ROLE OF CORPORATE BOARDS IN ADDRESSING STAKEHOLDERS' EXPECTATIONS

Shweta Sharda[1], Shital Jhunjhunwala[2] and J.P.Sharma[3]

Abstract

In the current competitive scenario, the sustainability of an organization is based upon the contribution made by multiple stakeholders in achieving its objectives. Among all the stakeholders, employees and government hold a significant place for their contribution as primary and secondary stakeholders respectively. Government acts as the backbone in the formation of a company, and employees influence the firm's performance by building customer loyalty, eventually generating value for shareholders. Since the management has discretion over a wide range of decisions including those affecting the stakeholders' interest, the role of the board becomes pivotal in justifying the actions of corporate managers in addressing them. The study is therefore undertaken to investigate the impact of the board on addressing expectations of these stakeholders, using panel data of 4065 Indian listed companies for fourteen years from 2006 to 2019. The results show a negative impact of board meetings on employees' compensation, and that separation of CEO and Chairman positions and multiple directorships positively impact both stakeholders. Also, the results showed that the presence of independent directors negatively affects compensation but their participation benefits both. This indicates that the mere presence of independent directors on board cannot make them effective but their engagement is what matters in making the corporate governance meaningful. This implies the need to frame stringent regulations on the evaluation of contributions made by independent board members to make them accountable.

Keywords: Board, Corporate Governance, Directors, Employees, Government, Performance.

JEL Classification: G34, E 24, H2, M10

1.Introduction

[1] Senior Assistant Professor, Department of Commerce, Indraprastha college for Women, University of Delhi, Delhi, India. Email: ssharda@ip.du.ac.in

[2] Professor, Faculty of Commerce and Business, Delhi School of Economics, University of Delhi, Delhi, India.

[3] Chairman, Global Research Foundation for Corporate Governance (GRFCG), Formerly Head and Dean, Faculty of Commerce and Business, Delhi School of Economics, University of Delhi, Delhi, India.

According to the shareholder's perspective, the fundamental purpose for an organization's existence is considered to maximize the interests of shareholders. This is challenged by the stakeholder approach, which believes that an organization should exist as a socially responsible entity serving the interest of multiple stakeholders who contribute to the wealth-creating capacity of the organization through their services. The companies ought to appreciate the fact that the stakeholder groups comprising employees, creditors, suppliers, customers, national government, the local community including the natural environment, are in reality the major contributors, and that the returns on shareholders' investment can be generated only with their support. The companies must therefore consider the interests of all stakeholders while taking policy decisions and not just the shareholders. The successful demonstration of the firm's willingness and its ability in satisfying the expectations of all the stakeholders would guarantee its viability over time.

Every company has multiple stakeholders who affect its business, they are categorized into primary and secondary stakeholders depending upon their influence over the company's smooth business operations. Amongst the broader set of primary stakeholders that a company has, employees constitute the front line of every company. The human capital invested by employees in the form of years of service plays a vital role in the profitability and growth of the organization. The efforts and skills of employees enable the company to produce higher quality products and services, delivering the services of an organization to its customers (Bettencourt and Brown 2003; Bettencourt, Brown and Mac Kenzie 2005) which influences both customer satisfaction and loyalty (Brady and Cronin 2001), and eventually the firm performance. Employees are therefore the greatest asset of the organization who act as an important driver in enhancing firm performance by meeting customer's expectations. On the other side, government plays a highly influential role as a secondary stakeholder of the company. It acts as the backbone in the existence and

establishment of a company by providing it the license to operate. It influences the commercial activities of the company by regulating the economic undertakings, providing tax concessions, and enforcing law and order through the imposition of rules and regulations. The government also acts as an intermediary between the company and society, it invests the corporate taxes for the overall welfare of society. Given that both employees and government stakeholders are means to achieve the end, the study considers the crucial role played by them as primary and secondary stakeholders respectively.

Considering that both these stakeholders exercise a strong influence over the commercial activities and continued survival of the company, it becomes the moral responsibility of the company to act according to their requirements and meet their respective demands. The continuity in the economic success of the company is of utmost importance to both employees and the government, for their returns are tied to the company's performance. They expect companies to address their interests in return for providing resources to the company. The employees expect fair compensation, and the government expects timely payment of taxes from the company. The company can have greater access to these resources only if management resorts to a stakeholder approach instead of maximizing shareholders' returns. Since human capital is the source of competitive advantage and has a powerful link with business performance, a company must design a fair compensation policy to build a satisfied & motivated workforce. It would help in aligning employees' individual goals with that of the company creating wealth for the company, which would then generate tax revenue for the government.

