



Impact of Corporate Governance Mechanisms on Financial Performance of Hotel Companies: Empirical Evidence from India

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Abstract

This study examined the impact of corporate governance mechanisms on financial performance of Indian hotel companies. The analysis was based on balanced panel data over a period ranging from 2013/2014 to 2015/2016 for 30 Indian hotel companies listed on the Bombay Stock Exchange (BSE). The study investigated three aspects of corporate governance mechanisms namely: the board of directors (size, composition, and diligence), audit committee (size, composition, and diligence) and institutional ownership, whereas financial performance was measured according to three common measures, return on assets (ROA), net interest margin (NIM), and earnings per share (EPS). The results confirm that board size, board diligence, audit committee size, and institutional ownership have a significant impact on ROA, while board composition, audit committee composition, audit committee diligence and company age have an insignificant effect on ROA. With respect to NIM model, the results indicate that board composition, board diligence, audit committee composition, institutional ownership and size of the company have a significant impact on NIM, while board size, audit committee size, and audit committee diligence have an insignificant effect on NIM. In terms of the EPS model, the results suggest that board size, board composition, board diligence, audit committee composition, and company age thus have a significant impact on EPS, while audit committee size, audit committee diligence, and institutional ownership have somewhat of an insignificant influence with EPS.

Keywords: Corporate governance mechanisms, firms' performance, panel data, ROA, India

Introduction

Corporate governance has become a matter of universal consequence. There is a global necessity for good governance, and particularly in the tourism companies in India. The Indian tourism companies have arisen as one of the key drivers of progress in the services sector in India. "The second-largest sub-segment of the services sector comprising trade, repair services, hotels, and restaurants contributed nearly US\$ 295.7 billion or 19.2 percent to the Gross Domestic Product (GDP) in 2015-16, while growing at 8.9 percent year-on-year" (Meenu, 2016). Tourism in India has boundless potential given the rich cultural and historical heritage, ecology, terrain and places of natural beauty all over the country. Tourism is also a potential employment generator as well as being a vital source of foreign currency for the country (Ambili, 2018).



Mohamed, Ahmad and Khai (2016) clarified that corporate governance as the process and structure that is used for directing and managing business affairs in order to enhance business prosperity with corporate accountability being the ultimate objective. Mohamed et al. (2016) reported that practicing corporate governance for many Asian countries is considered to be a crucial issue especially after the financial crisis in 1997. Corporate governance is increasingly a matter of growing importance in developing countries as many companies pass through significant transformations because of the combined forces of technological progress, sociopolitical changes, and economic trends toward greater globalization.

This study aims to investigate the influence of corporate governance mechanisms on financial performance of 30 hotel companies listed on the Bombay Stock Exchange in India over the period from 2014 to 2016. It empirically investigates the impact of three corporate governance mechanisms namely: board of directors (size, composition, and diligence), audit committee (size, composition, and diligence) and institutional ownership, and controlling variable is company size. This study uses three regression models from previous studies, which are; return on assets (ROA), net interest margin (NIM), and earnings per share (EPS) as indicators for financial performance in hotel companies. This study is organized as follows: the next section will present an overview of corporate governance in India. Section three will discuss the literature review. Section four will describe the research method. Section five will discuss data analysis and results, and section six will present conclusions, and the suggested recommendations.

Overview of corporate governance in India

Corporate governance (CG) in India was regulated earlier through the Companies Act of 1956, however, recently, Companies Act of 2013 and “Clause 49” of the stock exchange listing requirements issued by Securities Exchange Board of India (SEBI) are the principal sources of the Indian CG rules (Balasubramanian, Black & Khanna, 2010; Larson & Pierce, 2015). Both regulations have a major impact on the regulation CG issues in India (Agarwal, 2013; Jha & Mehra, 2015; KPMG, 2014; MEHTA & Joshi, 2016; PCW, 2013; Rajharia & Sharma, 2014; Sangwan, 2015; Thornton, 2014). The revised clause 49 includes 11 provisions regarding (1) shareholders’ rights, (2) board of directors (B.O.D), (3) audit committee, (4) nomination and remuneration committee, (5) subsidiary companies, (6) risk management, (7) related party transaction, (8) disclosures, (9) CEO/CFO certification, (10) report on corporate governance, (11) compliance. In addition, it has four annexures devoted to (1) information to be placed before B.O.D, (2) format of quarterly compliance report on CG, (3) suggested list of items to be included in the report on CG in the annual report of companies, and (4) non-mandatory requirements. With regard to CG regulations on issues related to board size, composition, diligence, audit committee size, composition and diligence, there are different requirements as per clause 49. Following table (1) demonstrates the requirements of CG issues as per clause 49:

Table 1. Corporate governance indicators

CG issues	Requirements
Board size	There is no mandatory board number. The provisions of CG codes have not stipulated the minimum and maximum size of the board size.
Board composition	The board composition required by Provision II (section A, sub section 1&2) “of the Clause 49 is that B.O.D of the company shall have an optimum combination of executive and non-executive directors with at least one-woman director and not less than fifty percent of the B.O.D comprising non-executive directors. Where the chairman of the board is a non-executive director, at least one-third of the board should comprise independent directors and in case the company does not have a regular non-executive chairman, at least half of the board should comprise independent directors. Provided that where the regular non-executive chairman is a promoter of the company or is related to any promoter or person



	occupying management positions at the board level or at one level below the board, at least one-half of the board of the company shall consist of independent directors”.
Board Meetings and Diligence	Section (D-1) of Clause 49 in the provision II stated that the board shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings. Importantly, section (B-6-a) of the provision II stated that there should be a separate meetings of the Independent directors. “The independent directors of the company shall hold at least one meeting in a year, without the attendance of non-independent directors and members of management. All the independent directors of the company shall strive to be present at such meeting”.
AC size	At least, three directors
AC independence	AC to be constituted of at least two third of independent members
AC meetings	“Audit Committee should meet at least four times a year and not more than four months shall elapse between two meetings. The quorum shall be either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present” (provision III (B)).

Literature review

Several studies have used different proxies for measuring the financial performance such as Darayseh and Chazi (2018), Rani and Studies (2017), Zampara, Giannopoulos, & Koufopoulos (2017), and Zheng, Sarker and Nahar (2018) have used the ratio of return on assets (ROA) as a first proxy, while, Acaravci & Calim (2013), Hun, Mohamad and Ariff (2017), Kapaya and Raphael (2016), Naceur (2003), and Ongore (2013) have all used the net interest margin (NIM) as a second proxy for measuring the financial performance, and Hossan & Habib (2010), Abbas, Hunjra, Azam, Ijaz and Zahid (2014), Dung Paul et al. (2015), Hossan and Habib (2010), and Waleed (2016) have used earnings per shares (EPS) as a third proxy for measuring firms financial performance.

Several studies examine the relationship between corporate governance and financial performance in different countries such as Uchida, Ahmed and Aabed (2011) examined the relationship between corporate governance and financial performance of the Bangladesh firms. The results reveal that corporate governance has insignificant positive association with firm performance. Cheema and Sadat Din (2013) have indicated that corporate governance has a positive association with firm’s performance in Pakistan. Adekunle and Aghedo (2014) studied the relationship between corporate governance characteristics and firms’ financial performance in Nigerian. They have revealed that there is a positive but also significant association between board composition member and size of the board as independent variables and firm performance. CEO status also has a positive association with firm performance. However, ownership concentration has negative associations with ROA but positive associations with the PM. Gupta and Sharma (2014) determined whether or not there is association between corporate governance features and firms’ financial performance. They found that there is limited impact between corporate governance practices on both the share prices of the firms as well as on their firm financial performance.

Dabor, Isiavwe, Ajagbe, and Oke (2015) studied the influence of corporate governance practice on firm’s financial performance in the textile sector of listed firms working in Pakistan from 2005 to 2014. The results indicated that corporate governance has a positive association on firm’s performance. Hassan, Box, Ain, and Hijazi (2016) explored the relationship between corporate performance and corporate governance of listed companies on the Palestinian Stock Exchange for the period from 2010 to 2012. The finding demonstrated that corporate performance has negatively related with corporate governance.

Vu and Nguyen (2017) examined the association between corporate governance features and firms’ financial performance of 137 listed Singapore companies for four years from 2013 to 2016.



The findings suggested that there is an inverse association between board size and firm performance. However, the study also revealed that there are significant associations between board dependence, CEO duality, and firm financial performance. Kobuthi, K'Obonyo, and Ogutu (2018) examined to establish the influence of corporate governance on listed firms' performance working in Nairobi Securities Exchange (NSE). The study found significant association between corporate governance and non-financial performance of firms listed on the Nairobi Securities Exchange confirming that organizations can enhance their performance by implementing good corporate governance, specifically those attributes of good corporate governance that matter.

Diverse studies have investigated Indian corporate governance in general terms. Khanna (2009) for one, has indicated that there is development of corporate governance standards in India since independence to the present. Sarkar and Sarkar (2000) and also Mohanty (2003) investigated how level corporate governance affects the behaviour of institutional investors, and also vice-versa.

Balasubramanian et al. (2010) examined the relationship between firm-level corporate governance and market value in India. They found that governance practices are either relatively strong or weak. Nuryanah and Islam (2015) examined the association between corporate governance practices and performance of listed Indian manufacturing firms over the period from 2005 to 2012. This study suggested that board size and CEO status have a negative association on firms' financial performances, however, board independence and insiders (promoters) holding power, have a positive association when it comes to corporate performance.

Although different studies have been conducted to examine corporate governance and financial performance in India, as Kapoor and Goel (2017) reported "profitability is an important variable, as it moderates the association between audit committee independence and earnings management". Further, Arora & Sharma (2016) indicated that there is no relationship between profitability and corporate governance proxies. Arora (2012) consistently indicated that corporate governance practices have a significant influence on firms' performance. Mohan and Chandramohan (2018) showed that CEO duality and board size have a negative and significant effect on firm performance, while board composition indicated no significant effect on firm performance. However, Dwivedi and Jain (2005) explained that firm performance has a statistically significant level. They assert that "...bigger boards are in a position to improve the governance of the firms leading to lower agency costs and have a positive association with firm value in the Indian context".

