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Frameworks and Financials: The Governance Effect on India's FMCG Performance

Preeti Sharma and Anup Kumar Srivastava***

ABSTRACT

Introduction: The current research investigates how governance framework and compliance with various acts and regulations impact financial outcome. Although the connection between organizational governance and firm's financial standing has been center of abundant studies, there has been a notable void in the literature since the Companies Act of 2013 and its subsequent revisions were put into effect.

Research Methodology: The study examines the relationship that exists between the financial outcome of 80 Fast-Moving Consumer Goods companies in India and compliance with corporate governance. Data has been sourced from the year-end reports of the companies under observation, which were chosen using a random sampling technique within the same industry, was gathered between 2014 and 2025. Using R Studio, the researchers used data regression techniques.

Findings and Conclusion: The conclusions show that a company's net profit and earnings per share are significantly impacted by corporate governance. But it has no appreciable impact on other aspects of a company's financial efficiency.

Keywords: *Financial performance indicators; Corporate governance; Financial performance; E-governance; Panel data regression.*

1.0 Introduction

Corporate governance or the organizational governance focuses on the outline of rules, practices, and procedures that guide the management of any organization.

**Corresponding author; Associate Professor, Department of Business and Commerce, Sharda School of Business Studies, Greater Noida, Uttar Pradesh, India (E-mail: preeti.sharma3@sharda.ac.in)*

***Assistant Professor, Department of Finance, School of Business Studies, Greater Noida, Uttar Pradesh, India (E-mail: anupkumar.srivastava@sharda.ac.in)*

As defined by the Cadbury Report, corporate governance refers to the system that directs and controls companies (Cadbury, 1992). This definition has been expanded upon by The Institute of Company Secretaries of India emphasizing on ethical practices, following legal and moral principles and being socially responsible (Naphade, 2021). The leading objective of business governance is to harmonize the interest of multiple stakeholder related to that organization. It includes all of the ways that stakeholders—including government agencies, businesses, suppliers, shareholders, managers, and the general public—make sure that the organisation is run to protect their interests. As a result, the extensive area of corporate governance comprise action plans, internal controls, performance analysis, and financial disclosure. Transparency, accountability, and integrity are fostered by good corporate governance, which also creates a framework for setting business goals and tracking performance (Netter *et al.*, 2009).

These tenets are important in winning trust and building relationships with various stakeholders including board members, management, workers, shareowners among others (Neelam, Batani, & Rao, 2014). By guaranteeing that all parties involved have access to precise and clear information, transparency stimulates trust and well-informed decision-making(Al-Faryan, 2024). Accountability encourages moral behavior and alignment with shareholder interests by holding business executives accountable for their choices and actions. Security ensures long-term stability and protects the organization from hazards by preserving the integrity of business operations and data (MC & Rentala, 2018). Since corporate transparency has a big influence on investors' decisions, it is crucial for good governance.

Robust financial regulation can impact these choices by guaranteeing the caliber and precision of data that businesses reveal. The necessity of transparency was brought to light by the global financial catastrophe, which augmented the emphasis on openness globally. Investors must fully comprehend corporate disclosures because they mostly depend on the information supplied by companies to inform their investment decisions. The studies also talks about the future and sustainability of e-governance in projects and organizations (Punia, 2011; Vashist, Arya, & Dhiman, 2021). Good corporate governance practices can enhance ethical behavior, mitigate risks, and improve financial stability which has as a result instilled faith in investors and thus promoted overall economic development (Claessens & Yurtoglu, 2013) with careful monitoring, there are always strong internal controls and compliance with all relevant laws as well as regulatory frameworks.

The academic and commercial sectors have paid great attention to it because of its possible influence on an organization**'**s financial results (Deb, Gillet, Bernard, & De, 2022). At its core is the establishment of a sound system of regulations, practices as well as processes pursuant to which companies are governed and regulated(Khatib, 2025). The notion includes mechanisms like board structure, transparency, accountability and protection of shareholders

interests (Claessens & Yurtoglu, 2013). In Indian context progression of corporate governance practices is dependent upon legal amendments and market dynamics (Rajan, 2017). Regulatory climate for corporate governance has undergone drastic transformations in India over time. One remarkable change was brought about by introduction of Clause 49 by SEBI through Listing Agreement that outlined the rules governing listed Indian companies (Sarkar, 2009). Besides this, the Companies Act 2013 further consolidated corporate governance standards emphasizing the necessity for independent directors, better disclosure requirements as well as functional audit committees (Kamath, 2019). This intended to bring Indian corporate governance closer to international best practices with a view towards improving company performance overall and enhancing sustainability.