To ensure that management takes into account the interest of a broader set of stakeholders, corporate governance has emerged to play a vital role without which the firm will not be able to sustain its performance. The goal of governing a company is to maximize its long-term value by

monitoring corporate decision-making, which involves establishing incentives and procedures that serve the interests of shareholders while respecting the interests of other stakeholders as well in the corporation.[4] The board of directors is the essence of governance; they act as a monitoring mechanism to prevent self-interested managers from taking actions that could hurt the interests of the company's stakeholders. They are responsible for disciplining the management and oversee that management does not exploit employees by paying fewer wages, or engage in tax avoidance strategies, to maximize returns for shareholders. The adoption of good corporate governance hence becomes indispensable in encouraging the management to address stakeholders' interests while taking decisions.

Numerous studies have been undertaken to discuss the relationship between corporate governance and firm performance, but the literature has rarely explored the impact of corporate governance on stakeholders, especially employees and government. Since the board is expected to ensure that management behaves in a socially responsible manner and satisfies their workforce through a well-designed compensation structure and monitors the tax strategy employed by management, the link between corporate governance and stakeholders does exist. The study is thus undertaken to fill the research gap by examining whether the board of directors influences management's decisions regarding compensation paid to employees and tax paid to the government. By employing fixed effects regression on firm-level panel data of 4065 Indian listed companies over the fourteen years from 2006 to 2019, it contributes to the field of corporate governance by highlighting the

[4] Center for International Private Enterprise, Reform Tool kit, August 2008, accessible at https://www.cipe.org/legacy/publication-docs/CGToolkit0808.pdf

stakeholders' concerns. It offers companies the direction towards managing their stakeholders in an integrated manner, and not as separate elements.

The rest of the paper is organized as follows: the next section develops the theoretical background of the research; then reviews the related literature and formulate hypotheses; followed by research design describing the construction of sample, variables, and methodology, thereafter presents the analysis of results, discussion and finally, a conclusion is drawn.

2. Theoretical Background and Literature Review

The agency theory is based on the primacy of shareholder value, whereas stakeholder theory (Evan & Freeman, 1988; Freeman & Gilbert, 1988) is concerned about aligning the interest of managers and owners such that expectations of all the groups can be met and maximum effectiveness could be obtained. The organization is considered to be a social enterprise that has a responsibility towards all the stakeholders and not just shareholders (Clarkson, 1994, Oman, 2001). Thus it is the fiduciary duty of management to generate a return for residual claimants i.e. shareholders of the firm but they too owe a moral duty towards stakeholders who are moral claimants (Alpaslan, Green, & Mitroff, 2009). The conservative shareholder wealth maximization approach has been changed to progressive stakeholder protection when several researchers suggested that the satisfaction of multiple stakeholder needs contributes to firm value creation (Clarkson, 1995; Donaldson & Preston, 1995; Jones, 1995). Greenley and Foxall (1997) and Luk, Yau, Chow, Tse & Sin (2005) analyzed perceptual measures of companies' attentiveness to competitors, customers, employees, shareholders, and unions and reported positive effects on business performance. The greater stakeholder protection builds a company's reputation in the market and ensures credibility to investors having a positive impact on firm value (Nicholson & Kiel, 2003; Certo et al., 2001;

Jensen, 2002). Svendsen, 1998 investigates firms who have developed stakeholder relationships and concluded that the feature to incorporate the interests of all stakeholders is the basis of successful companies.

The stakeholders of an organization are categorized as primary stakeholders and secondary stakeholders, while a company directly depends upon primary stakeholders for its survival, the secondary stakeholders do not directly impact the business but have a reasonable influence over the activities and decisions made by a company. The shareholders, employees, customers, suppliers, vendors, and business partners constitute the primary stakeholders, while competitors, trade unions, media groups, and government are some examples of secondary stakeholders. One group of stakeholders can hold higher significance than others, depending on the profile and business operations of the company (Park et. al, 2018). A company can also prioritize its stakeholders based on the level of their influence, impact, and interest in the organization, and develop strategies accordingly.

Among the primary stakeholders, employees are considered the most important. They create wealth for other stakeholders and are interested in the long-term health of the firm to maintain their pay and other benefits. The employees expect to receive higher wages and salary which motivates them to perform better in alignment with the company's objectives. Vineet Nayar, 2010 emphasized upon prioritization of employees by the companies to enhance their performance. Employees create the maximum value for a company, de Bussy & Suprawan, 2012 found employee orientation to have a greater contribution to financial performance compared to other primary stakeholders such as customers, suppliers, communities, and shareholders. If companies do not focus their attention on stakeholders, they can resort to actions that can have a major impact

on the sustainability of the organization. The dissatisfied employees can collaborate to act against the firm if companies neglect their interests while taking decisions. They can exercise their power and withhold work through industrial action (strikes and lockouts) to demand higher compensation and welfare rights. Burniaux, Padrini & Brandt (2006) observed trade unions to bring pressures upon management for increasing their members' share in the firm's income through the cooperation of all employees. By supporting employees, the company also saves the costs associated with the replacement of employees due to high turnover. The employees are hence the lifeblood of an organization, and therefore management should behave in a socially responsible manner to satisfy their workforce.

