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IMPACT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE IN REAL ESTATE SECTOR OF INDIA

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Abstract

The corporate governance of the real estate sector in India differs from other industries due to the unique characteristics, challenges, and regulatory environment specific to real estate. Unlike many industries that have continuous production processes, real estate companies are highly capital intensive and operate on a project basis with a long-term horizon. It is subject to a complex web of regulations and policies which is of less concern to other industries. These intricacies necessitate the operations in strategic frameworks that require having a good corporate governance mechanism in the firms. This study investigates the impact of corporate governance mechanisms on the financial performance of Indian real estate firms. Using panel data regression, the research analyzes the relationship between financial performance and key governance factors, including board size, the ratio of independent directors, and board remuneration, while controlling for firm-specific variables. The findings reveal that the corporate governance practices significantly influence the financial performance of real estate firms in India. These results underscore the importance of robust corporate governance practices for enhancing transparency, accountability, and stakeholder trust, which ultimately drives financial performance in the Indian real estate sector. The study provides valuable insights for companies, investors, and policymakers, emphasizing the need to move beyond mere regulatory compliance towards embracing governance as a strategic tool for sustainable growth and long-term value creation.

Keywords: Corporate Governance; Panel Data Regression, Real Estate; Financial Performance.

INTRODUCTION

Corporate governance is an essential component of modern company operations in order to ensure accountability, transparency, and responsible decision-making within organizations. Due of its potential influence on the financial success of businesses, it has garnered a lot of attention recently. In the real estate sector which is highly capital intensive with its long-term investment horizon, proper corporate governance practices are essential for efficiently running the business (Kavadis, & Thomsen, 2023). Risk mitigation strategies and long-term growth depend heavily on efficient corporate governance practices of an organisation. Corporate governance is essential because it lays forth a set of standard policies and practices that highlights how a company should operate in the best interests of all of its stakeholders (Sarma et al., 2024). Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled Guluma, 2021; Ngatno et al., 2021). It encompasses the mechanisms through which companies, and those in control, are held to account. Corporate governance involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community (Banda, 2023). In the context of the real estate sector, corporate governance plays a crucial role in ensuring transparency, accountability, and ethical behavior, which are essential for sustainable growth and long-term success (Bauer et al., 2010; Morri et al., 20223).

The real estate sector is a significant contributor to the economy, providing housing, commercial spaces, and infrastructure that are vital for economic development. However, the sector is also characterized by high capital intensity, long project timelines, regulatory complexity, and significant environmental and social impacts (Ratcliffe et al., 2021). These unique characteristics make corporate governance particularly important in the real estate sector. Corporate governance in real estate, aids in enhancing transparency, managing risks, ensuring regulatory compliance, building investor confidence, and promoting sustainable development (Pillai et al., 2021; Efunniyi et al., 2024).

The relationship between corporate governance and financial performance of an organisation has been of interest to researchers for decades. However, the research related to the real estate sector is minimal. The global economy is intricately woven with the real estate sectors, pillar that sustain economic growth and development (Xu and Dong, 2024). This sector is responsible for the development of residential and commercial properties that form the backbone of modern societies. However, the efficient functioning of companies within this sector, and its ability to deliver on their mandates, is not solely reliant on bricks and mortar; corporate governance plays a pivotal role in shaping their operations and, ultimately, their performance (Swathi and Uma, 2025). Given the dynamic nature of the real estate industry coupled by varied set of emotional expectations and involvement of multiple stakeholders, organisations often tend to overlook the long-term vision (Ciaramella, & Dall'Orso, 2021). The sector is bounded by many public-polices like RERA, transfer of property act, etc. Given the strong regulations in this industry, it appears outwardly that sound corporate governance practices would be inherently imbibed operating framework of the companies in the sector. However, in the real world, the numerous cases of project delays, quality issues, manipulation of facts, intentional screening of mandatory disclosures are quite common. Effective corporate governance practices are essential for enhancing profitability, sustainability, and investor trust. It is thus expected that this study will provide valuable insights for companies, investors, and policymakers regarding the impact of corporate governance mechanisms of firm performance.

