www.ijarp.com ISSN 2456-9992 Page: 01-11

Review Article

International Journal Advanced Research Publications

Volume: 02
Issue: 11

THE CORPORATE GOVERNANCE VARIABLES AFFECT RETURN ON EQUITY AND TOBIN'S Q

Khoj Agarwal*, Dr. Deepak Tiwari

Department of Commerce, Niilm University, Kaithal, Haryana 136027.

Article Received: 11 October 2026, Article Revised: 31 October 2026, Published on: 19 November 2026

***Corresponding Author: Khoj Agarwal**

Department of Commerce, Niilm University, Kaithal, Haryana 136027.

Doi: https://doi-doi.org/101555/ijarp.5913

ABSTRACT

Corporate governance consists of the interplay between the company's top brass, including the shareholders, upper-level executives and the board of commissioners Using financial metrics like ROA and ROE as well as Tobin's Q, we examined the effects of board composition, CEO duality, board committees, board independence, company age, and firm size on these metrics. A negative link between CEO and all measuring factors was also found, and a high number of board committees was shown to correlate positively with all except return on assets (ROA). dualism and all dependent factors Nevertheless, the financial health of the firm was evaluated using Tobin's Q, Return on Equity (ROE), and Return on Assets (ROA). Turkish companies would do effectively to broaden the board's thoughts and, going against most previous studies in this field, improve market performance according to Increasing the board's size is suggested for improving Tobin's Q and ROE.

KEYWORDS: Corporate Governance, company's, financial, business and corporation.

INTRODUCTION

The overarching goal of good responsibility of business leaders is to guarantee that their operations are well-managed and that all stakeholders are held to account in the pursuit of that goal. Many Asian nations have regarded corporate governance standards with worry, notably in the aftermath associated with the 1997 Asian financial crisis. Because of technology advancements, geopolitical shifts, and economic tendencies toward globalization, many corporations undergo substantial alterations, making corporate governance an increasingly important issue in emerging nations. A company's ownership structure, the

dynamics between shareholders and management, and the myriads of stakeholders that are studied within the realm of corporate governance and have an impact on the actions taken by the company.

When a corporation has effective corporate governance, it gains the trust and support of its investors. Additionally, it may reduce the likelihood of board member and staff wrongdoing. Fraud is one kind of serious wrongdoing that violates the law. When someone steals from you or tries to cover up their unlawful activity in any way, they are committing fraud. According to Roe, corporate governance consists of the interplay between the company's top brass, including the shareholders, upper-level executives and the board of commissioners. Companies' governing bodies, in his view, are the recurrent processes that divide up power among the three and influence, modify, and control the firm's top-down choices.

Both vertical governance (between faraway both vertical Core corporate governance is different for vertical (management-shareholder) and horizontal (controlling shareholder-distant shareholder) relationships institutions aim to address both of these. To start, investors could be ready to shell out more cash for a business whose CG is good. stock because they believe a larger portion of the profits will be distributed to shareholders at dividend payments. Second, shareholders may incur lower costs of capital due to reduced monitoring and auditing expenses as a result of strong CG, which in turn lowers the projected return on equity. Leverage, alternatively, the capital structure that makes use of debt governance feature of a corporation that may affect its performance together with ownership.

Creditors' oversight is one example of this. Because stronger governance processes may come with costs that exceed their benefits, it is not always the case that improved CG leads to better organizational performance. When a corporation has effective corporate governance, it gains the trust and support of its investors. Additionally, it may reduce the likelihood of board member and staff wrongdoing. Fraud is one kind of serious wrongdoing that violates the law. When someone steals from you or tries to cover up their unlawful activity in any way, they are committing fraud. The production of financial statements may sometimes include deception. Taking preventative measures is necessary for the firm to avoid financial reporting fraud, which occurs when reports are misstated or disclosed in a way that deceives the user of the financial statements.

The onus for exposing and preventing management fraud mostly falls on the executive committee. As an additional responsibility, the BOD must make sure that the company's internal control system is working well to analyze and provide clean financial statements. Shareholders in the corporation have placed a lot of faith in the BOD and have given them a

lot of power. Keeping shareholders' money is an essential part of a director's job. The directors may be tempted to prioritize their personal interests due to the fact that contemporary corporations have divided ownership. The interests of shareholders should be safeguarded by corporate governance.

