769026	.287234	**0.1331**
BFQ	3.18617	1.361196	2.93617	1.294237	.250	**0.0688**
ACS	3.287234	.5780724	3.340426	.6467226	-.053191	**0.4010**
ACM	5.069149	1.065002	5.037234	2.443741	.0319149	0.8697
LEV	.1967428	.1411631	.1925938	.1496269	.0041489	0.7879
LIQ	2.196845	2.875213	2.222618	3.462622	-.025772	0.9375
DPS	.0308743	.0634572	.0237738	.0579577	.0071005	**0.2580**

During the pandemic time, other aspects of businesses have been altered or reduced as well. Liquidity, measured by the quick ratio, has stayed nearly unchanged and even slightly increased, while the dividend per share and leverage level have both decreased by a large but not statistically significant amount. This drop can be attributed to the company's and management's failed attempts to reduce uncertainty risk and fulfill contractual commitments. Therefore, managers try to boost cash reserves and lower debt to weather the operational risks brought on by the COVID-19 epidemic. Overall, public businesses have been influenced in a broad but not profound way in terms of performance governance structure, dividend, and capital structure.

CONCLUSION

We observed that all business attributes, such as performance, corporate governance structure, dividend level, liquidity, and leverage, have been influenced by the COVID-19 problem, though not significantly so. An additional finding from the regression analysis was that the size of the board of directors was the only governance tool that significantly influenced business performance. The sample was separated by year, and the results showed that a large board was not an advantage during this uncertain economic crisis. Intriguingly, whereas gender diversity on boards was found to considerably improve company performance (ROA and ROE) during the crisis, the opposite was true in the year previous. This is so because a board with a wider range of members may provide more balanced and comprehensive oversight than a board with fewer members. However, excessive director remuneration in the form of an annual retainer and per meeting fees that firms could not afford (as extra expenditures) at least in this uncertain period appears to have a major detrimental effect on firm performance at board meetings and audit committee meetings.

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