Given the important part corporate governance plays in enhancing firm's financial performance, the current research undertakes a comprehensive investigation on this relationship. This section gives a thorough introduction to business governance and highlights its significance. A comprehensive evaluation of the literature pertaining to the subject and the research gap is presented in the subsequent section. The research methodology and specific objectives are presented in the third portion of the study. The data assessment, interpretation and discussion are shown in the subsequent section. The research's managerial implications, conclusion, and future course are offered in the final section.

2.0 Literature Review

Corporate governance is a crucial part of modern-day business management and control, especially after many corporate scandals and financial crises in the past few decades. In this section we present a thorough review of literature related to evolution of business governance practices in India, the expanding mechanism the regulatory compliance in various sectors, the association of business governance and financial standing and finally the research gap.

2.1 Historical trajectory of corporate governance in India

The corporate governance strategies of developed and developing nations differ considerably. Corporate governance norms and procedures in industrialized countries are often more sophisticated and in line with international standards (Reed, 2002; Almashhadani, 2021). The development of corporate governance in India has been a protracted and turbulent framework. After achieving independence, India faced challenges in creating a unified corporate governance law due to the legacy of the British government and its unique economic structure (Kaur, Kaur, & Singh, 2018).

Even though India has some of the greatest corporate governance regulations, the country's business governance and regulation framework has suffered from the poorly

implemented socialistic pre-reform policies (Chakrabarti, 2005; Sujatha, 2014). India, a developing nation, has been gradually expanding the scope of shareholder rights by amending its corporate governance legislation(Guo *et al.*, 2024). Following liberalization, this was the urgent need for India to draw in and keep international investment (Guha, Samanta, Majumdar, Singh, & Bharadwaj, 2019). With liberalization, India's economy and industry began to grow as well. In India, there are various types of ownership, including family, government, professional, and global, and each type required a robust governance framework (Gollakota & Gupta, 2006).

The failure of many huge corporate organizations in the past has led to the strengthening of company governance regulations. Concentrated ownership patterns are predominant in the historical narrative of corporate ownership structure in India. The evolution of India's insolvency regime can be explained by the company ownership structure as a corporate governance tool (Deb & Dube, 2024). There are numerous studies focussing on the evolution, challenges and legal framework of business governance in India (Aggarwal, Agarwal, Jaiswal, & Sethi, 2024). The interconnection between corporate governance and competitiveness in India is coming as a new trend now a days. The use of corporate governance laws as a competition laws tool is becoming more and more common in India for two reasons: first, by upholding optimal practices in corporate governance, it encourages healthy competition among businesses (Roy Chowdhury, 2024).

2.2 Corporate governance in the era of digital transformation

The COVID-19 pandemic, the rise in the use of artificial intelligence and machine learning, digitalization, and the following shift to virtual platforms have all changed corporate India's governance environment. Presently, company regulation and control procedures aim to incorporate artificial intelligence applications into the framework of governance (Albalawee & Fahoum, 2024). Based on the findings of the Institutional Investor Advisory Services (Singh, 2023), the governance scores of BSE 100 businesses increased from 58 to 61 as a result of regulatory changes that favored virtual platforms. This suggests that companies successfully adjusted to the evolving governance landscape. Digital technology opens up new possibilities for corporate governance models and increases constraints on process-based behavioral monitoring and governance techniques. The digital transformation raises the bar for internal control and improves the quality of the information. The digital revolution fundamentally elevates the governing system (Li, Xie, Chen, & Fu, 2024). Studies show that Neural Network technologies have a big impact on decision making processes, digitalization stages, digital competences, accountability, transparency, trust, and the function of regulatory frameworks in corporate governance. The study finds a positive relationship between a company's adoption of corporate governance models based on neural networks and how digitalized it is (Wang & Wu, 2024).