LITERATURE REVIEW

Yip et.al. (2024) Listed technology companies The purpose of this research is to analyses the connection between good corporate governance and financial performance in two Chinese cities—Shenzhen and Hong Kong—that make up the Greater Bay Area (GBA). This study uses data from the Hang Seng TECH Index and the SME-ChiNext Tech 100 Index, which span from 2016 to 2022, to analyses how corporate governance impacts key financial performance indicators including ROE, ROA, and Tobin's Q. We continue to fail to detect a link between these organizations' corporate governance policies and their operational or financial performance even after controlling for five additional variables. Notably, a distinct regional governing environment is shown by the claimed governance level of 47.2%.

Naim et.al. (2019) Using a literature review of sixty scholarly articles published in high-impact journals, this article identifies variables that predict corporate governance and business success. The study found that Tobin's Q and ROA were characteristics that supported company success, and that there were nine main elements that supported corporate governance. India was one of the nations that had its corporate governance regulations and reforms researched extensively. Both developed and emerging economies were using the identified variables as metrics in their corporate governance index. Corporate governance systems accounted for the majority of the nine main elements influencing board of director traits, behaviors, and procedures.

Nugroho, Miyanto. et.al. (2021). Scientific, macroeconomic, financial risk management, audit perspectives, stock returns, investment choices, financing decisions, and excellent corporate governance as a moderator are all part of the scope of this study. The Indonesia Stock Exchange is home to 147 different types of industrial enterprises. Four of the hypotheses tested here were found to be statistically insignificant. According to the findings, good corporate governance (GCG) does not significantly affect going concern audit opinion, and macroeconomics does not significantly affect financial risk management. Going Concern Audit Opinion is unaffected by Stock Return; at the 5% level of significance, GCG does not mitigate the influence of Stock Return on Going Concern Audit Opinion.

Amin et.al. (2021) Corporate governance (CG) strategies that improve company performance throughout all stages of an organization's life cycle on which this study is based. In order to achieve studying how various CG techniques interact with one another to provide high-performance results for companies at various stages of their life cycles, the authors suggest a configurational approach. Strategy, technique, and methodology A data sample from 9 different sectors and 21 different countries was analyzed using fuzzy-set qualitative comparative analysis. Information was derived over a time span of nine years, beginning in 2005 and ending in 2013. Findings According to the results of this research, there are a variety of CG practices that successful businesses use. At each stage of a company's lifecycle—from startup to decline—CG practices converge in unique ways. Restrictions and consequences of the study This research highlights the need of using a configurational analytical method to examine the CG practices that businesses and countries use to accomplish performance goals across the company life cycle.

Achchuthan et.al. (2013) A number of economic reforms implemented by many nations and unfortunate events in economic history, including regional market crises and major business disasters, have focused considerable emphasis during the previous two decades with regard to corporate governance. The ultimate purpose of the research is for various forms of corporate governance to potentially be strategies affect the performance of firms. The secondary goal is to recommend best practices in corporate governance to the listed Sri Lankan manufacturing enterprises so that they may improve their company performance. For the years 2007, 2008, 2009, 2010, and 2011, a total of twenty-eight manufacturing enterprises were chosen at random from the Colombo Stock Exchange. Determine if using two different statistical tests, one-way analysis of variance (f-test) and an independent sample t-test, we discover that corporate governance practices on company performance are statistically different.

RESEARCH METHODOLOGY

ROA reveals the true performance of an organization and gives a broad picture of its traits. If you want to know how well a business utilizes its entire assets to make money, this ratio is for you. When looking at company performance, ROA and ROE have various benefits, according to different research. One issue that A company's size has no bearing on return on assets and return on equity. As opposed to metrics based on market value, ROA and ROE are more instructive metrics for showing annual fluctuations, according to Demsetz and Lehn (1985). measurements. These considerations led to the selection of ROA and ROE as the financial performance metrics used in this analysis. With The regression was carried out as a measure

of Tobin's Q. business value in the financial market, as the final dependent variable, providing a distinct viewpoint as well. When doing empirical research, this metric is often employed as a dependent variable to assess financial success.

DATA ANALYSIS

According to the results, the pooled regression model was clearly superior suitable strategy for ROE after following the same procedures as those for ROA in this investigation.