LITERATURE REVIEW

The limited literature on impact of corporate governance on firm performance in the real estate sector of India is multifaceted, encompassing various governance mechanisms that influence financial outcomes. It can broadly be classified into two sections: Corporate Government Mechanisms and compliance to regulatory environment. Since our study primarily focuses on the former, we have majorly reviewed the literature from this context.

Transparency and accountability are fundamental principles of good corporate governance. In the real estate sector, these principles are particularly important due to the sector's historical issues with opacity and unethical practices. Transparent corporate governance practices ensure that all stakeholders, including investors, homebuyers, and regulators, have access to accurate and timely information about the company's operations, financial performance, and risk management practices. Corporate governance frameworks that promote ethical business practices help prevent fraud, corruption, and other unethical behaviors that can damage a company's reputation and financial performance. In the real estate sector, where large sums of money are often involved, ethical governance practices are crucial for maintaining stakeholder trust and ensuring long-term success.

The board composition is an important aspect of corporate governance practices of the firm. The real estate sector of India being mainly driven by family conglomerates is prone to biased board composition. Literature strongly suggests a positive relationship between financial performance and a higher representation of independent directors (Vetrivel et al., 2025). Diverse board structure is expected to bring in a better strategic outlook and thereby significantly contributing to the financial performance positively (Radin et al., 2024). While the apparent literature evidences support the notion that a robust corporate governance enhances the financial performance of a firm, several researchers have documented for a varied set of inferences arising due to different economic contexts. (Yousaf et al., 2024).

Corporate governance is a critical component of modern business operations, essential for ensuring accountability, transparency, and responsible decision-making within organizations. Gupta and Sharma (2014) studied the impact of corporate governance practices on firm performance in Indian and South Korean companies, highlighting the importance of governance standards in driving organizational success. Many studies, including Chauhan et al. (2016) and Rose (2016), have explored the relationship between corporate governance practices and firm performance and stressed on the importance of adherence to corporate governance codes and compliance in enhancing firm performance while reporting positive impact of board composition recommendations on company performance.

The composition of a company's board of directors, particularly the level of independence within the board, is a crucial factor in shaping decision-making processes and strategic direction, influencing firm performance. Board independence and structure have been the focus of several studies, with research indicating the positive impact of board composition recommendations on company performance. The impact of board independence and structure on firm performance has been a focus in several papers, such as Fuzi et al. (2016), O'Connell and Cramer (2010), and Rashid (2018).

These studies have highlighted a positive association between board independence and firm performance; the need for non-executive directors to enhance corporate governance and improve financial outcomes; positive impact of larger board sizes and a higher percentage of non-executive directors. Further, in the recent years, intellectual assets, including knowledge and innovation, are recognized as valuable resources that contribute to competitive advantage and long-term success in organizations. (Azeem et al., 2021; Rehman et al. 2022)

The real estate sector is inherently risky, with challenges such as market volatility, regulatory changes, project delays, and environmental risks. Effective corporate governance frameworks help companies identify, assess, and manage these risks, ensuring that they can navigate uncertainties and maintain financial stability. Corporate governance frameworks that include robust risk management processes enable companies to identify and assess potential risks early. This proactive approach allows companies to develop strategies to mitigate risks and avoid costly disruptions to their projects. In the event of a crisis, such as a market downturn or regulatory change, strong corporate governance practices ensure that companies can respond effectively. This includes having contingency plans in place, maintaining open communication with stakeholders, and making informed decisions to minimize the impact of the crisis on the company's operations and financial performance.

Investor confidence is crucial for the success of real estate companies, which rely heavily on external financing for their projects. Strong corporate governance practices, such as independent board oversight, transparent financial reporting, and ethical business conduct, help build investor confidence and attract more investment.