The government is considered as an essential secondary stakeholder, it provides contracts, finance, and tax concessions to the companies which help them in generating returns. It has deregulated economic activities for building market efficiency through rivalry, thus helps in the company's growth. In return, it expects companies to pay taxes, employ more people, follow laws, and truthfully report their financial conditions. Tax revenue helps the government in incurring the expenditure on building infrastructure and providing facilities for the betterment of society, which has to be trimmed down when management resort to tax avoidance. Tax avoidance activities employed by opportunist managers cause considerable loss to the government, and this short-term approach incurs significant long-term costs for the company. The high after-tax profits generated by the company through tax avoidance ultimately erode shareholder value when discovered by tax authorities. These behaviors, when detected, would lead to the imposition of tax liabilities and penalties, and deter the company's reputation for a very long time. Garbarino (2011) concluded that shareholders were harmed due to the policy of the company's tax department, hence, they

would also like to prevent managers to engage in tax aggressiveness. Therefore, it is important to monitor corporate tax behavior to ensure long-term benefit to the shareholders.

Hence, both the stakeholders, employees, and government act as enablers as well as disablers for the organization's smooth flow of operations. As resource providers, they act as means to enable companies to advance, and on the other hand, can exercise sufficient power to restrain the growth by withdrawing the benefits made available. To prevent such unforeseen problems, firms should cater to address the expectations of stakeholders to have access to vital resources essential for the firm's growth.

2.1 Meeting Employees' Expectations

Along with stakeholder theory, the theoretical background of the study in the realm of employee compensation is rooted in reinforcement & expectancy theory and equity theory, and agency theory as well. The compensation policy of the company can have a direct impact on employees, it leads to behavioral changes among employees. According to reinforcement & expectancy theory, when employees are sure to receive the reward for performance as expected then their motivation level goes up thereby enhancing performance. But if there is exploitation in a company by getting more work done from employees and paying them less, then it would result in lower productivity, increased turnover, and high absenteeism. Lower compensation affects employees' satisfaction adversely which would then affect their performance. According to Khan, Aslam, and Lodhi, (2011), the compensation boosts employees' motivation and reduces turnover in an entity, which will automatically enhance the effectiveness and efficiency of an organization. Wages and benefits related to employee job satisfaction and satisfaction of employee's needs create a positive aura between the organization and employees (Ansong & Mintaa, 2012). An organizations' corporate responsibility towards the workforce relates to the payment of wages and benefits to the

employees (Kharbanda, 2012), which creates job satisfaction which helps an organization in developing relationships with them. The employees tend to feel a sense of security, commitment and develop trust in management when their expectations are met.

The commitment of management towards employees includes their assurance to maintain equity in the pay structure. The equity theory holds that an employee expects to be paid at the rate corresponding to his contribution and also to what others have received. Along with internal equity, the company needs to ensure external equity also by having a compensation policy in consideration with other companies in the same industry. It can decide to pay at the average rate of the market where the organization operates or above or below it; and according to the types of compensations available (Henneman, 2011). The companies are found to fame a template based upon which they articulate their pay policies and develop pay programs and plans (Weinberger, 2010). The skilled employees are paid higher by the companies to retain them and also to attract other competent employees. Melinda (2019) observed wage gaps explained by cognitive and non-cognitive skills among racial groups and found that cognitive skills explain a higher wage gap in comparison to non-cognitive skills. Similar to skills, specialization also raises expected income by those who have a comparative advantage over others in performing their preferred job. Smith (2010) explained the role of specialization in raising the earnings divide between those who match well and those who do not, it thus affect the composition of human capital as well as the distribution of income.

According to Maloa and Rajah (2012), the compensation strategy in an organization is framed to recruit and retain qualified employees, increase or maintain morale/satisfaction, reward and encourage peak performance, achieve internal and external equity, reduce turnover to the barest

minimum and encourage company loyalty, and modify (through negotiations) practices of unions. Sometimes managers pay more due to a desire to remain popular, entrench themselves within the firm (Pagano and Volpin, 2005; Atanassov and Kim, 2009). Corporate governance significantly and positively predicted employee job satisfaction in the qualitative study conducted on the telecommunication sector of Ghana (ED Bernard Nmashie Nmai, 2014). Bertrand and Mullainathan (2003) provided the main contribution regarding corporate governance and employment; they gave empirical evidence on the relationship between corporate governance and employees and proved that stronger corporate governance is associated with lower wages and that average wages rise by 1% after governance weakens. The management can develop satisfaction among employees through compensation and welfare policies, most widely used factors of employee job satisfaction are work, pay, promotion, environment, supervision, and co-workers (Luthans, 2005). Cronqvist et al. (2009) show that in Sweden, cross-sectional stronger governance is associated with lower wages. Hence corporate governance affects decisions on compensation paid to employees in the firm.