Table 1: Return on Equity (ROE) Calculation.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.285181	0.145925	1.954298	0.0512
BOCOM	0.013262	0.010860	1.221258	0.2225
BOIND	0.199892	0.099271	2.013601	0.0445
BOSIZ	0.002139	0.002893	0.739502	0.4599
CEODUO	-0.045885	0.024081	-1.905424	0.0572
FIAGE	-0.000199	0.000625	-0.317925	0.7507
FIRSIZ	-0.037404	0.017167	-2.178790	0.0298
R-squared	0.023921	Mean dependent var		0.120218
Adjusted R-squared	0.013628	S.D. dependent var		0.419283
S.E. of regression	0.416416	Akaike info criterion		1.097815
Sum squared resid	98.66599	Schwarz criterion		1.150754
Log likelihood	-309.1708	Hannan-Quinn criter.		1.118461
F-statistic	2.324074	Durbin-Watson stat		1.786656
Prob(F-statistic)	0.031658			

Financial measurement (ROE) is positively affected by board committees, board independence, and board size. Furthermore, ROE is negatively impacted by ceo dualism (4.58%), company size (0.019%), and firm age (3.7%).

Board independence and company size are the only factors that explain ROE substantially (based on p-values), Alternatively, firm age, ceo duality, board size, and committees do not. Adjusted R-squared shows that the independent variables explain, on average, around 1.4% of the systematic variance in ROE-squared value of 0.0136 for this model. The collected data also do not exhibit a first-order serial correlation issue, since the value of Durbin-Watson is 1,786. The overall p-value and F-statistic for this model are 0.0316 and 2.32%, respectively. So, factors related to corporate governance do impact ROE.

Table 2: Hausman Test (ROE).

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.522120	5	0.0283

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var (Diff.)	Prob.
BOCOM	0.038802	0.015645	0.000435	0.2671
BOIND	0.168540	0.206735	0.007576	0.6608
BOSIZ	0.008373	0.002781	0.000218	0.7046
FIAGE	-0.011743	0.000132	0.000172	0.3647
FIRSIZ	-0.219185	-0.053706	0.002778	0.0017

OLS (ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.256401	0.671608	3.359699	0.0008
BOCOM	0.038802	0.026860	1.444608	0.1492
BOIND	0.168540	0.118868	1.417878	0.1569
BOSIZ	0.008373	0.017707	0.472852	0.6365
FIAGE	-0.011743	0.013174	-0.891372	0.3732
FIRSIZ	-0.219185	0.057985	-3.780009	0.0002

Effects Specification

Table 3: Fixed Effect.

Cross-section fixed (dummy variables)

R-squared	0.290072	Mean dependent var	0.116972
Adjusted R-squared	0.154501	S.D. dependent var	0.419372
S.E. of regression	0.385616	Akaike info criterion	1.079146
Sum squared resid	72.41692	Schwarz criterion	1.785319
Log likelihood	-219.4920	Hannan-Quinn criter.	1.354440
F-statistic	2.139628	Durbin-Watson stat	2.434179
Prob(F-statistic)	0.000000		

ROE=C (1) +C(2)*BOCOM+C(3)*BOIND+C(4)*BOSIZ+C(5)*CEODUO +C(6) *FIAGE+C(7)*FIRSIZ

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.285181	0.163104	1.748463	0.0809
C(2)	0.013262	0.017228	0.769818	0.4417
C(3)	0.199892	0.071284	2.804149	0.0052
C(4)	0.002139	0.008321	0.257073	0.7972
C(5)	-0.045885	0.043621	-1.051914	0.2933
C(6)	-0.000199	0.001061	-0.187294	0.8515
C(7)	-0.037404	0.019454	-1.922659	0.0550
R-squared	0.023921	Mean dependent var		0.120218
Adjusted R-squared	0.013628	S.D. dependent var		0.419283
S.E. of regression	0.416416	Akaike info criterion		1.097815
Sum squared resid	98.66599	Schwarz criterion		1.150754
Log likelihood	-309.1708	Hannan-Quinn criter.		1.118461
F-statistic	2.324074	Durbin-Watson stat		1.786656
Prob(F-statistic)	0.031658			

Table 4: Wald Test (ROE).

Wald Test:

Equation: Untitled

Test Statistic	Value	df	Probability
t-statistic	-1.051914	569	0.2933
F-statistic	1.106523	(1, 569)	0.2933
Chi-square	1.106523	1	0.2928

Null Hypothesis: C (5) =0

Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C (5)	-0.045885	0.043621

The coefficients of the restrictions are linear.

Table 5"Pooled Regression" is. Our Best Estimate (ROE).