An independent board of directors plays a critical role in corporate governance by providing oversight and ensuring that management acts in the best interests of the company and its stakeholders. In the real estate sector, where projects often involve significant risks and uncertainties, independent board oversight is essential for making informed decisions and maintaining investor confidence. Ownership structure and concentration also play a significant role in influencing corporate governance practices and firm performance. Research suggests a strong relationship between ownership concentration and firm value, with concentrated ownership aligning interests and maximizing firm value. Understanding the dynamics of ownership structure and the level of control exerted by shareholders is essential for comprehending how ownership influences governance practices and organizational performance. Buallay et al. (2017) and Bhagat and Bolton (2008), have discussed the influence of ownership structure on firm performance. Their findings include the relationship between ownership concentration and firm value and the role of concentrated ownership in aligning interests and maximizing firm value.

Ciftci et al. (2019) have focused on the impact of corporate governance on firm performance in emerging markets: The role of corporate governance mechanisms, such as board independence, ownership structure, and accountability, in improving firm performance in emerging markets and the significance of separating CEO and chairman positions to ensure efficiency.

Real estate projects often have long gestation periods, from land acquisition to project completion. This requires long-term strategic planning and sustained financial health. The real estate market is highly cyclical and sensitive to economic conditions, interest rates, and consumer sentiment. Companies must manage this volatility through effective risk management and strategic planning.

While corporate governance is crucial for the success of real estate companies, there are several challenges that companies in the sector must address. These challenges include regulatory complexity, market volatility, and the need for long-term strategic planning. However, there are also opportunities for companies that prioritize corporate governance, such as attracting more investment, building stakeholder trust, and promoting sustainable development. Corporate governance frameworks that prioritize risk management and long-term strategic planning can help companies navigate market fluctuations and maintain financial stability.

RESEARCH METHODOLOGY

The current study analyses the impact of corporate governance mechanisms of the firms in the real estate sector of India using Panel-data regression since the dataset included both cross-sectional as well as time series data. As a sample for the study, we have included the companies which are a part of the Nifty Realty index currently. The Nifty realty index comprises of ten companies detailed in the table 1 below. Even though the sample size may seem small but given the process of firms being a part of the realty index ensures difference in scales across different geographies. The index constituents provide a comprehensive view of market performance and facilitates studying the effects of market changes on a broad spectrum of companies, enhancing the generalizability of findings (Afego, 2017, Baran and King, 2014).

The data has been collected for a period of ten years (2015-2024). 2015 is an important year for the Indian real estate sector since FDI relaxations were laid down by the government along with the launch of Housing for All (Pradhan Mantri Awas Yojana – PMAYwith an emphasis on affordable housing projects. This brough about a significant change in the business strategy of the real estate sector.

The study focusses on the time period post this policy reforms in the sector. The data was collected from CMIE Prowess database and we have excluded the data for the companies with missing data, thus leading to an unbalanced panel. Further, the data for Macrotech developers was available from the year 2021 since the company was not listed in the exchange before that.

Table 1: Sample Set

Company	Time Period
Brigade Enterprises Ltd.	2015-2024
DLF Ltd.	2015-2024
Godrej Properties Ltd.	2015-2024
Macrotech Developers Ltd.	2021-2024
Mahindra Lifespace Developers Ltd.	2015-2024
Oberoi Realty Ltd.	2015-2024
Phoenix Mills Ltd.	2015-2024
Prestige Estates Projects Ltd.	2015-2024
India Bulls Real estate Ltd	2015-2024
Sobha Ltd.	2015-2024

As a part of the study, it was essential to design the research framework with the various measures which would be the variables for our study. The detailed list of the variables is represented in Table 2 below. The variables in our study was included on the basis of existing literature support.

Table 2: Research Framework and Variable Description

Measure Parameter	Proxy Variable
Financial Performance	Return on Assets (ROA)
Corporate Governance	Board Remuneration
	Board Size
	Ratio of Indirect Board Members
Control Measures for Agency issue, size and scale	Salaries
	Firm Age
	Enterprise Value
	Total Revenue
	Total Assets

The literature suggests considering Return on Assets and Return on Equity (ROE) as a measure for profitability. However, given the context that the corporate government practices of a firm affect all stakeholders and not only the equity holders, ROA would be better suited for the analysis.