The employers, however, consider compensation paid to employees as agency costs and resort to minimize it. Since compensation helps a company in building a satisfied workforce, increases their productivity which creates additional value for the corporation, it is asserted that management should treat compensation as a reward for employees' services and decide it in a robust way to motivate employees, which increases their productivity. The compensation should be designed suitably in line with the company's mission, goals, and values. The companies should cater to provide benefits to employees, as it would come back to the company as a reward by building its reputation and increasing productivity.

2.2 Meeting Government's Expectations

The government generates revenue through the collection of taxes in different forms either as direct tax or indirect tax, from individuals as well as corporate to develop their nations. Desai, Dyck & Zingales (2007) stated that "Corporate tax can be seen as a payment for certification services provided by the tax authorities". It relies heavily on tax proceeds levied on an organization's profits, which is the major contributor to national income, especially in developing countries. But the companies are legally permitted by the government to reduce their tax outflow through various tax planning strategies such as deductions available under various sections and provisions of the Income Tax Act, 1961. However, managers employ strategies to minimize their tax liability as they consider the payment of tax as another expense.

There is a wide range of tax practices that can be employed to lower down corporate tax payments. According to Xynas (2011), "tax avoidance is an attempt to reduce tax debt that is legal (lawful), while tax evasion (evasion) is an attempt to reduce tax debt that is illegal (unlawful)". Thus, legal and ethical tax planning turns into an unethical tax avoidance strategy leading to aggressiveness if done in excess, beyond which it develops into illegal behavior called tax evasion. The managers take actions with fraudulent intent to evade taxes, they adopt illegal means to reduce the tax liability such as deliberately concealing the income, engaging in accounting irregularities, making false entries in books, overstating expenses, claiming personal expenses as business expenses, transferring assets or income improperly, in violations of the law.

A firm's decision to avoid tax hurts public spending, as the funds available for investment to develop the economy declines. This hampers the growth of the nation which can otherwise be boosted with revenue earned from corporate taxes. Moreover, Desai & Dharmapala (2009) cautioned about aggressive tax avoidance by managers and stated that this may lead to fines and

there is a risk of losing reputation. Therefore, it is important to monitor corporate tax behavior. It is relatively a new area of research identified in the realm of corporate governance, due to the relation between tax paid and shareholder returns. The reduction in tax liability can enhance shareholder value through the availability of higher after-tax profits but at the cost of loss of another stakeholder i.e. government.

Corporate governance plays a vital role in scrutinizing tax strategies framed by management, to avoid tax aggressiveness for increasing cash flows available for investments. The board of directors can reduce instances of non-compliance and engagement in unacceptable arrangements to minimize tax, they can prevent companies from illegal tax planning. The incidence of managerial malfeasance and tax avoidance practices would increase in a weak corporate governance structure, where managers find it easy to divert income and reduce taxes to use funds for their incentives. The corporate tax governance should also be discussed as boardroom agenda to make proper decisions on tax matters, as wrong tax choices could lead to material reputational risks for the company deteriorating investors' confidence and shareholder value.

Several studies have shown the influence of corporate governance on tax aggressiveness. Minnick and Noga (2010) illustrated a positive association of corporate governance with tax avoidance because the board is directly engaged and is responsible for allocating resources for enhancing the company's performance and shareholders' wealth. Shamsudin & Noor (2012) provided evidence on the importance of directors in enhancing the level of tax compliance among Small and Medium Enterprises (SMEs) in Malaysia. Salawu (2017) found that tax planning of non-financial quoted companies in Nigeria was influenced by their governance. Pratama (2017) found that corporate governance affects tax avoidance in Indonesia, and Desai and Dharmapala (2009) found a negative relationship between corporate governance and tax avoidance. The study by Garbarino (2011)

found that shareholders prefer tax planning but may not be interested in gains through tax avoidance, and hence they would like directors not to act aggressively as it will erode their value if noticed by the taxman. Rego and Wilson (2012) found high risk-taking equity incentives to be the cause for higher tax avoidance, as higher profits bring them higher earnings.

3. Development of Hypotheses

Researchers have examined managerial motives behind differences in compensation policies in a company and their level of tax avoidance, the studies investigated if variation in firms' corporate governance mechanisms acts as the factor influencing stakeholders. The literature on corporate governance has considered the composition of the board as an important determinant of the company's stakeholder orientation. The characteristics of the board namely, size of the board, its leadership, presence of independent directors on a company's board, board meetings, participation of directors in meetings, and multiple directorships held by directors are considered to influence the decision-making process in the company, affecting its stakeholders.