2.3 Corporate governance practices and their financial implications

Corporate governance has evolved into a comprehensive area that combines components of accounting, finance, law, and management (Saurabh, 2024). Association between corporate governance and financial standing of an organization has been given emphasis by a number of researches. (Neralla, 2022) has suggested the direct existence of the correlation between governance ratings and financial success, which indicates that companies with robust governance structures are more expected to have positive fiscal outcomes. These researches have shown that the chaotic implementation of the best corporate control mechanism principles examples of which are ethical leadership, a board consisting of diverse directors, a fair executive compensation, transparent operations, and a constant and effective engagement with the stakeholders significantly increases a company's financial success (Teixeira & Carvalho, 2024). Researches have evidenced that the introduction of Corporate Social Responsibility (CSR) programs leads to higher financial outcomes and this especially happens to organizations with solid or Environmental, Social, and Governance (ESG) ratings. It seems that social, environmental, and governance issues are among the contributing factors to the improvement of the financial performance and increasing the overall worth of the company (Braun & Mueller, 2025). Practicing business as a socially conscious company usually results in a remarkable increased profitability in extremely competitive markets because of their commitment to social matters, which sometimes provides them with a competitive edge (Meah & Chaudhory, 2019).

3.0 Research Gap

Ethical business practices and firm performance have various dimensions and context-dependent interactions. Research indicates that corporations with more financial success tend to commit more funds towards corporate social responsibility (CSR) initiatives, suggesting a positive correlation between financial stability and increased spending on environmental and social projects. Nevertheless, there are several factors that can influence the impact of CSR on financial health, rendering it a complex and ambiguous relationship. Although there has been extensive exploration on the association between organizational governance policies and financial success, there are still numerous areas that have not been adequately addressed. Prior study has inspected the consequence of governance on financial effectiveness in different industries.

However, there has been a lack of investigation into the Fast-Moving Consumer Goods (FMCG) industry in India, specifically after the execution of the Companies Act, 2013. Moreover, the dynamic evolution of corporate governance in the digital age provides a chance to investigate its influence on financial performance in the aftermath of the epidemic. This study seeks to fill these gaps by analyzing the effect of business governance on the fiscal performance of FMCG companies in India from 2014 to 2025.

4.0 Objectives

The study's key objective is the connotation between corporate governance mechanisms and the economic entity's financial efficacy of fast-moving consumer goods (FMCG) firms in India. The research explores how various practices under good business governance impact the financial outcome of the firm. The study addresses following research questions:

- RQ 1. How does board size in an FMCG firm impact financial effectiveness?
- RQ 2. How does number of board meetings in an FMCG firm impact financial effectiveness?
- RQ 3. How does the presence of independent directors in an FMCG firm impact financial effectiveness?
- RQ 4. How does an audit committee in an FMCG firm impact financial effectiveness?
- RQ 5. How does the number of auditors in an FMCG firm impact financial effectiveness?
- RQ 6. How does the rotation of statutory auditors in an FMCG firm impact financial effectiveness?

The study aims to enhance comprehension of the association between financial success and corporate governance, specifically within the Indian FMCG sector, by tackling these objectives.

5.0 The Data

The current research employs the data of good corporate governance i.e. Board Size (BS), number of board meetings (BM), independent directors on the board (ID), audit committee

Table 1: The Variables

List of Independent Variables	**Code of Variables**
Board Size	BS
Number of Boards Meetings	BM
Independent Directors on Board	ID
Audit Committee Count	AC
Number of Auditors	AD
Rotation of Statutory Auditors	SA
List of Financial effectiveness indicators	**Code of Variables**
Dividend Payout Ratio (%)	DPR
Return on Assets	ROA
Return on Capital Employed	ROCE
Profit Margin	PR
Earnings per Share	EPS

Source: Authors

count (AC), number of auditors (AD), and rotation of auditor and the data of financial effectiveness i.e. dividend rate (%), return on total assets, return on capital employed, net profit margin and EPS of FMCG companies. The data has been sourced from Centre for Monitoring Indian Economy (CMIE).

5.1 Econometric method

The pooled OLS model assumes that there are no individual-specific effects and that the coefficients of the independent variables are persistent through all entities. The fixed effect model accounts for individual-specific effects by including dummy variables for each entity, while the random effect model considers these individual-specific effects as random variables.

$$Y_{it}=\beta 0 + \beta 1 X1_{it} + \beta 2 X2_{it} +\cdots+\beta n Xn_{it} + \epsilon_{it}$$

Y_{it} denotes the dependent variable for the company *i* at time *t.*

$X1_{it}$, $X2_{it\ldots\ldots} Xn_{it}$ are the independent variable for company *i* at time *t.*

$\beta 0$, $\beta 1$, $\beta 2 \ldots . \beta n$ are the coefficient to be estimated.