The panel data regression was preferred over Ordinary Least Square regression estimation in order to limit the impact of heterogeneity of the dataset over the time period.A panel data regression model can be represented mathematically as:

$$Yit = \beta 1 + \beta 2X2it + \beta 3X3it + ... + \beta kXkit + \varepsilon it$$

where i= 1, 2,....n and t= 1,2,.....T

The Random Effects (RE) model and the Fixed Effects (FE) model are the two well-known techniques for estimating panel data (Greene, 2012). FE investigates how predictor and outcome variables relate to one another within an entity. The assumption of possibility of an individual factor influencing the predictor is controlled with FE models. However, if the error terms are correlated, then FE is inappropriate since we need to use RE to represent the relationship because inferences could not be accurate. The variation within entities in RE is presumed to be random and unrelated to the predictor or other independent variables in the model. To account for the assumption that there are differences between entities and has an impact on the dependent variable, RE model is used. The choice of the appropriate model is established on the basis of Hausman Test wherein as a Null Hypothesis the RE is preferred over FE and analyses if there exists correlation between the unique errors and the regressors.

RESULTS AND ANALYSIS

The results are summarized in Table 3 below:

Table 3: Results of Panel Data Regression

Independent Variables	**Dependent Variables**	
	FE	**RE**
Board Remuneration	-0.057 (0.08) *	-0.026 (0.04) **
Board Size	0.223 (0.036)**	0.424 (0.004)***
Ratio of independent directors	1.837 (0.044)**	0.233 (0.1) *
Salaries	0.003 (0.54)	0.003 (0.40)
Firm Age	-0.704 (0.001)***	-0.026 (0.001)***
Enterprise Value	0.001 (0.00)***	0.000 (0.043)**
Total Revenue	0.00 (0.00)***	0.00 (0.00)***
Total Assets	1.792 (0.047)**	0.561 (0.30)
R Square: Overall	*0.184*	*0.437*
Hausman Test (P Value)	*0.4893*	

p- value in parenthesis

**** denotes significance at 1% level of significance*

*** denotes significance at 5% level of significance*

** denotes significance at 10% level of significance*

Based on the results of the Hausman Test, the RE model was identified as the better model in this given context.

From the model, it can be observed that all the three measures of corporate governance had a significant impact on ROA. It was observed that board size and ratio of independent directors in the board composition had a positive impact while remuneration to board members was found to be having a negative impact. The positive impact of board size and the proportion of independent directors on profitability stem from improved governance, efficient decision-making, and effective risk management. A well-organized board brings diverse perspectives and expertise, essential for strategic oversight and strong financial performance. These findings align with the existing body of knowledge from the literature. Independent directors strengthen corporate governance by promoting robust management oversight, offering impartial judgement and a sound strategic guidance (Rachmadi & Saktiawan, 2024).

The independent board directors foster a culture of accountability by serving as mediators and proving impartial viewpoints for strategic business growth directed towards boosting overall firm performance. The negative impact of the board remuneration on financial performance can be attributed the fact that a higher salary to board members may bring about ineffective monitoring with a lack of motivation to work towards a common adjective. This leads to a nonalignment of organisational pursuit and personal motivation and hinders overall performance (Bebchuk and Fried, 2003, Bechuk and Fried, 2009). Among the control variables it was observed that enterprise value and total revenues of a company had a positive impact on the financial performance while firm age had a negative impact on financial performance. The positive correlation of the enterprise value and total revenues resonates positive market sentiments and perception of the investors resulting in better performance.