Bahadur (2016) has indicated that corporate governance characteristics such as board independence, number of board committees, and director remuneration, all have a positive impact on firms' performance, while, ownership by promoters, board size, and financial leverage have negative impact on firms' financial performance.

Kumar (2016) found a positive relationship for both the variables. In the same line, Ahmad and Al-homaidi (2018) have showed that the audit working group size and board size have the highest disclosure variables, while government proprietorship is the lowest variable that was exposed about tourism businesses. Jackling and Juhl (2009) indicated that board size generally has a positive impact on firms' financial performance. Further, Nandi and Ghosh (2012) showed that the extent of corporate disclosure has a positive relationship upon the "board size, ratio of audit committee members to total board members, family control, CEO duality, firm size, profitability, liquidity".



Table 2. Some previous studies in India

No.	Study by	Variables	Sample	Period	Data	Methods
1	Ghosh (2006)	"Return on assets, PERF, logarithm of size of board of directors, logarithm of total assets netted for depreciation, cash flows, age of the firm, leverage, percentage share price change, dummy variable indicating uncertainty in the economic environment, and dummy variable which assumes value 1 if a firm belongs to the private sector, else zero; IND _j ¼1 if a firm belongs to industry".	127 listed firms	2003	Secondary	Regression
2	Arora & Sharma (2016)	"Return on assets, return on equity, net profit margin, Tobin's Q, stock returns, square of board size, square of proportion of outside directors, square of board meetings, chief executive officer duality, institutional ownership, firm age, leverage, natural log of sales, advertising intensity, and research and development intensity".	20 industries	2001-2010	Secondary	GMM Regression
3	Arora (2012)	"Return on assets, adjusted Tobin's Q, board size, proportion of outside directors, board activity intensity, institutional ownership, CEO-chair duality, and firm age".	150 pharmaceutical firms	2001-2010	Secondary	Descriptive Correlation Regression
4	Mohan & Chandramohan (2018)	"Return on equity, price to book ratio, board composition, board size and CEO duality, financial leverage, asset turnover, and growth in sales".	30 firms	2007 to 2016	Secondary	Descriptive Correlation Regression
5	Dwivedi & Jain (2005)	"Tobin's q, board size, advertising intensity, R&D intensity, gross fixed assets, current year ROCE, previous year ROCE, debt-equity ratio, foreign shareholding, financial institution shareholding, directors' shareholding, public shareholding, and trading activity".	367 firm	1997-2001	Secondary	Descriptive Regression
6	Raithatha & Bapat (2014)	"Disclosure score, board size, board independence, board activeness, board busyness, proportion of shares held by foreign promoters shareholders, proportion of shares held by institutional shareholders, CEO duality, size, return on assets, leverage, quality of audit based on audit firm size, and age".	325 listed firms	2009 to 2010	Secondary	Descriptive Correlation Regression
7	Kapoor & Goel (2017)	"Dechow and Dichev (2002) model, board size, board independence, board busy, board attendance, firm age, ratio of market value to book value, leverage, firm size, profit, abs eps, AC size, AC independence, AC attendance, operational performance of the firm, and firm age".	297 companies	2006-2013	Secondary	Descriptive Regression
8	Bahadur G.C. (2016)	"Market to book value, Tobin's Q, board independence, board size, board committees, remuneration, promoter shareholding, return on assets, leverage, ownership structure, corporate governance, firm size, firm age, market performance, operating performance, and industry dummy".	CNX Nifty companies	2008 to 2012	Secondary	Regression
9	Kumar (2016)	"Return on assets, board size, board independence, and board diversity".	All IT listed companies	2008 to 2011	Secondary	Descriptive Regression



10	Ahmad & Al-homaidi (2018)	“Board of directors (size, composition, and diligence), audit committee (size, composition, and diligence), ownership (government, institutional and overseas)”.	53 tourism listed firms	2013 to 2015	Secondary	Frequency
11	Jackling & Johl (2009)	“Return on assets, return on assets, tobin’s Q, number of outside directors, outside directors, CEO chair, promoter CEO, CEO only employee, powerful ceo, busyness – all directors, busyness – outside directors, board size, board meetings, total assets, log of total assets, leverage, capital expenditure to sales, research and development, and firm age”.	Top listed companies	2004 to 2006	Secondary	Descriptive Correlation Regression
12	Nandi & Ghosh (2012)	“Corporate disclosure index, board size, board composition, ratio of aud. comm. members, family control, CEO duality, log value of total assets, profitability, leverage, liquidity, and age of the firm”.	60 firms	2000-01 to 2009-10	Secondary	Descriptive Correlation Regression
13	Kandukuri, Memdani, & Babu (2015)	Tobin’s Q, regress Tobin’s Q, Log of firm’s age, Log of total firm’s assets, and Corporate governance Index.	94 companies of	2011 to 2012	Secondary	Corporate governance Index
14	Das & Dey (2016)	“Age of the firm, Log of size, Equity dividend as percentage of PAT, Tobin’s Q, PAT, Log of per capita board income, Directors’ participation in other Boards, Attendance in board meetings, Presence of directors in committees, Size of the board, Presence of promoters in board, Chairperson = CEO/MD, Presence of women directors, Presence of independent directors”.	75 large-cap companies	2014	Secondary	Descriptive Correlation regression

Data and Methodology

Sample selection

The main aim of this study was to examine the impact of corporate governance mechanisms on financial performance of hotel companies listed on the Bombay Stock Exchange in India. A sample of study comprises of 30 hotel companies listed on the Bombay Stock Exchange (BSE) was consequently selected from the population of 53 hotels after excluding 23 hotels that did not have required data for the study period. This study was based on secondary data sourced from published annual reports of the listed hotel companies for the period from 2015 to 2017. Further, market values of the tourism company shares were extracted from the website of the BSE.