Board size plays a crucial role in shaping the effectiveness of the board, while faster decisions can be taken in small groups, the large group provides different perspectives helpful in taking policy decisions. According to Jensen (1993), a larger board size is required to bring in the intellect and skills required by the company. A sufficient number of directors are required in the company to enrich the board with different skills, backgrounds, and experiences. According to Salawu (2017) and Lanis and Richardson (2011); there is a significant effect of board size on tax planning. Wahab et al. (2017) investigated the corporate governance-tax aggressiveness relationship in Malaysia and found that a larger board reduces the possibility of tax aggressiveness. Shamsudin & Noor (2012) provided evidence for the association of larger board size with higher tax compliance in their study. However, Minnick and Noga (2010) found that larger boards are ineffective due to

difficulty in making decisions on tax aggressive policy while smaller board sizes strengthen good tax management. In contrast, Khaoula & Ali (2012) reported that board size does not influence the strategies to minimize tax expenses in the American context.

Another indicator is board leadership, governance regulations around the world emphasize the separation of the position of CEO and Chairman of the board of directors to avoid concentration of decision making with one individual. But, stewardship theory favors CEO duality, it argues that the required knowledge of the business with the CEO enables him/her to run the company efficiently in different circumstances in the overall interest of various stakeholders. Singh & Gaur (2013) and Shapiro et. al (2015), however, argued that the combined position limits the scope of hiring professional managers available in the outside market. Kang & Kim (2020) found the better treatment of employees in family firms when the founder acts as CEO and the family member is one of the board of directors. They do so to avoid labor-related conflicts which may affect their family reputation among stakeholders. Kourdoumpalou (2016) found CEO duality to lower down tax evasion significantly in a sample of companies listed in Greece. However, Aburajab et. al (2019) found that board duality increases tax aggressiveness, while board independence reduces it in the sample of 140 companies in Jordan analyzed over from 2013 to 2017. Chan , Mo. & Zhou (2013) also argued that CEO who also acts as the board chairman is more aggressive as his tax proposals will not be challenged by other members.

Corporate governance guidelines in most countries stress upon the board's composition with a majority of independent directors to reduce agency problems by mitigating the opportunistic behavior of managers. Abe and Shimizutani (2007), with a dataset of large Japanese firms, find that outside directors are more inclined to implement layoffs and voluntary or early retirement. Noda (2007) found that higher insider appointments as executive officers reduce the likelihood of

employment adjustment. Lanis and Richardson (2011) showed that chances for tax aggressive policies decline when a company has a higher percentage of outside members on board in the Australian context. Armstrong et. al. (2015) found board independence leads to lower tax avoidance, and Aburajab (2019) found board independence to reduce tax aggressiveness in a company. Researchers have also debated the costs & benefits of board meetings, while it provides a required platform to directors to discuss critical matters and signals active board, it also increases the cost due to expenses involved in board meetings. Nevertheless, meetings are necessary for a thorough evaluation of alternatives available while taking decisions.

However, meetings will be able to produce concrete results only when the required number of directors actively participate and contribute to the decision-making process. Directors' participation in board and its committee meetings would enable directors to deliberate and debate upon the relevant matters affecting stakeholders' interests. The attendance of directors in meetings reflects the intensity of monitoring, without which their contribution becomes questionable. However, the multiple directorships held by directors may impinge upon directors' contribution as a board members. Directors sitting on boards and committees of various companies have busy schedules; Sarkar and Sarkar (2009) found a negative relation between multiplicity in directorships held by inside directors and performance. Kourdoumpalou (2016) found that directors with multiple directorships could not monitor the tax evasion strategies used by companies to reduce tax. It is therefore important to limit the number of other directorships that a director can hold to avoid a lack of time in carrying out their duties. Board busyness is also linked with the resource dependency theory; accordingly, directors' association with the external environment enables them to gain specialized knowledge and experience required to deal with different scenarios.

Overall, the relationships between corporate governance and stakeholders' have produced mixed results, but the role of the board is crucial in monitoring the managerial motives behind decisions on stakeholder policies. Proper governance mechanisms are required to monitor the management that they do not derive benefit at the cost of stakeholders. Thus the study examines whether corporate boards address expectations of both employees and government by monitoring stakeholder policy framed by management. Hence, the following hypotheses are formulated to examine the impact of corporate boards in addressing given stakeholders' expectations:

H_1: Board size has a significant impact on compensation paid to employees and taxes paid to the government.

H_2: Board meetings have a significant impact on compensation paid to employees and taxes paid to the government.

H_3: The proportion of independent directors on the board has a significant impact on compensation paid to employees and taxes paid to the government.

H_4: The participation of independent directors in meetings has a significant impact on compensation paid to employees and taxes paid to the government.

H_5: The participation of independent directors in meetings has a significant impact on compensation paid to employees and taxes paid to the government.

H_6: The multiple directorships held by directors have a significant impact on compensation paid to employees and taxes paid to the government.

