

**Impact of Corporate Governance on Default Risk and
Earnings Response Coefficient: An Exploratory study in
Indian Context**

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DECLARATION

I, **Shikha Tripathi**, Research scholar and the author of this thesis, do hereby solemnly declare that this research work titled “**Impact of Corporate Governance on Default Risk and Earnings Response Coefficient: An Exploratory study in Indian Context**” has been conducted by me under the supervision of **Dr. Kushendra Mishra**, Professor & Head, Department of Rural Management, School for Management Studies, Babasaheb Bhimrao Ambedkar University (A Central University), Lucknow and is an original work. No part of this thesis has formed the basis for the award of any degree, diploma or fellowship previously. Further, I declare that the material embodied in this research work is based on original research and the indebtedness to others has been duly acknowledged at relevant places. I also declare that the thesis is essentially independent from all kinds of plagiarism.

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CERTIFICATE

This is to certify that the thesis titled **“Impact of Corporate Governance on Default Risk and Earning Response Coefficient: An Exploratory study in Indian Context”** submitted by **Ms. Shikha Tripathi** is an original research work and has not been previously submitted in part or full for the award of any other degree or diploma to this or any other university.

The thesis submitted to Babasaheb Bhimrao Ambedkar University Lucknow satisfies all the requirements as stipulated in the *Doctor of Philosophy (Ph.D.) regulations -1999 as amended in 2008/2010/2013* and it is fit for submission and evaluation for the award of the degree of Doctor of Philosophy of the University.

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PREFACE

Indian economy undergone a major change in its economic policies prevailing at that time in 1991, it adopted LPG policy, that specifies liberalization, privatization & globalization. With these major amendments in the economy came bench marking changes which was financial liberalization. Indian Market opened its arms & wings to welcome domestic as well as foreign corporate, it became an easy access for them which in turn was of crucial importance for the growth & the revival of shattered economy.

Financial liberalization offered a great merit to the economy which was, it made easy for firms to access funds from the capital market. On the other hand, it also offers drawbacks which were in the form of several issues & one of these issues is Corporate Scams, ultimately Corporate Governance became a matter of serious concern. When comparing the penalty quotient for having poor corporate governance system, we lag far behind developed countries & it is not severe, which is the reason it is not strictly followed. Although, SEBI makes amendments time to time in its issued guidelines & makes stricter norms relevant to corporate governance now. A sound corporate governance system comprises of rules & norms to avoid unethical practices that are done in the name of the enterprise.

Corporate governance helps to govern a company by providing guidelines which are required for the survival of firm and welfare of its shareholders & stakeholders. Sir Adrian Cadbury Committee, which was setup in May 1991 for corporate governance issues in U.K., defined corporate governance, “As the system by which companies are directed and controlled. The basic objective of corporate governance is to enhance and maximize shareholder value and protect the interest of

other stakeholders.” (Cadbury, A. 1992, Report on the Committee on the Financial Aspects of Corporate Governance, Gee, London).

Purpose of undertaking this research was to understand the concept of corporate governance in Indian scenario and checking whether these norms actually have any impact on the Default Risk and the Earnings Response Coefficient (ERC) and whether they help in mitigating their negative impact or not. Using an example of firms listed on National Stock Exchange Fifty (NIFTY 50) over the period of 2012 to 2017, this research tests whether Corporate Governance mitigates the impact of Default Risk on ERC while controlling for the developed determinants of ERC - Beta, Growth, Earnings Persistence and Size. Using Reverse Regression, this research supports hypothesis that beta is negatively related to ERC and that Growth, earning persistence and Size are positively related to ERC. Default risk was found to be negatively related to ERC hence confirming that Beta is only a fractional measure of risk applicable to ERC.

To measure corporate governance, here in this research I have taken audit quality, audit committee expertise and independence, and board independence and board shareholding as indicators of corporate governance to check whether they moderate the negative effect of default risk on ERC.

Findings of this study hold both for the pooled test sample of 300 companies-year observations and on a year by year basis for the 50 companies in the sample. The results obtained were also robust to different sensitivity tests including to substitute measures of the variables. This study hence provides systematic and inclusive additional evidence on the elements of ERC. While, this is an important input to the literature but especially so given that the indication comes from India- an emerging

economy- whereas the existing empirical literature relates mainly to the developed countries.

The primary aim of undertaking this research was to understand, discuss and explore the idea of corporate governance, its development in India, probable practices, futuristic scope and understanding how the concept of corporate governance works for companies and to analyse whether CG mitigates the effect of DR on ERC while controlling for the established determinants of ERC. The study has used a mixed method of qualitative and quantitative research with an exploratory approach in nature, furthermore this study applied deductive positivism approach in which the pre-existing theoretical basis is identified, studied and relied upon in the development of hypotheses and the empirical findings demonstrate whether the tested hypotheses are proven or rejected. The secondary data has been used through various data collection techniques such as review of all available literature, reference material, annual reports, financial reports & reviews and social media platforms. The detailed findings have been discussed in the research.