Measurement of dependent variable

Return on assets (ROA): the ratio that can be calculated by net profit to total assets as a first proxy for measuring the financial performance conferring to preceding studies that used diverse indicators for measuring financial performance. For example some studies (Darayseh & Chazi, 2018; Grove et al., 2014; Karam Pal Narwal & Shweta Pathneja, 2016; Masood et al., 2012; Menicucci et al., 2016; Rani & Studies, 2017; Zampara et al., 2017; Zheng et al., 2018) used return on assets (ROA) as a first proxy for measuring the financial performance of companies.

Net interest margin (NIM): the ratio that can be calculated by net interest income to total assets as a third proxy for measuring the financial performance (e.g. Angbazo, 1997; Gul et al., 2011; Hun et al., 2017; Kapaya & Raphael, 2016; Lee & Hsieh, 2013; Ongore, 2013; Tarus et al., 2012) used the net interest margin (NIM) as a third proxy for measuring the financial performance.



Earnings per shares (EPS): the ratio that can be calculated by earnings per shares as a third proxy for measuring the financial performance (Abbas et al., 2014; Dung Paul et al., 2015; Hossan & Habib, 2010; Waleed, 2016).

Measurement of independent variables

With respect to corporate governance, some attributes have been evaluated such as size of the board, board independence, and board diligence. Additionally, audit committee size, audit committee independence, the diligence of the audit committee, institutional ownership, and company age have been taken as significant attributes and measures of corporate governance. Table 3 summarizes the operational definition and measurement of the dependent and independent variables of the current study.

Table 3. Measurement of variables

<u>Variables</u>	<u>Notation</u>	<u>Proxy/ Measurements</u>	<u>Expect Effect</u>	<u>Previous studies</u>
<u>Dependent variables</u>				
Return on assets	ROA	$ROA_{it} = \frac{Net\ Profit_{it}}{Total\ Assets_{it}}$	NA	Darayseh & Chazi (2018), Rani & Studies (2017), Masood et al. (2012), Zampara, Giannopoulos, & Koufopoulos (2017), Zheng, Sarker, & Nahar (2018), and Karam Pal Narwal Shweta Pathneja (2016).
Net interest margin	NIM	$NIM_{it} = \frac{Net\ Interest\ Income_{it}}{Total\ Assets_{it}}$	NA	Acaravci & Calim (2013), Hun, Mohamad, & Ariff (2017), Gul et al., (2011), Kapaya & Raphael (2016), Naceur (2003), Ongore (2013), and Ongore (2013).
Earnings per share	EPS	$EPS_{it} = \frac{Net\ Profit_{it}}{Numbers\ of\ equity\ shareholders_{it}}$	NA	Hossan & Habib (2010), Abbas, Hunjra, Azam, Ijaz, & Zahid (2014), Dung Paul et al. (2015), Hossan & Habib (2010), and Waleed (2016).
<u>Independent variables</u>				
<u>Board of directors' effectiveness</u>				
Size	BSZE	Total No. of the members of B.O.D	±	Paniagua, Rivelles, & Sapena (2018) Kapoor & Goel (2017) Alhazaimh, Palaniappan, & Almsafir (2014) (Tian & Lau, 2001) (Mohan & Chandramohan, 2018) (Mashayekhi & Bazaz, 2008) Morekwa Nyamongo & Temesgen (2013)
Independence	BIND	No. of Independent members / total No. of members	-	Adekunle, S. A., & Aghedo (2014), Mohan & Chandramohan (2018), Nandi & Ghosh (2012), Ahmad & Al-homaidi (2018), and Nandi & Ghosh (2012).
Diligence	BDLG	Total No. of meetings attended by all board members/ total No. of meetings held during the year	±	Ahmad & Al-homaidi (2018), and Francis, Hasan, & Wu (2012).
<u>Audit committee effectiveness</u>				
Size	ACSZE	Total No. of the members of AC	±	Herdjiono & Mega Sari, (2017), Kapoor & Goel (2017), and Ahmad & Al-homaidi (2018).
Independence	ACIND	No. of Independent members / total No. of members	±	Abdul-rahman, Sulaiman, & Said (2017), Ahmad & Al-homaidi (2018), and Krishnan & Visvanathan (2009).
Diligence	ACDLG	Total No. of meetings attended by all AC members/ total No. of meetings held during the year	±	Ahmad & Al-homaidi (2018), Krishnan & Visvanathan (2009), Aljaaidi (2013), and Be'dard, Chtourou, & Courteau (2004).
<u>Ownership structure</u>				