H_7: The separation of CEO and board chairman position in the company has a significant impact on compensation paid to employees and taxes paid to the government.

4.Research Methodology

The sample is drawn from 5477 companies listed on the Bombay Stock Exchange in India as of 31st March 2017. Of 5477 listed companies, 4644 companies had data available on financial and stakeholder indicators but reduced further due to unavailability of data on the board characteristics. Finally, 4065 companies constitute the final sample that had data available on all the variables of interest for at least 6 years during the study period, 2006 to 2019. The measurement of variables is described in detail in Table 1, for which the data is extracted from the Prowess database, annual reports, and company websites.

Table 1: Definition and Measurement of Variables

	Variable	Definition	Symbol
Independent variables: Board Characteristics			
1	Board Size	Total number of directors in the board	BS
2	Board Independence	Ratio of total non-executive independent directors to the total number of directors	BI
3	Board Leadership	A dummy variable takes the value of 1 if CEO and Chairman is different, and 0 otherwise	BLDR
4	Board Meeting	Total number of meetings held by the board during the year	BM
5	Independent directors' participation	Ratio of the total number of meetings attended by independent directors during the year to the total number of independent directors	BIDPART
6	Non-independent directors' participation	Ratio of the total number of meetings attended by non-independent directors during the year to the total number of non-independent directors	BNDPART
7	Board Busyness	Ratio of number of directorships held by directors in other companies to the total number of directors	BBUSY
Dependent variable			
8	Compensation to Employees	Total remuneration in cash or in-kind, including post-employment benefits, etc.	COMP
9	Tax paid to Government	Ratio of Total taxes to Total income	TAX
Control variables			
10	Debt Equity Ratio	Natural log of {Ratio of total book value of debts to total assets}	DER

11	Age	Present year – Incorporation year	AGE
12	Size	Natural log of total assets	ASSETS
13	Return on Assets	Ratio indicates the profitability of a company, computed as PBIT/Average Assets	ROA
14	Industry Dummies	The industry dummies obtain the value of 1 for the firm's industry and 0 otherwise.	INDUSTRY
15	Year Dummies	A series of year dummies are included to control the time effect.	YEAR

Source: Authors' Compilation

The fixed effects panel regression is employed in the study, based upon the Hausman test; the method addresses the potential problem of endogeneity related to omitted variable bias due to unobserved firm-level heterogeneity (Guest, 2009). And to ensure that the direction of causality runs from independent variable to dependent variable, the lagged independent and control variables are used in the model to deal with the simultaneity bias (Chen, H. L., & Hsu, W. T.,2009; Aggarwal, Erel, Ferreira, & Matos, 2011; David, Hitt & Gimeno, 2001; Mezghanni, 2010). This also allows the board the required time to reveal its impact on policy decisions in the company, and hence dependent variables (from 2008 to 2019) were regressed against the independent and control variables (from 2006 to 2017) to study the effect of the board on the future level of employees' compensation and tax paid to the government.

Being within estimator, fixed effect regression allows researchers to retain the outliers in the analysis. Moreover, large panel datasets are less susceptible to outliers, thus it is better to keep the outliers to avoid loss of data. Since the variables used in the model are neither polynomial nor interaction terms, there is no need to standardize the variables. Due to the presence of heteroskedasticity and autocorrelation, the vce (cluster ID) option is used in Stata which allows the correction for problems in large samples (Cameron & Trivedi, 2009, p. 244). The cluster-robust

standard errors that cluster on the firm are computed as regression estimates in the following model:

$Y_{it} = \beta_0 + \beta_a X_{it-2} + \beta_s C_{it-2} + v_{it}$

Where

Y_{it}: is Stakeholder Indicators

X_{it}: is Board Characteristic variable, and

C_{it}: is a vector of control variables for firm i at time t.

t: 2006, 2007,….., 2019.

5.Findings and Implications

The impact of corporate governance practices in a company on employees and government is analyzed using compensation paid to employees and tax paid to the government as respective stakeholder indicators. The analysis is presented through descriptive statistics, correlation matrix, and fixed effects regression to identify the board characteristics which address the expectations of given stakeholders.

5.1 Descriptive Statistics and Correlation Matrix

The descriptive statistics in Table 2 and the correlation matrix of the sample in Table 3 are drawn before running the panel regression. The descriptive statistics display the mean, standard deviation, minimum and maximum value of variables used in the study. The average board size is 8, and 43% of the board is composed of independent directors which is less than the requirement of at least 50% board independence prescribed in law. The participation of both independent as well as non-independent directors in board meetings is also satisfactory; directors attend 4 board meetings on an average out of approximately 6 meetings held during the year. The directors do not seem to be too busy with only 2 multiple directorships held on an average. The board leadership at 0.69

indicates that for every 100 CEOs, 69 of them are not serving as board chairman. It shows that more than half of the sample firms have voluntarily separated the position of CEO and chairman; however, the independence of the board is below satisfaction with less than half of the board being independent. The other statistics show good governance in the companies going beyond the requirements of law.

