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CORPORATE GOVERNANCE: A NEW TRANSFORMATION IN ACCOUNTING AND ITS IMPACT ON INVESTORS

Anshika Mishra[1], Rahul Pal[2], Kalpana Singh[3], Abhishek Kumar[4]

[1] Faculty, Department of Business Administration, DDU Gorakhpur University
[2] Faculty, Department of Business Administration, DDU Gorakhpur University
[3] Faculty, Department of Commerce, DDU Gorakhpur University
[4] Faculty, Department of Business Administration, DDU Gorakhpur University

Corresponding Author
Anshika Mishra,
anshikamishra0551@gmail.com

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ABSTRACT

The sole objective of every business is the progressive trend of profit and the overwhelming trust of the investors. This can be realized only when the company works systematically adhering to all codes of conduct in the interest of its stakeholders. The ever-rising cases of financial scams and fraud laid an immediate pressure on the corporate sector to reduce the frequency of the rising corporate evils and to rethink and reframe effective procedural codes, policies, and laws to prevent their further culmination in the nation. Corporate Governance (CG) emerges as the only solution to this uprooting problem in the arena of accounting.Corporate Governance (CG) is a mechanism of accountingthat involves the system and the procedures through which companies are operated and regulated. Though the entire process of CG is managed by the Board of Directors along with the Audit Committee but key role of nominating and selecting these two parties arerelied on the shareholders. The basic principles of corporate governance are fairness, accountability, transparency, and responsibility which are also known as the four pillars of CG that if effectively adopted lead to a massive reduction in corporal frauds and mismanagement and positively improve the faith of the stakeholders. This paper tries to examine the impact of corporate governance on investors. The study is based on the primary data collected from 150 respondents and regression analysis was used to derive the conclusion.

Keywords: Corporate Governance (CG), Stakeholders, Procedural Code, Board of Directors (BOD), Audit Committee, 4 Pillars of CG, Corporal Fraud

1. INTRODUCTION

The reliability and integrity of the accounting records in the financial sector have been under serious question after the increasing number of cases of financial fraud. The sharp rise in number of the cases of fraud in the corporate world poses a serious threat to the interest of the stakeholders and becomes the cause of ineffective returns on their investments. Financial scams and frauds dampened the confidence of investors in the accounting world and capital market.The systematic execution of the corporate governance code positively preached transparency and accountability. According tothe Organization for Economic Cooperation and Development (OECD),"**Corporate Governance is defined as a mechanism or set of the relation of the company with its managers, directors, and other stakeholders**." It is a system through which companies are properly directed and controlled. Shareholders appoint directors and auditors so that they can ensure that appropriate corporate governance is in place. The responsibility of the board of directors is to set the strategic objectives of the business, provide supervision, and establish proper reporting with the shareholders. Corporate Governance works in every sphere of management and ensures effective internal control with proper measurements and disclosures. It includes all rules, processes, and practices thatthe company uses to manage its affairs. The Board of Directors (BOD) plays a key role in operating and improving governance because poor governance un-operationalizes thefunctioning of the companyand ultimately harms the profitability of the organization. It covers the areas of corporate strategy, ethical conduct, equality, environmental awareness, proper compensation, and efficient risk management. It is a measure toobserve and evaluate the behavior of the corporation towards its stakeholders.

2. CONCEPTUAL FRAMEWORK

Corporate governance in an organization enables a transparent and effective decision-making process through various practices and codes.It helps in creatinga defensive system against corporal frauds, malpractices, or misuse of corporate privileges. It balances the interests of a company's stakeholders like - shareholders, management executives, customers, suppliers, community, and lendersby systematicallyregulating and controlling the operations of the organization. It offers numerous advantages, some of which are listed below:

- Builds trust that the organization is serving in a manner that best serves the interest of all.
- Enables investors and other stakeholders to understand the company's code of conduct and responsibilities towards various parties.
- Encourages long-term financial growth of the organization and paves the way fornew opportunities.
- Reduces the chances of financial loss, corporate fraud,and corruption and develops the confidence of stakeholders in the organization.
- It acts as an effective measure for resilience and long-term growth of the organization.
- Help in developing the brand image and good market presence which enablesthe organization to easily raisefunds from the market.

3. PRINCIPLES OF CORPORATE GOVERNANCE

Corporate Governance does not work in vague; a set of standardized principles is available and is essential to properly operate and maintain the smooth functioning of the organization. They act as a guiding principle for making ethical decisions in the interest of every party associated with the organization. There are several principles but some well-known oneis as follows:

A) **TRANSPARENCY** – The board and other authorized parties should provide accurate, reliable, and timely information about various financial and non–financial matters.

B) **FAIRNESS –** The board should not be involved in any sort of discrimination and treat everyone equally without any biases or prejudices. There should be the provision of equal consideration or payment for the work requiring the same skill and effort,

C) **ACCOUNTABILITY –** There should be a supportive cause for every act of the company. It refers to the liability of being answerable.The board is answerable for all the activities and conducts that it hasaccomplished during its working tenure. The matter of strategic importance must be communicated to the shareholders.

