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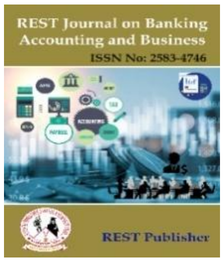

Enhancing Good Governance: A Study of Governance Scoring in Selected NSE-SME Companies

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Abstract: *Good governance has become increasingly important for small and medium-sized businesses (SMEs) listed on the National Stock Exchange (NSE). It is essential for encouraging sustainable growth, drawing investments, and maintaining stakeholder confidence. This study uses a selected governance scoring approach about the board responsibility on nine companies during the year in SMEs listed on the NSE. Creating and implementing a governance scoring model customized for the unique environment of SMEs in the NSE constitutes the quantitative component. This approach considers several governance factors, including the responsibility of the board. Data is gathered and evaluated to determine the governance scores for each SME. This allows for comparison analysis and trend discovery within the sample. The results are intended to clarify the relationship between sound governance practices and company success and provide insights into the current governance environment among SMEs listed on the NSE. Furthermore, this research makes a valuable contribution by emphasizing the difficulties SMEs encounter in putting strong governance frameworks into place and offering suggestions to improve governance efficacy specific to the SME sector. Ultimately, this research hopes to add to the current conversation about good governance in SMEs by providing insightful information to investors, regulators, policymakers, and SME management to support governance practices and promote competitiveness, resilience, and sustainable growth in the NSE's SME sector.*

Keywords: *Good Governance, NSE-SME'S, Governance Scoring, Corporate Governance, Governance Frameworks*

1. INTRODUCTION

Throughout history, corporate governance's primary focus has been improving financial performance and ensuring compliance with regulatory requirements. Nevertheless, the governance landscape has been transformed due to the growth of concerns over sustainability, an increased social conscience, and the recognition of businesses' wider influence beyond the measurements of their financial performance. A wide variety of criteria are included in the SME's factors, which are used to analyze a corporation's environmental effect, social responsibility, and governance practices. The goal of incorporating SME principles into governance frameworks is to encourage firms to conduct their operations in a manner that is ethical, transparent, and environmentally responsible. It manifests a shift toward holistic governance, which acknowledges the significance of the financial outcomes and the environmental and social ramifications. The global corporate governance landscape has shifted in recent years, with a greater emphasis on Environmental, Social, and Governance (SME'S) aspects. This transition has occurred as a result of developments in recent years. This transformation has transformed how corporations view and handle governance, reflecting a rising realization of the connectivity between corporate behavior, sustainability, and stakeholders' interests. In light of this, India's National Stock Exchange (NSE) has established itself as a supporter of environmentally responsible corporate practices by launching the NSE-SME'S 100 index. This index comprises businesses with exceptional performance in environmental, social, and governance (SME'S) sectors. The NSE-SME'S 100 index includes a group of companies listed on the National Stock Exchange of India and has shown excellent performance across various environmental, social, and governance (SME'S) performance indicators. The businesses mentioned above have demonstrated their dedication to environmental stewardship, social responsibility, and strong governance frameworks. Additionally, the index is a benchmark for investors looking to match their investments with socially responsible and environmentally sustainable practices. Companies featured in the NSE-SME'S 100 index are regarded as pioneers in incorporating sustainability into their fundamental business strategy or operations.

2. REVIEW OF LITERATURE

In his article, Aydemir, B (2012) examines the connection between SAHA's corporate governance rating and firm performance in Turkey for 2008-2010. This research analyzes the connection between Saha's corporate governance score, grounded in Capital Market Board of Turkey principles, and firm performance for 16 companies listed in the Istanbul Stock Exchange (ISE) corporate governance index. This research seeks to determine whether firms with high corporate governance scores have better firm performance. Three studies utilized A random effect model to analyze the connection between corporate governance and business performance. A paradigm used in this research integrates agency, stakeholder, and stewardship theories. Panel data is imbalanced, and the random effect mode is utilized. Saha Corporate Governance Rating Score was used to compare against accounting-based measures of firm performance comprising return on asset, equity, and sales, as well as four sub-indices: shareholder rights, public disclosure and transparency, stakeholders, and board of directors. Results from Saha's Corporate Governance Score suggest that corporate governance matters in Turkey. Analysis suggests firms whose corporate governance score is high perform better in Turkey. Regressing return on asset and equity against Saha's corporate governance score depicts a considerable linkage between corporate governance and firm performance. Regressing return on sales depicts an insignificant linkage between Saha's corporate governance score and sales.