Table 2: Descriptive Statistics of Board characteristics for Employees and Government

Variables	Observations	Mean	Std. Dev.	Min	Max
Compensation (Rs. Million)	48155	988.272	8994.397	0.10	593770.00
Tax (%)	45197	976.703	10239.030	9.21	970000.00
BSize	50209	7.975	3.312	3.00	48.00
BMeeting	50209	5.873	3.593	0	77.00
BIndependence	50209	.433	.204	0	1.00
BID Participation	50209	3.950	2.790	0	40.00
BND Participation	50209	3.940	2.855	0	40.00
BBusyness	50209	1.931	2.139	0	28.75
BLeadership	50209	.695	.461	0	1.00
Age	50209	30.564	18.851	1.00	156.00
DER (%)	46217	1.595	16.419	0	1378.50
ROA (Rs. Million)	50121	-.279	61.967	-8325.00	3200.00
Assets (Rs. Million)	50209	31408.100	337000.000	0.10	7149885.00

Source: Analysis of research data (STATA output)

Table 3 then displays that employees' compensation and taxes paid to the government are positively correlated with four board characteristics, namely, the board size, participation of independent directors in meetings, board busyness, and board leadership. The board meetings, board independence, and participation of non-independent directors have a negative correlation with both stakeholder variables. To ensure that data does not have the potential problem of multicollinearity, the correlation between independent variables (board characteristics) should be less than 0.70. With variance inflation factor less than 5 and correlation values less than 0.70, it is confirmed that multicollinearity is not an issue in the data.

Table 3: Pearson's Correlation Matrix of Board characteristics with Employees and Government

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Comp	1.000								
Tax	0.689*	1.000							
BSize	0.658*	0.605*	1.000						
BMtg	0.082*	0.087*	0.175*	1.000					
BInd	0.030*	0.029*	0.086*	0.229*	1.000				
BIDPart	0.063*	0.075*	0.068*	0.704*	0.424*	1.000			
BNDPart	-0.016*	0.011*	0.021*	0.711*	0.274*	0.627*	1.000		
BBusy	0.347*	0.323*	0.280*	0.083*	0.178*	0.119*	0.040*	1.000	
BLdr	-0.131*	-0.102*	-0.106*	-0.077*	-0.071*	-0.048*	-0.084*	0.031*	1.000
VIF			1.81	4.50	1.20	2.38	3.74	1.23	1.03

* shows significance at the .05 level

Source: Analysis of research data (STATA output)

5.2 Regression Analysis

The effect of board characteristics is analyzed for their influence on employees and government using compensation and tax as measures to address their expectations.

Table 4: Regression results for Employees and Government

	Model 1	Model 2
	COMPENSATION	TAX
BSize	0.016	0.010
	(0.002)	(0.004)
BMeeting	-0.006**	0.007
	(0.002)	(0.004)
BIndependence	-0.058***	-0.134
	(0.031)	(0.047)
BID Participation	0.006**	0.002**
	(0.002)	(0.004)
BND Participation	0.004	0.006
	(0.003)	(0.005)
BBusyness	0.011***	0.018***
	(0.003)	(0.005)
BLeadership	0.027**	0.045**
	(0.013)	(0.022)
Age	0.066***	0.026***
	(0.002)	(0.003)
LogDER	-0.014**	-0.041***
	(0.006)	(0.009)
LogAssets	0.628***	0.843***
	(0.020)	(0.023)
LogROA	0.061***	0.345***
	(0.005)	(0.008)
constant	-2.741***	-3.764***
	(0.103)	(0.127)
Observations	18122	17810
R-squared	0.982	0.959
Adj R-squared	0.979	0.951
F	1078.154	515.841
Prob>F	0.000	0.000
Year Dummies	Yes	Yes
Industry Dummies	Yes	Yes

*** p<0.01, ** p<0.05, * p<0.1 (Robust Standard errors are in parenthesis)
Source: Analysis of research data (STATA output)

The significant F statistic shows that the model is statistically significant in explaining the relationship of board characteristics with stakeholder indicators and that the explanatory variable (board) explains 98% of the variation in compensation paid to employees and 96% variation in taxes paid to the government. Table 4 shows that participation of independent

directors in meetings, board busyness, and board leadership has a significant positive impact on both tax payment as well as compensation. However, board meetings and board independence have a significant negative impact on compensation paid to employees. The insignificant impact of participation of non-independent directors in meetings indicates a lack of inclination amongst non-independent directors towards addressing stakeholders' expectations.