D) **RESPONSIBILITY -** The board is responsiblefor operating and regulating business and managerial actions and decisions of the organization.The board must be aware of the present situation and prospects of the company. It must operate in the interest of the company and the best interest of the stakeholders.

E) **RISK MANAGEMENT –** The business is exposed to various types of risks but to mitigate its effects and to prevent their occurrences in the future, a proper mechanism of risk management is essentially required. Enough provisions should always be made to protect businesses from the severe repercussions of the risks.

4. FRAMEWORK OF CORPORATE GOVERNANCE

A companyis a separate legal entity created under the contemplations of the law and having a perpetual succession and common seal. It can sue and be sued in its own name and own assets and properties. It indicates that the activities of a company are separate from the activities of its members, and so it is extremely important to govern its conduct and workto avoid any unethical practices and liabilities. An effective corporate governance framework highlights what is the job of various parties in the organisation, how one job is related to another, and who is answerable to whom. The corporate governance framework includes various parties but the key important one is given below-

1. **BOARD OF DIRECTORS:** The board comprises a group of people appointed by the shareholders to oversee the management and to create long-term value for the organization. They select a key employee for the organization (likethe CEO, or CFO,) monitor and evaluate their performance, and also make a suitable pool for succession planning. The board delegates business operations to the employees at different levels and makes strategic policies for the organization. They are responsible for the establishment of a policy-based governance system.
2. **SHAREHOLDERS:** Shareholders arenot involved in the day-to-day operation but play a pertinent roleby electing the directorsof the organization. They are usually interested in reaping the economic returns and boards and executivesare the long-term custodians of shareholders' investments. They had a right to make decisions and approve the various corporate actions. They had the authority to question the working of the board or management participate in meetings and propose resolutions.
3. **AUDIT COMMITTEE -** The rationale behind the creation of this committee is to oversee the financial aspect of the organization. The committee is responsible for reviewing the reliability of financial statements and the authenticity of the work of the statutory auditor. They help the independent auditor in overseeing the financial reporting process and ensure effective internal control in the organization. The committee should consist of members who have good knowledge of financial matters and must have one independent member considered asa financial expert.

5. REVIEW OF LITERATURE

(Ravishankar & Sathishkumar, 2018) Thedecisions of the investor depend not only on external factors but also on internal factors (i.e., the psychology of the investors). The major part of the investor's decision depends on the psychology and behavior of the investors. The transparency of the company plays only asmall role in influencing the choices of the investors. Investor usually derives the meaning from the information according to their assumptions and perceptions. It is not possible that investors will always behave rationally towards various investment choices. The study found that the decisions of the investors are beyond the scope ofthe company's transparency because numerous other factors influence the decisions of the investors.

(Okere & Ibidunni, 2019) The study analyses the impact of corporate governance on the investment decisions of investors of the Nigerian capital market for the period ranging from 2005 to 2015 with the help of Panel Regression Analysis. A significant positive relation has been found between the size of the board, independence of the board, and audit committee on the decisions of the investors. It also found that by improving the corporate governance practices, the functioning and benefits of Nigerian firms will also improve.

(Zhelev, 2020) Disclosure and Transparency are the foundation or the important pillars of contemporary corporate governance. The information thatis disclosed under the disclosure norms of the company should be timely and effective because a delay and inaccurate disclosure generates an undesirable effect on the investors and the long-term profitability of the company.

(Frederick, 2022) Corporate governance plays a crucial role in providing comprehensive and valid corporate information to the investors but the action of the investors also depends on the fact that how such information is perceived by the investors. Human behavior is also one of the key variables thataffect the investment choices and the decisions of investors. Transparency of the firm does not guarantee the rationality of the investors in making their investment decisions. Sometimes, some external factors like lack of financial learning, other ethical barriers, and loyalty towards the government schemes also manipulate the decisions of the investors and influence them to make impulsive choices.

(**Shazly et al., 2022)** The study tried to analyze the impact of corporate governance and quality of audit on the investment decisions of the investors with special reference to the construction sector in Egypt. A significant positive impact of corporate governance is found in the audit quality and investment decisions of the investors. The investor's decision is dependent to a great extent on the auditor's ability to detect the breach (i.e., audit quality) and how effectively it reports that breach (i.e., audit independence).

6. OBJECTIVES OF THE STUDY

1. To develop a thorough understanding of the conceptual framework of Corporate Governance and its basic principles.

2. To determine the role of the Board of Directors (BOD) and Audit Committee (AC) in the systematic functioning of corporate governance.
3. To determine the impact of independentmemberson the Board and Audit Committee and its influence onthe decisions of the investors.
4. To determine the impact of effective internal control on the investment decisions of the investors.

HYPOTHESES OF THE STUDY

$H_{1.1}$:The independence of the board of directors has a significant influence on the investment decisions of the investors.
$H_{1.2}$:Independence of the Audit Committee has a significant impact on the investment decisions of the investors.
$H_{1.3}$: Effective internal controlsignificantly influences the decisions of the investors.