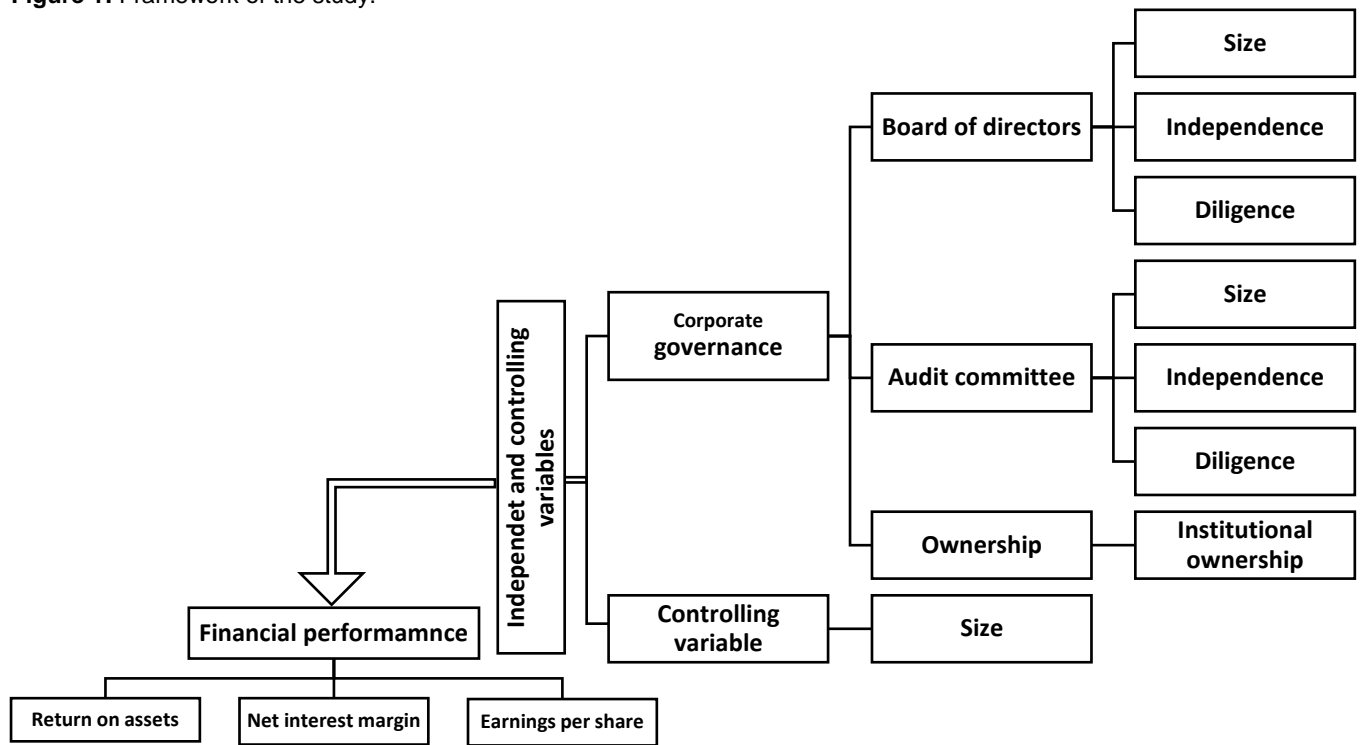


Institutional ownership	IO	Percentage of institutional ownership to equity	±	Herdjiono & Mega Sari, (2017), Arora & Sharma (2016), Arora (2012), Al-Akra, Eddie, & Ali (2010), Herdjiono & Mega Sari (2017), and Cheung, Chung, & Fung (2015).
<u>Controlling variables</u>				
Company size	CSIZE	The logarithm of total assets	±	Dzingai & Fakoya, (2017) Nandi & Ghosh (2012) Ghosh (2006) Raithatha & Bapat (2014) Bahadur G.C. (2016)

Model specification

A multiple regression analysis was employed to evaluate the impact of corporate governance mechanisms on firms' performance of Indian listed hotel companies. The following multiple regressions were estimated to investigate the relative contribution of each corporate governance attribute in affecting the performance. The study proposes the following model to test the influence of corporate governance mechanisms on firms' financial performance measured by three indicators as return on assets (ROA), net interest margin (NIM), and earning per share (EPS):

Figure 1: Framework of the study.



$$\text{Financial performance}_{it} = a_0 + a_1 \text{BSIZE}_{it} + a_2 \text{BCOMP}_{it} + a_3 \text{BDEL}_{it} + a_4 \text{ACSIZE}_{it} + a_5 \text{ACCOMP}_{it} + a_6 \text{ACDEL}_{it} + a_7 \text{IO}_{it} + a_8 \text{CSIZE}_{it} + \varepsilon_{it} \quad (1)$$

$$\text{ROA}_{it} = a_0 + a_1 \text{BSIZE}_{it} + a_2 \text{BCOMP}_{it} + a_3 \text{BDEL}_{it} + a_4 \text{ACSIZE}_{it} + a_5 \text{ACCOMP}_{it} + a_6 \text{ACDEL}_{it} + a_7 \text{IO}_{it} + a_8 \text{CSIZE}_{it} + \varepsilon_{it} \quad (1a)$$



$$NIM_{it} = a_0 + a_1 BSIZE_{it} + a_2 BCOMP_{it} + a_3 BDEL_{it} + a_4 ACSIZE_{it} + a_5 ACCOMP_{it} + a_6 ACDEL_{it} + a_7 IO_{it} + a_8 CSIZE_{it} + \epsilon_{it} \quad (2b)$$

$$EPS_{it} = a_0 + a_1 BSIZE_{it} + a_2 BCOMP_{it} + a_3 BDEL_{it} + a_4 ACSIZE_{it} + a_5 ACCOMP_{it} + a_6 ACDEL_{it} + a_7 IO_{it} + a_8 CSIZE_{it} + \epsilon_{it} \quad (3c)$$