In their article, **Dey, S.K. et al. (2020)** examine how corporate governance (CG) is an international phenomenon and the center of economic regulation. Failures in corporate governance have in the past been connected to financial unrest. The governance of banks is critically significant for an economically growing nation such as India. This research aims to determine how corporate governance regulation of a sample of Indian public sector banks is connected to their financial performance. Secondary information from the CMIE Prowess database was used to supplement the empirical segment of the research. The authors evaluated eleven public sector banks using the size of their balance sheets for seven consecutive years ending in 2019. We used correlation tests and regression modelling in our objectives. This has utilized two-factor performances, two control variables, and eight corporate governance variables. We used fixed effects generalised least squares (GLS) regression in our objectives based on our diagnostic test findings. The outcome exhibited a negative correlation for financial performances (ROA and ROE) and board size, meeting, committees, and independence. Conversely, our authors further find that numbers for female executives and non-executives for directors positively correlate with bank performance. Lastly, our authors recommend limiting public sector bank board numbers for directors.

The objective of this study, as per **Arora (2020),** is to identify the ideal board size for Indian-listed companies. We have used Panel OLS and random effects method for robustness check and estimate using a sample of 442 listed companies. We found that over 60% of companies in our sample had board size in the range of eight to twelve at various points in time for the sample period. To positively affect company success, we recommend that the board have at least eight directors and, at best, twelve members. The board size should neither be too large nor too small, yet it should possess an optimum mix of diversity and experience to make sound decisions.

In their article, **Abhilash et al. (2023)** identify that even though corporate governance is an area of interest that has attracted considerable attention in light of recent corporate scandals, there is an absence of a concise overview of corporate governance within an Indian context. To fill this gap, the current research aims to provide an updated overview of corporate governance in India. The research utilizes extensive bibliometric R Packages and VOS Viewer software, systematic literature review, and bibliometric approaches. In an attempt to do so, 344 papers published in the periodical database of Scopus from 2004 to 2022 are reviewed in this research. Similarly, network analysis, science mapping, and performance analysis in terms of review are performed. Results showcase a 23.99% rising rate of increase in papers from 2004 to date. Earnings management, gender diversity, ownership structure, board size, corporate governance, ownership, and company performance have been found by network analysis as key research subjects for this area. This paper is the key attempt to depict the development and growth of CG research in India. Consequently, this review contributes to existing knowledge within CG at the national level and provides potential for further research. The findings of this research further aid academics, regulators, and legislators in supporting corporate governance standards in the country.

3. OBJECTIVES OF THE STUDY

- To explore the relationship between SME-centric governance scores and financial performance within the selected NSE-SME 9 companies.
- To identify the impact of ROCE and ROCE on CG scores about board responsibility

HYPOTHESIS:

- **H_{10}:** There is no significant association between governance scores based on the responsibility of the board and ROCE and RONW of NSE-SME'S 9 companies
- **H_{11}:** There is a positive and significant association between governance scores based on the responsibility of the board and ROCE and RONW of NSE-SME'S 9 companies.

4. RESEARCH METHODOLOGY

This study examines the nuances of how the chosen NSE-SME'S 9 companies are based upon the weightage mentioned in the Factsheet on the website. This research aims to identify and analyze the board's responsibility and governance factors that significantly contribute to best practices within the NSE-SME'S 9 companies. Understanding these key factors is essential in elucidating the mechanisms that drive the integration of SME'S principles into corporate governance and also is their any significant impact of ROCE and RONW on CG scores for the year 2023, to test is this regression method is followed in the current study.