6.Discussion and Implications

A company, when, appreciates the contribution of its employees in delivering value to customers through optimum utilization of available resources and pays them satisfactorily; it motivates them boosting their productivity thereby enhancing firm performance and eventually the tax paid to the government. The company's stakeholder-oriented approach hence tends to increase benefit to all the participants who have contributed to its success. The findings of the study undertaken to examine if board structure and its activity matters for addressing employees' and government's expectations highlights the important role played by the board in addressing them. The results provide useful insights for corporates and regulators.

Findings support the agency theory, signifying the relevance of overseeing management's decisions regarding stakeholder policies. The separate position of board chairman and CEO in the company, recommended in governance regulations globally, has a positive impact on compensation paid to employees as well as taxes paid to the government. By curtailing the CEO's undue influence, it enhances Chairman's accountability while formulating compensation and tax strategy. The Chairman will be able to ensure fair and effective participation of board members while discussing employees' compensation. Since Indian

companies are mostly family-owned, the absence of concentration of power with one individual would facilitate in the board an ideology that attracts and retains the best talent in the company through competitive pay. The Chairman would also make certain that the company implements healthy tax management practices and pay its taxes timely for the country's development. Hence, SEBI's mandate on separation of the two positions in its LODR gives the right direction to the companies.

The policymakers worldwide have recommended the appointment of independent directors on board, their physical presence, however, will not automatically benefit the company, as evident by the negative impact of board independence on compensation paid to employees. The contribution of independent directors during discussions held in board meetings is of utmost importance to share their experiences about employee expectations. The independent directors can monitor that the increase in the remuneration paid to executive directors is appropriate. Their higher participation improves the intensity of monitoring, which keeps a check that management does not engage in earnings management, aggressive tax avoidance, or tax evasion. This will ensure that the company goes in for an honest tax strategy. Additionally, the negative impact of a higher number of board meetings on employees' compensation also emphasizes the importance of directors' participation in board meetings rather than holding frequent meetings. The regulators are, therefore, recommended to make stringent rules to scrutinize the contribution of independent directors in the company. Companies should also frame guidelines to reappoint independent directors after assessment of their contribution in supervising and assisting management while taking strategic decisions. A strict board evaluation policy at a company to assess the participation of directors during meetings would also make its board effective. The companies should monitor and minimize the expenses

involved in holding meetings and aim to utilize the available time during meetings efficiently. These measures would help in enhancing the participation of independent directors in board meetings, without which their presence will continue to be ineffective.

Consistent with resource dependency theory, the significant positive effect of board busyness depicted on employees' compensation and payment of taxes to the government shows that the association of directors with multiple companies is beneficial. The directors holding multiple directorships have better knowledge and exposure on how compensation structure is designed at different companies. Based on their familiarity, they advise the company to review its pay policy at regular intervals to motivate its employees. Their experience also makes them well versed to deal with tax management strategies employed by companies, which helps them to ensure that the company has a sound taxation policy. This builds the company's market credibility, which would otherwise be harmed if a company is caught in tax avoidance activities. The directors, therefore, act diligently for avoiding any sort of tax manipulation which safeguards their reputational capital as well. However, regulators have capped the multiple directorships held by directors to ensure that they spend sufficient time in the company's decisions. Due to the dominance of family-owned business groups in India, directors tend to sit on boards of multiple companies because of their social & family connections. Therefore, restrictions imposed by SEBI (LODR) in this regard are appropriate. Directors are recommended to join a limited number of companies to effectively discharge their duties as board members. The companies should also monitor the number of directorships and committee memberships held by its directors.

Although the present study compels academicians to think about the impact of corporate governance at the stakeholder group level, it has several limitations. Particularly, the measure

of employees' compensation could not be analyzed in relation to the size of the workforce due to the unavailability of data on the number of employees for most companies. The study presented a strong case by revealing similar results for two stakeholders, however, additional research with alternative objective measures for stakeholder indicators and also different stakeholder groups may add further depth to the overall development of knowledge. The study did not test the existence of interaction effect among the board characteristics if any, but if tested, could yield some useful and deeper insights into how governance practices work in combination.

7. Conclusion

The empirical analysis of 4065 Indian listed companies over fourteen years is undertaken, to investigate the impact of board characteristics in addressing expectations of employees and government using fixed-effect regression in panel data. The study, through examination of corporate governance literature from a stakeholder perspective, establishes the relevance of assessing the importance of particular stakeholder groups. The findings of the study support both agency theory and resource dependency theory, to indicate that the companies' fulfill their responsibility towards stakeholders when the position of CEO and Chairman are separated and the directors own multiple directorships. Importantly, the focused participation of independent directors in board meetings, and not merely the presence, is essential for controlling management's discretion over policy decisions in the company. Given that corporate governance practices play a crucial role as an internal disciplinary mechanism in creating satisfied stakeholders, the companies should aim to effectively implement them for achieving long-term sustainability.

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