Where Financial performance = ROA, NIM and EPS; i refers to an individual firm; t refers to year; $a_1 : a_8$ are the coefficients of determinant variables and ϵ is the error term; and all other variables are as defined in Table 3.

The study used a Hausman test to choose the appropriate estimation method; fixed effect model or random effect model. With respect to ROA, the outcomes of Hausman test indicated that the fixed effect model is more appropriate than the random effects model because the p-value is less than 5% (p-value < 0.05%). While, with respect to NIM and EPS models the results of Hausman test suggest that random effect models are more appropriate than the fixed effect models because the p-value is more than 5% (p-value > 0.05).

Data analysis and results

The analysis techniques were used in the descriptive analysis, correlation matrix and multiple regression analysis.

Descriptive analysis

Table 4 explains descriptive statistics for the variables of the research, as well as the maximum and minimum values of the variables, mean, and standard deviation. The board size illustrates the minimum value is 1.099 members in the board against a value of 2.773 as a maximum member in the board, with a mean of 2.021 and S.D of 0.349. The independence of the board demonstrates a minimum value of -1.253 against a value of 0.00 as a maximum value with a mean value of -0.659 and Std. Dev. value of 0.200.

This designates that board independence in some companies is less than 2% and the number of independent members of the board is less than 2.77%. The mean value of board diligence and, audit committee size, audit committee composition, audit committee diligence, institutional ownership, and company size are -0.243, 1.341, -0.355, -1.254, 1.036 and, 2.939 correspondingly, while the standard deviation of 0.227, 0.249, 0.310, 1.922, 3.110 and 0.110 individually. The mean values of ROA, NIM and EPS are 29.105, -30.828 and -0.951 and standard deviation values are 49.051, 301.730, and 14.749 respectively.

Table 4. Descriptive analysis

Variables	Obs.	Minimum	Maximum	Mean	Std. Dev.
BODSIZE	90	1.099	2.773	2.021	0.349
BODCOM	90	-1.253	0.000	-0.659	0.200
BODDEL	90	-0.792	1.216	-0.243	0.227
AUDSIZE	90	0.693	1.792	1.341	0.249



AUDCOM	90	-1.792	0.000	-0.355	0.310
AUDEL	90	-4.605	0.000	-1.254	1.922
INSTOWN	90	-4.605	4.605	1.036	3.110
CAGE	90	2.612	3.116	2.939	0.110
ROA	90	-14.06	187.250	29.105	49.051
NIM	90	-2855.41	61.450	-30.828	301.730
EPS	90	-111.67	25.500	-0.951	14.749

Notes: BODSIZE is the board size, BODCOM is the board composition, BODDEL is the board diligence, AUDSIZE is the audit committee size, AUDCOM is the audit committee composition, AUDEL is the audit committee diligence, INSTOWN is the institution ownership, CAGE is the number of years since establishment, ROA is the ratio of profit after tax to total assets (%), NIM is the ratio of net interest income to total assets (%), EPS is the ratio of earnings per share.

Correlation matrix and multicollinearity test

Table 5 confirms the effect of the correlation matrix assessment to analyze the association between the dependent and independent variables. All variables illustrate low correlation with financial performance. With regard to financial performance proxies, financial performance measured by three indicators as (ROA, NIM, and EPS), the first proxy is return on assets (ROA) shows the high value (0.268) of correlation with audit committee size and low correlation with audit committee diligence (-0.497). The second proxy of financial performance as net interest margin (NIM) reveals the high correlation with company size of (0.193) and low correlation with board composition of (-0.213), while the third proxy of financial performance as earnings per share (EPS) shows high correlation with audit committee composition (0.203) and low correlation with company age of (-0.124). Correlations between independent variables are not high, therefore, collinearity is not expected to be tricky in our research.

The outcomes of the Variance Inflation Factor (VIF) likewise demonstrate that there is no multicollinearity problematic amongst the independent variables. All values of the VIF are below 5 which specify that multicollinearity problematic amongst the independent variables is not present in this analysis. The VIF is represented in Table 5, Panel B which follows..