ϵ_{it} is the error term

Pooled regression equation:

$$DPR_{it}=\beta 0_{DPR}+\beta 1_{DPR} BSit+\beta 2_{DPR} BMit+\beta 3_{DPR} IDit+\beta 4_{DPR} ACit+\beta 5_{DPR} ADit+\beta 6_{DPR} SAit+\epsilon it$$

$$ROA_{it}=\beta 0_{ROA}+\beta 1_{ROA} BSit+\beta 2_{ROA} BMit+\beta 3_{ROA} IDit+\beta 4_{ROA} ACit+\beta 5_{ROA} ADit+\beta 6_{ROA} SAit+\epsilon it$$

$$ROCE_{it}=\beta 0_{ROCE}+\beta 1_{ROCE} BSit+\beta 2_{ROCE} BMit+\beta 3_{ROCE} IDit+\beta 4_{ROCE} ACit+\beta 5_{ROCE} ADit+\beta 6_{ROCE} SAit+\epsilon it$$

$$PR_{it}=\beta 0_{PR}+\beta 1_{PR} BSit+\beta 2_{PR} BMit+\beta 3_{PR} IDit+\beta 4_{PR} ACit+\beta 5_{PR} ADit+\beta 6_{PR} SAit+\epsilon it$$

$$EPS_{it}=\beta 0_{EPS}+\beta 1_{EPS} BSit+\beta 2_{EPS} BMit+\beta 3_{EPS} IDit+\beta 4_{EPS} ACit+\beta 5_{EPS} ADit+\beta 6_{EPS} SAit+\epsilon it$$

In each equation, the dependent variable is regressed on the independent variables (Board size, Number of Board Meetings, Independent Directors on Board, Audit Committee Count, Number of Auditors, Rotation of Statutory Auditors) with corresponding coefficients ($\beta 1$ to $\beta 6$) and an intercept term ($\beta 0$). The error term (ϵit) captures unobserved factors affecting the dependent variable Y_{it}.

5.2 Empirical results

Table 1 exhibits the aggregate statistics of regressors and outcome variables considered for the current study where BS, BM, ID, AC, AD, SA are the independent variables and DPR, ROA, ROCE, PR and EPS are the dependent variables.

When it is discovered that all of the groups share a common intercept, OLS generates accurate and reliable parameter estimates (Bliese, Maltarich, & Hendricks, 2018). Based on the results from Table 2, the null hypotheses of common group intercept are accepted in all cases. This implies that there are no significant differences in intercepts among the groups. Consequently, a pooled regression equation or ordinary least square equation can be applied to the pooled data.

Table 2: Summary Measures

Variable	Mean	Median	S.D.	Min	Max
Board Size	24.8	21.0	22.3	0.000	123.
Number of Boards Meetings	13.4	10.5	14.4	0.000	142.
Independent Directors on Board	2.52	2.00	1.44	0.000	7.00
Audit Committee Count	6.54	6.00	2.97	0.000	16.0
Number of Auditors	1.02	1.00	0.255	0.000	2.00
Rotation of Statutory Auditors	0.0431	0.000	0.203	0.000	1.00
Dividend Payout Ratio (%)	157.	20.0	430.	0.000	6.20e+003
Return on Assets	8.02	6.71	9.58	-50.1	44.7
Return on Capital Employed	12.4	9.25	18.9	-125.	117.
Profit Margin	5.59	4.72	10.3	-95.3	45.8
Earnings per Share	20.2	8.79	39.5	-188.	267.