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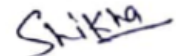
Before thanking anybody else, I would like to thank Lord Shiva, for giving me the strength, inspiration and enough motivation to pursue and complete this voluminous work. When the laborious journey of writing this research, thesis commenced a few months back, it was a journey full of uncertainties. I was unsure of how things would turn out, but with the help of my professors and blessings of my elders, it became possible. I am thankful to all those people who helped and supported me during the thesis work.

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LIST OF EQUATIONS

1	$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*BETA_{it} + a_3CAR*GROWTH_{it} + a_4CAR*EPERS_{it} + a_5CAR*SIZE_{it} + \text{year fixed effect} + \varepsilon_{it}$
2	$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it}$
3	$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*AUDITQ_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it}$
4	$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*ACEXPERT_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it}$
5	$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*ACINED_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it}$
6	$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*BODINED_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it}$
7	$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*BODSHARE_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it}$

LIST OF VARIABLES

Variable	Definition
UX/P	Unexpected earnings deflated by price
CAR	Cumulative abnormal return
DER	Default risk
BETA	Equity beta
GROWTH	Firm Growth opportunity
EPERS	Earnings persistence
SIZE	Firm size
AUDITQ	Audit quality
ACEPERT	Number of experts in AC
ACINED	Independent non- executive directors in AC
BODINED	Independent non- executive directors in board
BODSHARE	Board shareholding

LIST OF ABBREVIATIONS

UAE	United Arab Emirates
ID	Identification
PMA	Promotion Marketing Association
RBI	Reserve bank Of India
ICICI	Industrial Credit & Investment Corporation of India
IRB	National Review Board
TFP	Total Factor Productivity
CSP	Concentrated Solar Power
AMA	Advance measurement approach
ORM	Operational Risk Management
GATS	General Agreement on Trade in service
SCBS	Standard chartered Bank
ANOVA	Analysis of Variance
HDFC	Housing Development Finance Corporation
FMCG	Fast Moving Consumer Goods
AC	Audit Committee
GAAS	Generally Accepted Auditing Standards
CPA	Certified Public Account
DIP	Debtor in Possession
PWC	Price Water House Coopers
KPMG	Klynvelde Peat Marwick Goerdeler
SOX	Sarbanes – Oxley Act

NYSE	New York Stock Exchange
BRC	Blue Ribbon Committee
IOS	Investment Opportunity Set
BRC	Back Realization Certificate
NACD	National Association of Corporate Directors
SPSS	Statistical Package for corporate Directors
MS Excel	Microsoft Excel
LPG	Liberalization, Privatization, Globalization
SEBI	Securities & Exchange board of India
UK	United Kingdom
DR	Default Risk
ERC	Earning Purpose Efficient
NIFTY 50	National Stock Exchange 50
CG	Corporate Governance
CII	Confederation of Indian Industry
US	United States
USA	United States of America
CEO	Chief Executive officer
CRISIL	Credit Rating Information Services of India Ltd.
CARE	Credit Analysis & Research Limited
ICRA	The investment & Credit rating Agency
SMERA	Small & Medium Enterprises Rating Agency of India
ONICRA	Onicra Credit Rating Agency under ONIDA Finance

FITCH INDIA	India Ratings & Research (Ind-Ra)
DCA	Department of Companies Act
CLB	Company law Board
SCRA	The securities contracts (Regulation) Act
CFO	Chief Financial Officer
ICAI	Institute of Chartered Accountants of India
ICSI	Institute of Company Secretary of India
NSE	Nation Stock Exchange
BSE	Bombay Stock Exchange
BCCI	Bank of Credit & Commerce International
S&P	Standard & Poors
FTSE	The financial times stock exchange group
ISS's CGI	Indian Shareholder services
FICO SCORES	Fare Isaas Corporation
NR SROs	National Recognized Statistical Rating Organizations
EBIT	Earnings before Interest & Taxes
EBI TOA	Earnings before Interest, Taxes, Deprecation & Amortization
ROE	Return to Equity
ROA	Return to Assets
CSR	Corporate Social Responsibility
SME	Small Medium Enterprises
IT	Information Technology

CLSA	Credit Lyonnais Securities Asia
ISS	Institutional Shareholder Services
SIC	Standard Industrial Classification
TSE	Toronto Stock Exchange
OLS	Ordinary Least Square
R & D	Research & Development
GLS	Generalized Least square
REML	Restricted (or residual) maximum likelihood
CMIE	Centre for monitoring Indian Economy
OECD	Organization for Economic co-operation & Development
MNC	Multinational Company
NPA	Non Performing Assets
ROI	Return to Investment
EPS	Earning Per Square
WACC	Weighted Average Cost of Capital
CLO	Collateralized loan obligation
MTB	Market to book extent
CAR	Cumulative Abnormal Return
KLCI	Kuala Lumpur Composite Index
IMA	Internal Models approach
ARIMA	Auto Regressive Integrated Moving average
DER	Debt to equity Ratio