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Table 5. Correlation matrix and multicollinearity test

Variables	BODSIZE	BODCOM	BODDEL	AUDSIZE	AUDCOM	AUDEDEL	INSTOWN	CAGE	ROA	NIM	EPS
Panel A: Correlation matrix											
BODSIZE	1.000										
BODCOM	-0.140	1.000									
BODDEL	-0.135	0.083	1.000								
AUDSIZE	0.491	-0.164	0.014	1.000							
AUDCOM	0.090	0.318	-0.306	-0.303	1.000						
AUDEDEL	-0.209	0.194	0.075	-0.082	0.210	1.000					
INSTOWN	0.086	-0.120	-0.001	0.171	0.080	0.073	1.000				
CAGE	0.570	0.028	-0.093	0.291	-0.034	-0.135	0.200	1.000			
ROA	0.157	-0.163	-0.116	0.268	-0.148	-0.497	0.151	0.049	1.000		
NIM	0.137	-0.213	0.019	-0.015	0.117	-0.048	-0.025	0.193	0.071	1.000	
EPS	0.184	-0.045	0.048	0.001	0.203	0.042	0.045	-0.124	0.047	0.040	1.000
Panel B: Multicollinearity test											
VIF	1.742	1.026	2.565	1.428	2.853	1.579	1.186	1.409			
Notes: BODSIZE is the board size, BODCOM is the board composition, BODDEL is the board diligence , AUDSIZE is the audit committee size, AUDCOM is the audit committee composition, AUDEDEL is the audit committee diligence, INSTOWN is the institution ownership, CAGE is the number of years since establishment, ROA is the ratio of profit after tax to total assets (%), NIM is the ratio of net interest income to total assets (%), EPS is the ratio of earnings per share.											



Regression analysis

Tables 6 presents the consequences of multiple regressions between dependent and independent variables. With respect to ROA model the adjusted R-squared of pooled, fixed and random effects models are 15%, 49%, and 18% respectively. This recommended that independent variables contribute about 15%, 49%, and 18% of the variation in ROA. The outcomes with respect to ROA, the board size, board composition, institutional ownership have negatively associated to ROA, while board diligence, audit committee size, audit committee composition, audit committee diligence, and company size are positively related to ROA.

While ROA has a noteworthy influence on board size, board diligence, audit committee size, institutional proprietorship and has an irrelevant effect on board composition, audit committee composition, audit committee diligence and company age. Board size, board diligence, and institutional proprietorship have a substantial effect on ROA at the level of 5% (p -value < 0.05) excluding audit committee size has a momentous impression on ROA at the level of 1% (p -value < 0.01). The findings support those of Hassan et al. (2016) who found that board size has a negative association with ROA, they correspondingly exposed that board diligence and institutional ownership have a significant impact on ROA. This finding is supported by Mashayekhi and Bazaz (2008) who found that board size has negative and positive impression on firms' profitability measured by ROA, while they are not supported by Dalton, Daily, Ellstrand, and Johnson (1998), and Sanda, Mikailu, and Garba (2005) who have indicated that board size has a positive impact with financial performance.

With regard to NIM model, the Adjusted R-squared of pooled, fixed and random effects models are 41%, 51%, and 43% respectively. This recommended that independent variables contribute about 41%, 51% and 43% of the variation in NIM. The outcomes of random effect estimation of NIM indicate that board composition, board diligence, audit committee composition, institutional proprietorship and size of the company have an important impact on NIM, while board size, audit committee size, and audit committee diligence have an irrelevant effect on NIM. The NIM has a negative related with board size, board composition, and institutional ownership, while it is positively linked to board diligence, audit committee size, audit committee composition, audit committee diligence, and company age. Board diligence and audit committee composition have a noteworthy impact on NIM at the level 1% (p -value < 0.01), board composition and company age have a momentous impact on NIM at the level 5% (p -value < 0.05) except institutional ownership has a substantial impact on NIM at the level 10% p -value < 10 .

With respect to EPS model the adjusted R-squared of pooled, fixed and random effects models are 27%, 71%, and 34% respectively. This proposed that independent variables contribute to about 27%, 71% and 34% of the variation in EPS. In the term of EPS model, the fallouts of random effect model of EPS specify that there is a positive relationship with board size, board composition, board diligence, audit committee size, audit committee composition, audit committee diligence, and institutional ownership, except company age, has a negative relationship with earnings per share. The EPS similarly advocates that there is a momentous impact when it comes to board size, board composition, board diligence, audit committee composition, and company age, while it has inconsequential stimulus with audit committee size, audit committee diligence, and institutional ownership. Board size and board composition have an important impact on EPS at the level 5% p -value < 0.05), while board diligence and audit committee composition have a momentous impact on EPS at the level 1% (p -value < 0.01), apart from a substantial impact on company age at the level of 10% (p -value < 0.1).



The outcomes are comparable to those of Mashayekhi and Bazaz (2008) who found that board size has a positive effect on firms' profitability measured by EPS. This effect is not reinforced by Khaliq Ur Rehman, Cheema and Sadat Din (2013) who have reported that board size has unimportant impact on firm performance measured by EPS. It supports the findings of Smith (1996) who found that there is a positive association between institutional ownership and performance. However, Agrawal and Knoeber (1996) indicated no significant association on performance.

This investigation used a Hausman test to hand-pick the suitable estimation method; fixed or random effect models. With respect to ROA, the results of the Hausman test recommend that the fixed effect model is more apt than the random effects model because the p-value is less than 5% (p-value<0.05%). While with respect to NIM and EPS the results of Hausman test propose that random effect models are more appropriate than the fixed effect models because the p-value is more than 5% (p-value>0.05%).