IMPLICATIONS AND DISCUSSION

Corporate governance plays a pivotal role in shaping the financial performance of firms across industries, and the real estate sector is no exception. This study delves into the relationship between corporate governance mechanisms and firm financial performance, as measured by Return on Assets (ROA), within the Indian real estate sector. The findings reveal that effective corporate governance fosters transparency, accountability, and stakeholder trust, all of which are critical for enhancing financial performance. However, the study also uncovers challenges such as the perception of governance as a compliance mechanism, high board remuneration, and the negative impact of firm age on performance. This essay expands on these findings, providing a comprehensive analysis of the implications for the real estate sector and offering recommendations for policymakers and industry stakeholders.

Transparency is a cornerstone of effective corporate governance. In the real estate sector, where transactions involve significant financial investments, transparency in operations and decision-making processes is crucial for building customer trust. When real estate companies operate transparently, customers feel more secure in their transactions, knowing they are dealing with a reputable organization. This trust is vital for attracting and retaining customers, which directly impacts the firm's financial performance. For instance, transparent financial reporting and clear communication of project timelines and costs can enhance customer confidence. Companies that prioritize transparency are more likely to secure repeat business and positive word-of-mouth referrals, which can drive revenue growth. Moreover, transparency can reduce the risk of legal disputes and regulatory penalties, further enhancing financial stability.

Good governance ensures that firms are accountable to all stakeholders, including customers. This accountability leads to a focus on customer needs and preferences, as companies recognize that satisfied customers are critical to their success and growth. In the real estate sector, where customer satisfaction is closely tied to project delivery and quality, accountability can significantly impact financial performance. For example, companies that prioritize customer and address concerns promptly are more likely to build a positive reputation and achieve higher sales. Accountability also extends to regulatory compliance, where firms that adhere to regulations such as the Real Estate (Regulation and Development) Act (RERA) can avoid legal penalties and project delays, thereby maintaining financial stability.

Effective corporate governance measures promote professionalism and quality assurance, which are essential for building strong business relationships with stakeholders such as contractors, marketing partners, and policymakers. In the real estate sector, where projects often involve multiple stakeholders, professionalism and quality assurance can enhance collaboration and project outcomes. Companies that adhere to high standards of professionalism are more likely to attract reputable contractors and partners, leading to better project execution and higher quality outcomes. Quality assurance measures, such as regular inspections and adherence to safety standards, can reduce the risk of defects and delays, further enhancing financial performance.

A prevalent perception in India's real estate sector is that corporate governance regulations, particularly regarding board independence and diversity, serve merely as compliance mechanisms rather than beneficial strategies. This perspective can hinder growth and limit the potential advantages of effective governance. Many firms adopt governance measures primarily to meet regulatory requirements, resulting in a superficial approach where the focus is on fulfilling the letter of the law rather than embracing the spirit of good governance. For instance, while regulations mandate a certain number of independent directors or gender diversity on boards, firms may appoint individuals without fully integrating their perspectives or expertise into decision-making processes. This superficial approach can be attributed to several factors, including resistance to change, the perception of governance as a control mechanism, and a limited understanding of the potential benefits. To overcome these challenges, firms need to recognize that effective governance is not just about compliance but about creating value for all stakeholders.

A significant finding of this study is the negative impact of high board remuneration on financial performance. In many family-run real estate firms in India, high remuneration for board members is a common practice. However, this can lead to conflicts of interest and misalignment between board actions and organizational objectives. High board remuneration can also divert resources away from critical areas such as project development and customer satisfaction, thereby impacting financial performance. To address this issue, policymakers and corporate governance frameworks could advocate for performance-based remuneration structures that align board members' incentives with long-term organizational goals. Transparency in remuneration policies and shareholder approval for executive pay could also help mitigate potential conflicts of interest.

The study also highlights the negative impact of firm age on financial performance. Older real estate firms may face challenges such as outdated practices, resistance to change, and a lack of innovation, which can hinder their competitiveness and financial performance. To address this issue, industry associations and strategic alliances can play a crucial role in encouraging older firms to invest in modernization, digital transformation, and strategic restructuring. By adopting innovative practices and technologies, older firms can enhance their competitiveness and achieve sustainable growth.