The sample size of the companies is considered based on weightage on the index:

TABLE 1. Company's Name

SL NO	COMPANY'S NAME
1	Network people services technologies ltd.
2	Jeena Sikho Lifecare Ltd
3	Spectrum Electrical Industrial Ltd
4	Vishnusurya projects and infra ltd
5	Innovana Thinklabs ltd
6	Beta Drugs Ltd
7	Remus Pharmaceuticals Ltd
8	Vasa Denticity Ltd
9	Kotyark Industries Ltd
10	Annapurna Swadisht Ltd (Excluded as data availability on ROCE & RONW is not available)

Source: NIFTY indices Factsheet

5. DATA ANALYSIS AND INTERPRETATION

A) ROCE:

A company's entire performance can be measured comprehensively by ROCE, which considers capital efficiency and profitability. It aids in evaluating the efficiency of capital allocation choices and the capacity to yield returns on capital investments. Consequently, ROCE emphasizes a company's capacity to turn a profit from the capital it uses and enables relevant comparisons between businesses operating in other industries. Since it indicates the company's capacity to provide returns on investment, ROCE is a crucial indicator for investors. A consistently high ROCE shows that the business is making good returns, which can boost investor confidence and possibly draw in further funding.

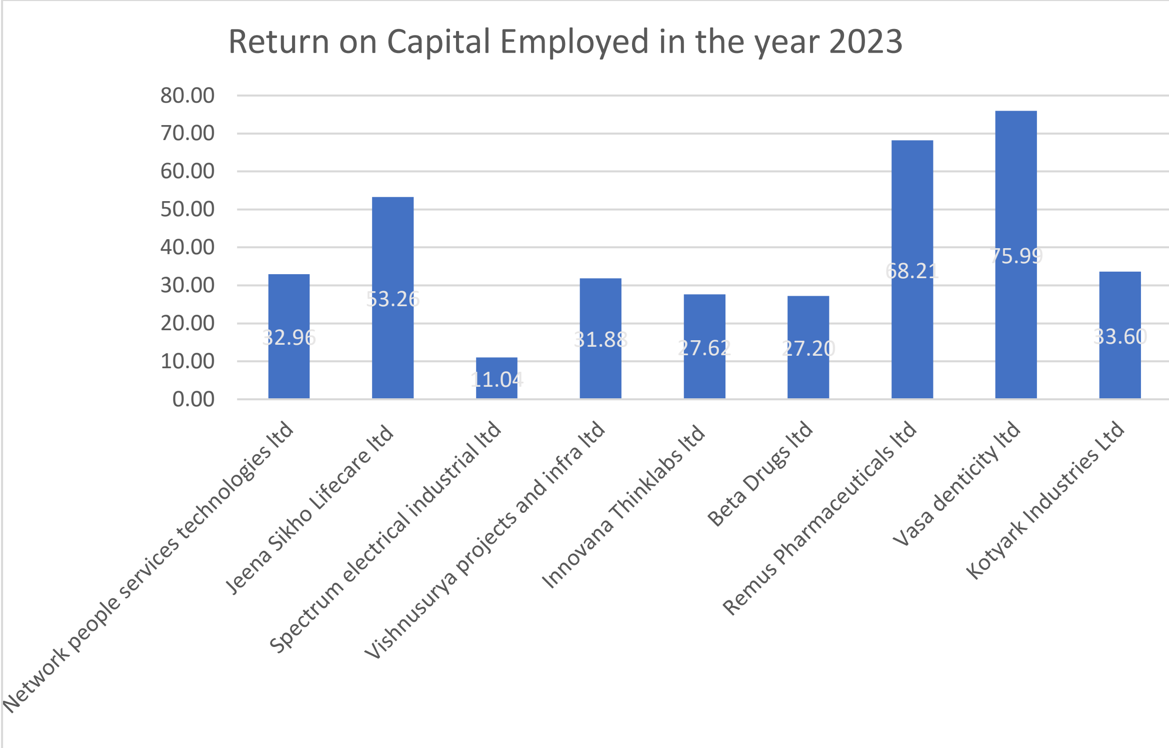

FIGURE 1. Return on Capital Employed in the year 2023

The Capitaline database was used to obtain the Return on Capital for the nine chosen companies. This suggests that Remus Pharmaceuticals, 58%, and Vasa Denticity Ltd, 76%, have higher returns than the other seven companies.