Source: Author's computation

Table 3: Test for Differencing Group Intercept

Dependent Variable	Regressors: BS, BM, ID, AC, AD, SA	
	Test Statistics: F(77, 774)	p-value
DPR	0.746039	0.947184
ROA	1.24091	0.086877
ROCE	0.815327	0.870258
PR	1.26914	0.06659
EPS	0.650677	0.990633

Source: Author's computation

Table 4: Pesaran CD Test for Cross-Sectional Dependence

Dependent Variable	Regressors: BS, BM, ID, AC, AD, SA	
	z-statistics	p-value
DPR	4.35015	1.36046e-05
ROA	6.39733	1.58114e-10
ROCE	6.399	1.56395e-10
PR	2.59092	0.00957209
EPS	9.17782	4.39923e-20

Source: Author's Calculation

Tables 3 and 4 provide insights into cross-sectional dependence or individual effects and time effects, respectively. The Pesaran CD test assesses cross-sectional independence, with the null hypothesis stating the absence of cross-sectional or individual effects. According

to the findings in Table 3, the null hypotheses of no cross-sectional dependence are rejected across all cases. This suggests a relationship among corporate governance measures across all companies or the presence of individual effects. Regarding Table 4, the null hypotheses of the Wald joint test, indicating no time effect, are rejected in all. This indicates that all the dependent variables show a time effect.

Table 5: Wald Joint Test for Time Effect

Dependent Variable	Regressors: BS, BM, ID, AC, AD, SA	
	Chi-square	p-value
DPR	40.8098	1.21933e-05
ROA	32.2482	0.000364019
ROCE	39.552	2.03155e-05
PR	16.4013	0.0587061
EPS	36.5223	6.84357e-05

Source: Author's calculation

We first run a pooled regression model, which is an ordinary Least Square equation model, because the data is poolable. In diagnostic testing, the pooled regression model does not match the assumptions (the OLS model's results are shown in Annexure 1). As a result, we apply random and fixed effect models to the data. The results obtained from table 5 indicate that the first dependent variable, DPR, the intercept is statistically significant at p = 0.0012. The dependent variable, dividend payout ratio (DPR), is not significantly impacted by the independent variables BS, BM, ID, and AD; however, the variables AC and SA have statistically significant effects (p-values of 0.0020 and 0.0243, respectively). With a p-value of 0.0979 and an F-statistic of 1.22, the model has a modest goodness of fit. The Durbin-Watson value near 2 indicates that there is no discernible autocorrelation in the residuals.

Then we observe the results for ROA, at p = 0.0056, the intercept is statistically significant. While the variables ID, AC, AD, and SA are statistically significant ($p < 0.05$), suggesting they have a significant impact on the dependent variable, the variables BS and BM are not ($p > 0.05$). With a very low p-value of 0.000398 and an F-statistic of 1.66, the goodness of fit is quite strong. The Durbin-Watson value near 2 indicates that there is no discernible autocorrelation in the residuals.

The third dependent variable is ROCE, for which there is a statistically significant intercept (p = 0.0054). While the coefficient for BM is marginally significant (p = 0.0701), the variables ID, AC, AD, and SA are statistically significant ($p < 0.05$), suggesting they have a significant impact on the dependent variable. There is no statistical significance for the variable BS ($p > 0.05$). With a p-value of 0.1256 and an F-statistic of 1.19, the goodness of

fit is mediocre. There is no significant autocorrelation in the residuals, as indicated by the Durbin-Watson statistic which is close to 2.

The intercept is again insignificant in case of PR indicating a value of p=0.6168. The variables BM, ID and AC are statistically significant ($p < 0.05$), indicating they have a significant impact on the dependent variable. While the variables BS, AD, SA are not statistically significant ($p > 0.05$). With an extremely low p-value of 0.000114 and an F-statistic of 1.74, the goodness of fit is moderate. The Durbin-Watson value near 2 indicates that there is no discernible autocorrelation in the residuals.

The intercept for the last dependent variable, EPS, is not statistically significant. With a statistical significance level of $p < 0.05$, the variables AC, AD, and SA demonstrate a noteworthy influence on the dependent variable. The variables ID, BM, and BS, however, do not show statistical significance ($p > 0.05$). With a p-value of 0.9389 and an F-statistic of 0.76, the goodness of fit is weak. The Durbin-Watson value near 2 indicates that there is no discernible autocorrelation in the residuals.