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.285181	0.163104	1.748463	0.0809
BOCOM	0.013262	0.017228	0.769818	0.4417
BOIND	0.199892	0.071284	2.804149	0.0052
BOSIZ	0.002139	0.008321	0.257073	0.7972
CEODUO	-0.045885	0.043621	-1.051914	0.2933
FIAGE	-0.000199	0.001061	-0.187294	0.8515
FIRSIZ	-0.037404	0.019454	-1.922659	0.0550
R-squared	0.023921	Mean dependent var		0.120218
Adjusted R-squared	0.013628	S.D. dependent var		0.419283
S.E. of regression	0.416416	Akaike info criterion		1.097815
Sum squared resid	98.66599	Schwarz criterion		1.150754
Log likelihood	-309.1708	Hannan-Quinn criter.		1.118461
F-statistic	2.324074	Durbin-Watson stat		1.786656
Prob(F-statistic)	0.031658			

Table 6 Pooled OLS Regression with White Cross (ROE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.285181	0.145925	1.954298	0.0512
BOCOM	0.013262	0.010860	1.221258	0.2225
BOIND	0.199892	0.099271	2.013601	0.0445
BOSIZ	0.002139	0.002893	0.739502	0.4599
CEODUO	-0.045885	0.024081	-1.905424	0.0572
FIAGE	-0.000199	0.000625	-0.317925	0.7507
FIRSIZ	-0.037404	0.017167	-2.178790	0.0298
R-squared	0.023921	Mean dependent var		0.120218
Adjusted R-squared	0.013628	S.D. dependent var		0.419283
S.E. of regression	0.416416	Akaike info criterion		1.097815
Sum squared resid	98.66599	Schwarz criterion		1.150754
Log likelihood	-309.1708	Hannan-Quinn criter.		1.118461
F-statistic	2.324074	Durbin-Watson stat		1.786656
Prob(F-statistic)	0.031658			

However, as a result of calculating Tobin's Q utilizing, the p-value (0.0963) exceeded the threshold value (0.05). the identical methodology. when the Hausman test was done. Consequently, a random effect model was determined to be a better fit for Tobin's Q than ROA and ROE.

Table 7 For Tobin's Q, for Ordinary Least Square.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.488890	1.644130	3.946701	0.0001
BOCOM	0.045417	0.042604	1.066025	0.2869
BOIND	0.580753	0.225139	2.579538	0.0101
BOSIZ	0.036824	0.054599	0.674453	0.5003
CEODUO	-0.342800	0.056346	-6.083830	0.0000
FIAGE	-0.000800	0.005431	-0.147313	0.8829
FIRSIZ	-0.686639	0.191595	-3.583804	0.0004
Effects Specification				
			S.D.	Rho
Cross-section random			1.392240	0.3998
Idiosyncratic random			1.705912	0.6002
Weighted Statistics				
R-squared	0.044214	Mean dependent var		0.533329
Adjusted R-squared	0.034100	S.D. dependent var		1.743861
S.E. of regression	1.714126	Sum squared resid		1665.975
F-statistic	4.371539	Durbin-Watson stat		1.537074
Prob(F-statistic)	0.000250			
Unweighted Statistics				
R-squared	0.051591	Mean dependent var		1.239949
Sum squared resid	2728.938	Durbin-Watson stat		0.938360

A higher Tobin's Q is associated with a larger board, more independent board members, and a larger board committee. There is an inverse correlation between Tobin's Q and CEO duality, company age, and business size is evident. While the study found no significant implications impacts on Tobin's Q of board committees, board size, and the age of the firm, it did find significant effects of board independence, ceo duality, and firm size. Regression results also show that, in terms of relative relevance The strongest significant correlation, lies in the middle of the beta distribution between ceo duality and Tobin's Q, with a p-value of,000. With an adjusted R-squared value of 0.034, the research determined that Tobin’s Q explains about 3.4% of the variance. In addition, the data does not show any signs of autocorrelation, since the Durbin-Watson test produced a score of 1.53, which is quite near to 2.

CONCLUSION

The benefits of corporate governance, including board committees, ceo duality, firm age, business size, and board size, board composition (independence), and board effectiveness.

Because previous studies had assumed that comparing the same independent variables would have some impact on company performance. Nevertheless, the financial health of the firm was evaluated using Tobin's Q, Return on Equity (ROE), and Return on Assets (ROA). Turkish companies would do effectively to broaden the board's thoughts and, going against most previous studies in this field, improve market performance according to Increasing the board's size is suggested for improving Tobin's Q and ROE. corporate governance consists of the interplay between the company's top brass, including the shareholders, upper-level executives and the board of commissioners Using financial metrics like ROA and ROE as well as Tobin's Q, the impact of autonomous boards was also positively and considerably connected with all indicators, making it the most relevant variable. A company's ownership structure, the dynamics between shareholders and management, and the myriads of stakeholders that are studied within the realm of corporate governance and have an impact on the actions taken by the company.

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