B) RONW: A measure of a company's profitability based on percentages is called return on net worth, or RONW. Divide the company's net income by the equity held by its shareholders to get the return on net worth (RoNW). An increasing return on net worth (RoNW) suggests that a company is more efficient at making a profit with less capital. It also describes how well a business's management uses the money that belongs to its owners. Put another way, the higher the RoNW, the better the firm prospectus.

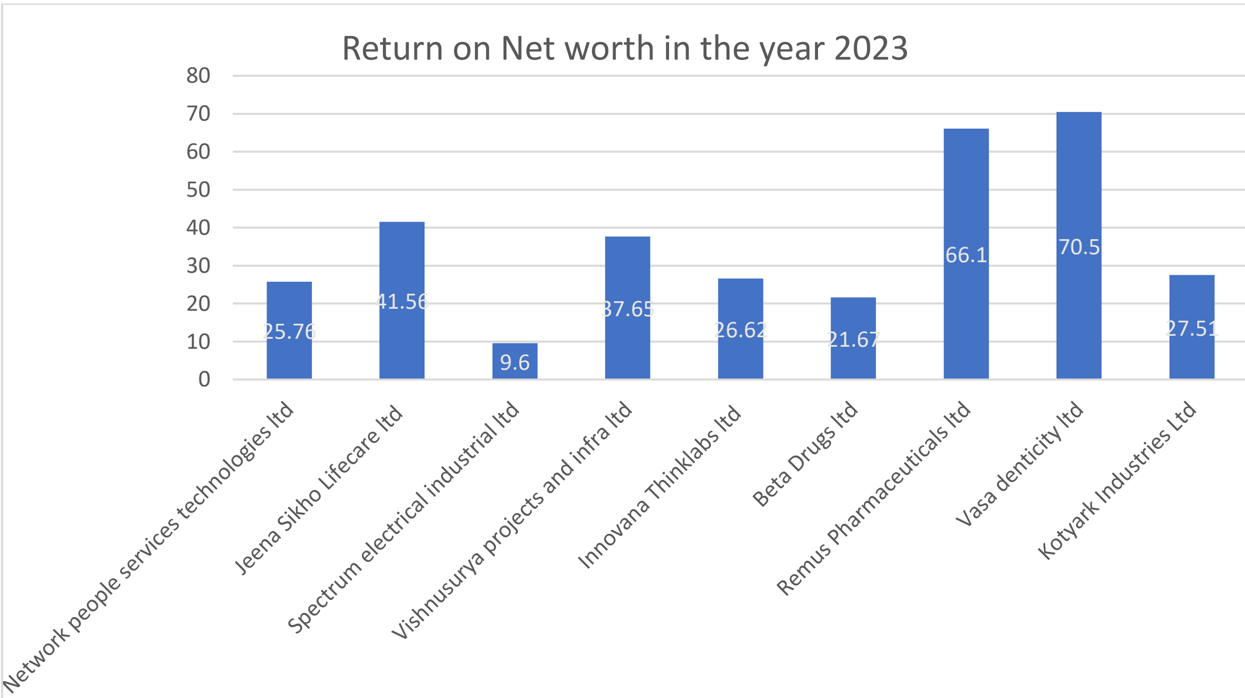

FIGURE 2. Return on Net worth in the year 2023

The Capitaline database was used to obtain the Return on Capital for the nine chosen companies. This suggests that Remus Pharmaceuticals, 66%, and Vasa Denticity Ltd, 71%, have higher returns than the other seven companies.