Table 6: Fixed and Random Effect Model

		Fixed Effect Model				Random Effect Model			
		Coefficient	**Std. Error**	**t-ratio**	**p-value**	**Coefficient**	**Std. Error**	**t-ratio**	**p-value**
DPR	Const	−72.1249	21.4302	−3.366	0.0012***	−7.57805e-013	96.4459	−7.857e-015	1.0000
	BS	−0.231713	0.767562	−0.3019	0.7636	−0.350887	0.964104	−0.3640	0.7159
	BM	1.64977	1.01913	1.619	0.1096	1.65315	1.38720	1.192	0.2334
	ID	6.43123	12.4181	0.5179	0.6060	7.99284	10.6660	0.7494	0.4536
	AC	31.8836	9.97851	3.195	0.0020***	28.1114	6.16787	4.558	<0.0001***
	AD	−5.94826	54.9716	−0.1082	0.9141	−56.0876	107.003	−0.5242	0.6002
	SA	−141.280	61.4820	−2.298	0.0243**	−78.3688	129.622	−0.6046	0.5454
	F(6, 851)		**1.220063**	**P-value(F)**	**0.097944**	**Rho**	**−0.120332**	**Durbin-Watson**	**2.144712**
ROA	Const	−3.20131	1.12261	−2.852	0.0056***	0.363158	2.15347	0.1686	0.8661
	BS	−0.00264797	0.0240585	−0.1101	0.9126	−0.00378	0.0215268	−0.1754	0.8608
	BM	0.0456193	0.0375559	1.215	0.2282	0.0481032	0.0309739	1.553	0.1204
	ID	0.827303	0.280450	2.950	0.0042***	0.525098	0.238154	2.205	0.0275**
	AC	0.375302	0.137902	2.722	0.0080***	0.359361	0.137718	2.609	0.0091***
	AD	6.40091	1.65489	3.868	0.0002***	3.63117	2.38920	1.520	0.1286
	SA	−9.22932	2.10796	−4.378	<0.0001***	−6.33057	2.89423	−2.187	0.0287**
	F(6, 851)		**1.658099**	**P-value(F)**	**0.000398**	**Rho**	**−0.109558**	**Durbin-Watson**	**2.073047**
ROCE	Const	−5.10100	1.78182	−2.863	0.0054***	0.394211	4.25920	0.09256	0.9263
	BS	−0.0369890	0.0459067	−0.8057	0.4229	−0.0327528	0.0425763	−0.7693	0.4417
	BM	0.116197	0.0646418	1.798	0.0762*	0.107667	0.0612610	1.758	0.0788*
	ID	1.98429	0.536276	3.700	0.0004***	1.58840	0.471027	3.372	0.0007***

	AC	0.613188	0.275705	2.224	0.0291**	0.566774	0.272383	2.081	0.0375**
	AD	8.25463	2.62480	3.145	0.0024***	3.99253	4.72542	0.8449	0.3982
	SA	−14.1661	3.20122	−4.425	<0.0001***	−10.2748	5.72429	−1.795	0.0727*
	F(6, 851)	**1.192655**	**P-value(F)**	**0.125639**	**Rho**	**−0.091199**	**Durbin-Watson**	**2.086212**	
PR	Const	−1.18827	2.37361	−0.5006	0.6168	0.717130	2.30342	0.3113	0.7555
	BS	−0.00601295	0.0239364	−0.2512	0.8017	−0.00601471	0.0230146	−0.2613	0.7938
	BM	0.0837444	0.0339614	2.466	0.0139**	0.0880685	0.0330610	2.664	0.0077***
	ID	1.05955	0.266743	3.972	<0.0001***	0.832359	0.254784	3.267	0.0011***
	AC	0.323518	0.151299	2.138	0.0328**	0.333933	0.147027	2.271	0.0231**
	AD	1.09634	2.60450	0.4209	0.6739	−0.410049	2.54836	−0.1609	0.8722
	SA	−2.34156	3.13999	−0.7457	0.4561	−0.486290	3.08537	−0.1576	0.8748
	F(6, 851)	**1.737959**	**P-value(F)**	**0.000114**	**Rho**	**−0.051329**	**Durbin-Watson**	**1.773606**	
EPS	Const	−5.97043	9.55118	−0.6251	0.5321	−0.578947	9.01604	−0.06421	0.9488
	BS	−0.129871	0.0963176	−1.348	0.1779	−0.131770	0.0901272	−1.462	0.1437
	BM	0.0483394	0.136657	0.3537	0.7236	0.0471390	0.129680	0.3635	0.7162
	ID	−1.21566	1.07335	−1.133	0.2577	−0.911925	0.997090	−0.9146	0.3604
	AC	1.33423	0.608811	2.192	0.0287**	1.08803	0.576591	1.887	0.0592*
	AD	23.9600	10.4803	2.286	0.0225**	19.4100	10.0030	1.940	0.0523*
	SA	−32.1123	12.6350	−2.542	0.0112**	−28.3720	12.1174	−2.341	0.0192**
	F(6, 851)	**0.763744**	**P-value(F)**	**0.938952**	**Rho**	**−0.122031**	**Durbin-Watson**	**1.922944**	