Policymakers and industry stakeholders should promote effective governance practices that go beyond compliance and create value for all stakeholders. This includes encouraging firms to adopt best practices such as independent board oversight, transparent financial reporting, and stakeholder engagement. Policymakers could introduce guidelines that emphasize the importance of integrating independent directors' perspectives into decision-making processes. Industry associations could also provide training and resources to help firms understand the potential benefits of effective governance and adopt best practices. Effective governance requires alignment between board actions and organizational objectives. Policymakers could promote stakeholder engagement by encouraging firms to adopt practices such as regular communication with shareholders, employee representation on boards, and sustainability reporting.

To address the negative impact of firm age on financial performance, policymakers and industry stakeholders should encourage innovation and adaptability in older firms. This includes promoting digital transformation, modernization, and strategic restructuring. Industry associations could provide resources and support to help older firms adopt innovative practices and technologies. Strategic alliances and partnerships can also play a crucial role in facilitating knowledge sharing and collaboration, thereby enhancing competitiveness and financial performance.

The findings of this study provide valuable insights into the relationship between corporate governance mechanisms and firm financial performance in the Indian real estate sector. Effective corporate governance fosters transparency, accountability, and stakeholder trust, all of which are critical for enhancing financial performance. However, challenges such as the perception of governance as a compliance mechanism, high board remuneration, and the negative impact of firm age on performance need to be addressed.

Policymakers and industry stakeholders play a crucial role in promoting effective governance practices, aligning board actions with organizational objectives, and encouraging innovation and adaptability. By adopting these recommendations, real estate firms can enhance their financial performance, build stakeholder trust, and achieve sustainable growth in a competitive and dynamic industry. By prioritizing effective governance practices, firms can navigate the complexities of the sector, build trust with stakeholders, and achieve long-term success. The emphasis needs to be laid on the quality of the governance measures alongside maintaining the stipulated norms and policies, ensuring that governance creates value for all stakeholders and drives sustainable growth in the real estate sector.

CONCLUSION

Corporate governance is essential for accountability, transparency, and responsible decision-making in organizations, significantly impacting financial performance. In the capital-intensive real estate sector, strong governance ensures sustainable growth, risk mitigation, and stakeholder trust. It establishes policies guiding companies to operate in stakeholders' (shareholders, regulators, and the community) best interests. It promotes transparency and ethical conduct, that can play a crucial role for long-term success in real estate firm. This in turn can drives economic development through housing, infrastructure, and employment. However, challenges like regulatory complexity, project delays, and compliance issues persist, indicating gaps in governance implementation. Despite its importance, research on corporate governance and firm performance in real estate remains limited. The present study filled this gap by examining the impact of corporate governance mechanisms; such as board size, proportion of independent directors, and board compensation; on financial performance, while controlling for firm-specific factors. The results demonstrate that governance practices significantly affect the financial outcomes of Indian real estate firms. These findings highlight the critical role of strong governance in improving transparency, accountability, and investor confidence, thereby boosting financial performance in India's real estate industry. The finding of the study offers valuable insights for practitioners, investors, and policymakers to enhance profitability, sustainability, and investor confidence in the Indian real estate sector.

While this study provides valuable insights into the role of corporate governance in shaping firm performance within the real estate sector, it has few limitations. The study is limited to the real estate sector in India that limits is generalizability of the findings to other sectors and geographical areas which may differ in terms of regulatory and operational frameworks. The study used published data from publicly available data sources thus, issues, such as, non-disclosure, incomplete governance records, or inconsistent financial reporting may affect the robustness of the results. A future study can address this limitation by expanding the scope of the study to include comparisons across multiple sectors and countries that could provide a broader understanding of how governance mechanisms function under different operational conditions. A future study can also explore how corporate governance interacts with environmental, social, and governance (ESG) metrics and corporate social responsibility (CSR) initiatives to influence overall firm value

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