TABLE 2. Comparison Of CG Score, ROCE, & RONW for Sample Companies

SL NO	COMPANY'S NAME	CG SCORE (BOARD)On 30	ROCE %	RONW (%)
1	Network people services technologies ltd	16	32.96	25.76
2	Jeena Sikho Lifecare Ltd	15	53.26	41.56
3	Spectrum Electrical Industrial Ltd	16	11.04	9.6
4	Vishnusurya projects and infra ltd	14	31.88	37.65
5	Innovana Thinklabs ltd	16	27.62	26.62
6	Beta Drugs Ltd	19	27.2	21.67
7	Remus Pharmaceuticals Ltd	14	68.21	66.1
8	Vasa Denticity Ltd	10	75.99	70.5
9	Kotyark Industries Ltd	10	33.6	27.51

TABLE 3. Regression Statistics & ANOVA

Regression Statistics								
Multiple R	0.5556							
R Square	0.3087							
Adjusted R Square	0.0783							
Standard Error	2.8035							
Observations	9							
ANOVA								
	df	**SS**	**MS**	**F**	**Significance F**			
Regression	2	21.064	10.5320	1.3400	0.3302			
Residual	6	47.1581	7.8596					
Total	8	68.2222						
	Coefficients	**Standard Error**	**t Stat**	**P-value**	**Lower 95%**	**Upper 95%**	**Lower 95.0%**	**Upper 95.0%**
Intercept	17.3409	2.117	8.1882	0.0001	12.1589	22.5229	12.1589	22.5229
ROCE %	0.00227	0.2021	0.0112	0.9914	-0.4924	0.4970	-0.4924	0.4970
RONW (%)	-0.0822	0.2106	-0.3903	0.7097	-0.5977	0.4332	-0.5977	0.4332

6. FINDINGS

- On reviewing the Annual reports of sample companies, it was found that all nine companies had at least 1 Director post for women. Beyond that, no further leadership planning was evident.

- The sample companies were meeting Indian starting reports rather than focusing on global trends and threats—this was concluded by reading the annual report filed with the regulator.
- The **Multiple R** represents the correlation between the dependent and independent variables. A value of **0.55** indicates a moderate positive correlation between the variables Corporate Governance, ROCE, and RONW.
- The **R-Square (Coefficient of Determination)**: **0.3087**, indicates the proportion of the variance in the dependent variable explained by the independent variables. In this case, the independent variables account for approximately 30.87% of the variability in the dependent variable (CG Score) (RONW, ROCE).
- The significance F value (0.33) is higher than the conventional significance level of 0.05. This suggests that the overall model may not be statistically significant at the 0.05 significance level. This further indicates that by increasing the sample size, years, and other financial variables like EVA, MVA, Tobin's Q, Total shareholder return could be tested on the overall corporate governance scores.
- A higher T statistic suggests a more significant impact of the intercept; however, in our ROCE (Return on Capital Employed) Coefficient study, the T statistic is very low (0.011). The p-value is high (0.9914), indicating that the ROCE coefficient is not statistically significant. For the RONW (Return on Net Worth) Coefficient, the T statistic is also low (-0.390), and the p-value is high (0.7097), suggesting that the RONW coefficient is not statistically significant.

7. LIMITATION OF THE STUDY

The study comprises selected stocks on the NIFTY SME EMERGE index based on the top weightage category. Furthermore, a detailed study of the entire index can be conducted by adding all the corporate governance frameworks mentioned. The author has undertaken only the Study on the Responsibility of the board for calculating the CG score; further, more detailed scoring can be done with consideration of the other three elements. Future researchers can initiate studies on all the financial variables, not merely those confined to ROCE & RONW.

8. CONCLUSION

The performance of NSE- SME Emerge has drastically improved over the years. However, the selected companies adhere to regulatory compliance, and the board's effectiveness can be seen via strong internal control and oversight by taking various board positions and being strictly vigilant. This has benefited the stakeholders. Furthermore, considering Women independent directors beyond 1,2 members shall be advised after careful consideration of professional expertise and relevant Industry insights. The study infers to accept the null hypothesis and reject the alternate hypothesis The Study contributes to the existing literature on evaluating the board's Responsibility based on selected financial indicators. It proved the selected variables' statistical insignificance and suggested alternate variables that further researchers could use for empirical analysis.

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