Source: Author's Calculation

Table 6 illustrates the findings from the Hausman Test, which evaluates the suitability of both fixed effect and random effect models. The null hypothesis posits that the GLS (Generalized Least Squares) estimates remain consistent. If this null hypothesis is validated, it suggests that the random effect model offers a superior fit (Davis, 2003).

Upon examination of the table results, it becomes evident that fixed effect models are more appropriate for DPR, ROA, ROCE, and PR variables. Conversely, for EPS, the random effect model demonstrates suitability, as the GLS estimates remain consistent for this particular variable.

Table 7: Results of Hausman Test

Variable	Chi-Square	P-Value	Hypotheses Accepted/rejected
DPR	16.7367	0.0103012	Rejected
ROA	44.5226	5.82209e-08	Rejected
ROCE	26.1597	0.000207895	Rejected
PR	15.0308	0.0200184	Rejected
EPS	8.58609	0.198228	Accepted

Source: Authors

5.3 Diagnostic checking

In this segment, we have examined whether the intercept and regressors adhere to the Gauss-Markov assumptions, ensuring the fixed effect model remains Best Linear Unbiased Estimator (BLUE). Table 8 presents the diagnostic testing of the regression. And the outcomes of diagnostic scrutiny are documented in Table 7. Our initial step in this regard is verifying if the mean value of the error term is zero (achieved by computing the mean value of disturbances). It is evident from the findings that the mean is nearly zero across all panel series (Column: Assumption 1).

We have used Distribution-Free Wald test for heteroskedasticity to test whether there are differences in the variability (or "heteroskedasticity") of the error terms in a regression model. In all cases of the Distribution-Free Wald test for heteroskedasticity, we reject the null hypothesis that the units share a common error variance, as evidenced by p-values consistently below 0.05. To address the issue of heterogeneity of variance, we have employed robust standard errors.

Table 8: Diagnostic Testing

Independent variable: BS, BM, ID, AC, AD, SA						
Dependent Variable	**Postulation 1**	**Postulation 2**		**Postulation 3**	**Postulation 4**	
	Mean of error term	**Chi-square**	**p-value**	**Correlation of error term with IDV**	**Wooldridge test**	**p-Value**
DPR	1.1097e-013	30925.9	0	-0.0000	0.363306	0.548447
ROA	1.0608e-014	498.488	1.51148e-62	0.000	1.73905	0.191168
ROCE	9.0381e-015	3337.59	0	0.000	4.21727	0.043409
PR	5.5941e-015	3528.43	0	0.0000	1.39967	0.240419
EPS	2.8931e-014	4.96086	0.0259274	-0.0000	0.205667	0.651461

Source: Author's calculation

Next, we examine endogeneity by assessing whether the error terms correlate with the independent variables. We find that the correlation between the error terms and independent variables is consistently close to zero across all variables. Therefore, no evidence of endogeneity is observed, indicating that the data is devoid of endogeneity issues.

We proceed to utilize the Wooldridge test for autocorrelation, commonly referred to as the "second-order test," to identify any presence of autocorrelation (or serial correlation) within the errors of our regression model. Serial correlation rises when the error terms of a regression model displays correlation across distinct observations, contravening the assumption of independence.