7. RESEARCH METHODOLOGY

The research is based on primary data. The data is collected with the help of a structured questionnaire based on the 5-point Likert Scale. The sample size of the study is 150 respondents who are investors of different age groups.
The reliability test is done with the help of Cronbach's Alpha. Data will be analyzed by using Multiple Regression Analysis and the software named SPSS is used to analyze and tabulatethe data.

8. ANALYSIS AND INTERPRETATION

- ## RELIABILITY STATISTICS

Table.1 Reliability test

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.878	.885	12

The reliability of the questionnaire is checked with the help of Cronbach's Alpha. From Table 1 it was observed that the reliability value is 0.878.It can be concluded that all of the variables were reliable, indicatinga high level of internal consistency between the items on the scaleas the values obtained are more than the standard value of 0.7.

- ## REGRESSION ANALYSIS

Table.2 Regression Analysis

Model Summary										
					Change Statistics					Durbin-Watson
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	
1	**.788**[a]	**.621**	.613	.4231	.621	79.771	3	146	**.000**	**1.994**
a. Predictors: (Constant), INDEPENDENT MEMBER ON BOARD(IMOB), INDEPENDENT AUDIT COMMITTEE(AC), EFFECTIVE INTERNAL CONTROL (IC)										
b. Dependent Variable: INVESTMENT DECISIONS OF INVESTORS(IDOI)										

Table 2 provides information about the model summary obtained by conducting regression analysis. The coefficient of correlation **(R)** is **0.788**, depicting a high degree of positive correlation among the variables. The obtained value of $R^2$is **0.621**, which indicates that **62.1%** of the variation in the dependent variable (Investment Decisions of Investors) is explained by the independent variables [Independent Member on Board (IMOB), Independent Audit Committee (IAC) andEffective Internal Control (EIC)] considered under the model. The value of adjusted $R^2$is 0.621. The f statistics value is 79.77 which shows whether the variance explained by the model is significantly greater than the explained variance or not and the p-value is **0.000** which is less than**0.05**indicating that the overall regression model is statistically significant.

Table.3 ANOVA

ANOVA[a]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	**Regression**	42.844	3	14.281	79.771	**.000[b]**
	Residual	26.139	146	.179		
	Total	68.983	149			
a. **Dependent Variable**: INVESTMENT DECISIONS OF INVESTORS (IDOI)						
b. **Predictors: (Constant),**INDEPENDENT MEMBER ON BOARD(IMOB),INDEPENDENT AUDIT COMM(AC), EFFECTIVE INTERNAL CONTROL (IC)						

In Table 3, the **F test** shows the significance value was **0.000**. Since the significance value is **< 0.05**,which indicates that all the independent variables have a significant effect simultaneously on the dependent variable.

Table.4 Model Coefficients

Coefficients[a]								
		Unstandardized Coefficients		**Standardized Coefficients**			**95.0% Confidence Interval for B**	
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**	**Lower Bound**	**Upper Bound**
1	**(Constant)**	.390	.110		3.537	.001	.172	.607
	EFFECTIVE INTERNAL CONTROL (EIC)	.374	.060	.415	6.182	**.000**	.254	.493
	INDEPENDENT AUDIT COMMITTEE (IAC)	.291	.053	.355	5.455	**.000**	.185	.396
	INDEPENDENT MEMBER ON BOARD (IMOB)	.173	.064	.164	2.705	**.008**	.047	.300
a. **Dependent Variable: INVESTMENT DECISIONS OF INVESTORS (IDOI)**								

In Table 4, the **t-test** shows that the significance value of independent variables (EIC) is **0.000,**(IAC) is **0.000,**and (IMOB) is**0.008.** Since all the significance values were **< 0.05**, this leads to the rejection of null hypotheses and the acceptance of research hypotheses. It also implies that all independent variables have a significant impact on the dependent variable. Hence, the findings support the acceptance of all three research hypotheses- $\mathbf{H_{1.1}}$, $\mathbf{H_{1.2}}$, and $\mathbf{H_{1.3}}$.

9. CONCLUSION

Corporate Governance is the key terminology in the accounting domain. It emerges as a way to increase to transparency and accountability in the organization and increase the reliability of the accounting records. It also built the trust of the investors in the organization. It is a measure that ensures that the interest of every stakeholder will get the due consideration and recognition. The Board of Directors, Audit Committee, and shareholders are some of the parties that are responsible for the implementation of governance codes. The study was conducted to examine the impact of independent members on the board, independent audit committee, and effective internal control system on the investment decisions of the investors.It was found that all the independent variable (IMOA, IAC,EIC) has a high degree of positive correlation with the investment decisions of the investors (IDOI)and significantly influences the investors. The main limitation of the study is, besides the variables considered (IMOA, IAC, EIC) there are some other factors also which influencethe effective implementation of corporate governance procedures in accounting and the decisions of the investors. This provides the scope for future researchers to explore new areas of corporate governance and explore new ways for its effective implementation.

CONFLICT OF INTERESTS

None.

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