Table 6. Regressions analysis

Variables	ROA			NIM			EPS		
	Pooled	Fixed	Random	Pooled	Fixed	Random	Pooled	Fixed	Random
	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.
C	-38.63** (-2.43)	83.33 (1.30)	-42.65*** (-2.66)	-2855.5** (-2.24)	256.10 (1.22)	-288.51* (-1.95)	150.48** (2.45)	370.46 (0.54)	154.47* (1.74)
BODSIZE	9.48 (1.17)	-98.01** (-2.57)	5.29 (0.64)	-211.53 (-0.99)	2.07 (0.99)	-225.55 (-0.95)	23.41*** (2.76)	20.04 (1.49)	22.53** (2.36)
BODCOM	-25.00*** (-2.74)	-15.41 (-1.52)	-25.12*** (-3.26)	-396.63 (-1.68)	-705.98** (-2.46)	-504.74** (-2.14)	3.68 (0.37)	18.71** (2.50)	15.24** (2.12)
BODDEL	10.79 (1.34)	17.93** (2.17)	12.15* (1.78)	900.40*** (4.22)	1143.67*** (4.92)	962.50*** (4.69)	21.82** (2.48)	18.08** (2.35)	19.40*** (2.86)
AUDSIZE	16.16 (1.53)	83.94*** (4.73)	25.81*** (2.58)	359.60 (1.12)	488.47 (0.86)	427.47 (1.25)	-0.32 (-0.03)	4.41 (0.45)	3.00 (0.35)
AUDCOM	7.92 (1.02)	11.77 (1.36)	7.48 (1.09)	935.75*** (4.51)	1336.52*** (4.83)	1044.99*** (4.90)	19.94*** (2.68)	16.98** (2.32)	18.12*** (2.93)
AUDEDEL	3.29*** (2.75)	-3.05 (-0.75)	3.38*** (2.77)	47.23 (0.71)	-17.18 (-0.24)	35.50 (0.55)	0.47 (0.45)	0.90 (0.40)	0.54 (0.39)
INSTOWN	-1.18 (-1.52)	-3.30** (-2.20)	-1.42* (-1.88)	-28.08* (-1.78)	-39.54 (-1.34)	-31.34* (-1.84)	0.46 (0.69)	-0.24 (-0.31)	0.07 (0.10)
CAGE	585.52* (1.84)	627.15 (1.42)	454.38 (1.57)	1181.43** (2.33)	-8720.0 (-1.23)	1187.53 (2.03)**	-61.50 (-2.67)	-133.08 (-0.57)	-61.40* (-1.90)
Adjusted R-squared	0.15	0.49	0.18	0.41	0.51	0.43	0.27	0.71	0.34
F-statistic	2.48	2.58	2.78	7.35	3.38	7.85	5.50	7.02	7.37
Prob(F-statistic)	0.02	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Hausman Test	0.01			0.41			0.84		

Note: significance at ***, **, *10 percent levels.

BODSIZE is the board size, BODCOM is the board composition, BODDEL is the board diligence, AUDSIZE is the audit committee size, AUDCOM is the audit committee composition, AUDEDEL is the audit committee diligence, INSTOWN is the institution ownership, CAGE is the number of years since establishment, ROA is the ratio of profit after tax to total assets (%), NIM is the ratio of net interest income to total assets (%), EPS is the ratio of earnings per share.



Conclusion and Recommendations

This paper has investigated the impact of corporate governance on financial performance of hotel companies listed on the Bombay Stock Exchange in India for the period from 2014 to 2016. The study has examined three aspects of corporate governance mechanisms namely; board of size, board composition, and board diligence, audit committee size, audit committee composition, and audit committee diligence and institutional ownership. The results show that board size, board diligence, audit committee size, and institutional ownership have a significant impact on ROA, while board composition, audit committee composition, audit committee diligence and company age have an insignificant effect on ROA. The results also found that board size, board composition, and institutional ownership have a negative association on ROA, while board diligence, audit committee size, audit committee composition, audit committee diligence, and company size have a positive relationship with ROA.

With respect to NIM model, the results indicate that board composition, board diligence, audit committee composition, institutional ownership and size of the company have a significant impact on NIM, while board size, audit committee size, and audit committee diligence have an insignificant effect on NIM. The findings also suggest that NIM has a negative relation to board size, board composition, and institutional ownership, while it is positively associated with board diligence, audit committee size, audit committee composition, audit committee diligence, and company age. In terms of the EPS model, the results reveal that board size, board composition, board diligence, audit committee size, audit committee composition, audit committee diligence, and institutional ownership have a positive relationship with EPS, except company age which has a negative relationship with EPS. The results also suggest that board size, board composition, board diligence, audit committee composition, and company age have a significant impact on EPS, while audit committee size, audit committee diligence, and institutional ownership have an insignificant influence on EPS.

Our results have implications for policy makers, regulators, managers, investors and researchers in the emerging markets of India. Our evidence on the relationship between corporate governance mechanisms and profitability of hotel companies listed in India should help policy makers and regulators develop new policies to establish a competitive legal and regulatory infrastructure to attract foreign capital. New regulations should continue to promote corporate governance mechanisms for the listed hotel companies. In addition, our findings have implications for the managers of public companies. Managers and board of directors of listed tourism firms should adopt high standards of corporate governance towards great effect and sustainability.

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