6.0 Discussion

The conclusions of this research shed light on the determinants of various financial performance indicators within the context of the examined dataset. The approach involved initially conducting a pooled regression model, which, despite its simplicity, failed to meet the necessary diagnostic assumptions. Consequently, fixed and random effect models were employed to yield more robust insights. Focusing on the dividend payout ratio (DPR), the analysis revealed that while variables such as board size, number of board meetings, independent directors on board, and audit committee count did not exhibit statistically significant impacts, the audit committee count and rotation of statutory auditors emerged as significant determinants. These results align with prior research such as that of (Yusoff & Adamu, 2016; McWilliams & Siegel, 2000; Lakhal, Kuzey, Uyar, & Karaman, 2023) who found similar influences of audit committee activity and auditor rotation on dividend policy. The studies also suggest strong connection between board quality of board in an organization and financial performance (Mehrotra, Mohanty, & Sharma, 2023)

Moving to the return on assets (ROA), the significant impacts of independent directors on board, audit committee count, number of auditors, and rotation of statutory auditors reaffirm existing literature (Salsabila & Syarif, 2024; Suriani, Megawati, Posumah, Apriansyah, & Moridu, 2023) highlighting the importance of these factors in determining a firm's profitability. Although board size and number of board meetings did not exhibit statistical significance, their role warrants further exploration given their potential influence on ROA.

Similarly, in the analysis of return on capital employed (ROCE), independent directors on board, audit committee count, number of auditors, and rotation of statutory auditors emerged as significant determinants, consistent with the findings of recent studies (Iliemena, Amedu, & Uagbale-Ekatah, 2023) While number of board meetings demonstrated marginal significance, the non-significance of board size suggests a need for deeper examination of its impact on ROCE.

For the variable profit margin (PR), number of board meetings, independent directors on board, and audit committee count were found to have substantial bearings on the price-to-earnings ratio, in line with previous research (Ebaid, 2023). Meanwhile, the non-significant effects of board size, number of auditors, and rotation of statutory auditors underscore the need for further investigation into their relationships with PR (Ma & Shleifer, 2025).

Lastly, in the case of earnings per share (EPS), independent directors on board, number of auditors, and rotation of statutory auditors emerged as significant determinants, echoing the findings of (Anderson & Warsame, 2024) Although board size and number of board meetings did not exhibit statistical significance, their potential impact on EPS merits further exploration.

We examine each independent variable separately. The most significant factors impacting four of the five proxies of financial effectiveness are the audit committee count, the presence of independent directors on the board, and the rotation of statutory auditors. Whereas three out of five proxies are impacted by the number of auditors(Aguilera & Ruiz Castillo, 2025). So, as a conclusion we can say that the current study indicate that the number of board meetings and the size of the board are not significant independent variables, but the audit committee count, the rotation of statutory auditors, and the presence of independent directors on the board have an impact on the proxies of financial wealth. Our findings are consistent with existing research, which also confirms that CSR exhibits a positive linkage with both efficiency and return on assets (Deb, Gillet, Bernard, & De, 2022).

The variables such as board size and the frequency of board meetings are notionally expected to enhance monitoring and governance quality, their non-significant results in the present analysis warrant closer examination. One possible explanation is that these structural characteristics capture *formal compliance* rather than the *effectiveness* of governance practices. Larger boards may suffer from synchronization problems, free-rider issues, or diluted responsibility, offsetting the potential benefits of broader expertise.

Similarly, a higher number of board meetings does not necessarily imply better oversight, as meetings may be procedural or reactive rather than strategic in nature. The insignificance of these variables may also reflect limited variation across firms due to regulatory norms, leading to reduced explanatory power in the regression model. Overall, these findings suggest that qualitative aspects of board functioning such as independence, expertise, and decision-making effectiveness may be more influential than mere numerical or frequency-based measures, highlighting the need for future research to move beyond conventional governance proxies.

7.0 Implication of the Research

Policymakers will be privileged from the backing of current study's in modifying regulatory frameworks as needed to support better governance practices. The findings offer executives and managers doable strategies for enhancing governance frameworks. Increasing openness, strengthening audit committees, and optimizing board composition are a few of them. These steps can increase investor trust and yield better financial results. The study also emphasizes the value of ethical governance and how it contributes to long-term sustainability, which encourages managers to adopt practices that comply with both social norms and legal requirements. In conclusion, this study supplements to our knowledge of the crucial role corporate governance plays in promoting financial success and provides managers with a guide for implementing effective governance procedures that will enhance financial performance of an organization.

8.0 Future Direction of the Research

Previous research has focused on certain corporate governance mechanisms by examining the factors that are directly associated with financial performance. It is possible for future studies to look into the new business governance techniques. Future research may also look at non-financial metrics including brand reputation, shareholder happiness, and the company's overall general image. There is need for sector-specific study of company governance practices because different industries can need distinct business governance methods.

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