EPERS	Earning Persistence
AUDITQ	Audit Quality
ACINED	Audit Committee Independence
BOINED	Board Independence
BODSHARE	Board Share holding
UXIP	Unexpected earning to price
FEM	Fixed effects Model
OLS	Ordinary Least Square
REM	Random Effects Model
LM	Lagrangian Multiplies
AC EXPERT	Audit Committee Expertise
P-P	Probability Plots
VIF	Variation Inflation Factor
FINLEV	Financial Leverage
BLR	Bank Lending Ratio
GM	General Management
EU	European Union
ROMW	Return on Margin (Weighted)
D-W	Durbin Watson
MCA	Ministry of Company Affairs
NFCG	National Foundation for Corporate Governance

CHAPTER – 1

INTRODUCTION

1.0. INTRODUCTION

This study is an effort to explore the impact of corporate governance practices on default risk and earnings response coefficient of listed companies in India. Even though corporate governance has expanded and is getting noteworthy attention recently and much emphasis and discussions took place is still in process of getting more prominent place in organization to justify its importance. Regardless of these efforts and debates, the procedure of reconstruct and to strengthen corporate governance only appears and becomes unavoidable when the present practice fails to stop a major corporate scam.

1.1. BACKGROUND OF THE STUDY

A *corporation* is an inauguration of law; hence, a legal framework is involved in its formation and functioning. It is an artificial person in the eyes of law, having its own position and personality but is separate from the persons who bring this into existence, i.e. their owners. *Lord Justice Lindley explains company as* “an association of persons who contribute money or money’s worth to a common stock and employ it for a mutual purpose. The common stock so contributed is represented as money and is the capital of the company. The persons who contribute it or to whom it belongs are members. The proportion of capital to which each member is entitled is his share. Shares are always transferable although the right to transfer is often more or less restricted” (Kapoor, 2003, p. 3).

Whereas on the other hand, governance is often concerned with the management, regulation, administration and control. It can be explained as the process of strategic decision-making, policy-formulation and implementation of those policies and rules. *The World Bank has defined governance as* Corporate governance is concerned with maintaining the equilibrium between economic and social goals and among individual and communal goals. The governance framework is there to inspire the efficient use of funds and equally to require accountability for the stewardship of those resources.

So, governance describes the procedure through which top officials in a system ensure themselves that relevant laws and policies are adhered to as prescribed by the government. Corporations play an important role in accelerating the level of socio-economic growth and development of any country. The term 'corporation' was coined during 1600 from the Latin word 'corpus' which meant 'body' and the word 'gouvernance/ gouernance' which is now spoken as 'governance' was given by Geoffrey Chaucer in the 14th century to denote the procedure of governing the state or country. Thus, governance relevant to corporates referred to as 'Corporate Governance'.

Corporate governance is the combination of rules, processes or laws by which businesses are operated, regulated or controlled. The term encompasses internal as well as external factors that affect the interests of companies' stakeholders including shareholders, customers, supplier, government regulators and management. Now, if we discuss as to why the term corporate governance plays an important role in any company is because it ensures transparency which leads to strong & balance economic development. It also ensures that the interest of all shareholders be it minority or majority, are safeguard. CG affects the operational risk and hence, sustainability of a corporation is ensured.

Indian economy undergone a major change in its economic policies prevailing at that time in 1991, it adopted LPG policy, that specifies liberalization, privatization & globalization. With these major amendments in the economy came bench-marking changes which were financial liberalization. Indian market opened its arms & wings to welcome domestic as well as foreign corporate, it became an easy access for them which in turn was of crucial importance for the growth & the revival of shattered economy. Though, they enabled organizations to have access of funds from capital market but on the other hand, it created various issues. Corporate scams were undoubtedly one of those issues. Indian economy witnessed an ample case of corporate frauds since then, which inevitably put forward the issue of corporate governance into the realm for everyone to converse. Some of the major corporate frauds included Harshad Mehta scam (1992), UTI scam (2001), Ketan Parekh scam (2001), Satyam Fraud case (2009), Speak Asia scam (2011) Reebok India scam (2012), National Spot Exchange Ltd. scam (2013), Saradha Group chit fund scam (2013), Sahara Group (2014), Kingfisher money laundering case (2015), & Ricoh India accounting fraud (2016). Such fraud cases forced the supervisory body to pay more

attention on the imminent requirement and efficacy for pertinent analysis of companies' financial reports and to offer guidance to the investors in making their financial decisions. Penalties in India for the contravention of corporate governance are adjournment of trading and delisting from the stock exchange. There should also be a provision to inspire the organizations if they successfully obey with the corporate governance rules. SEBI used to make variations in its guidelines from time to time and issued stringent guidelines related to corporate governance. But in case of corporate scams, there are no severe penalties like longer imprisonment and heavy fines on top management in India as stated in Sarbanes Oxley Act of U.S. Indigent corporate governance may be pin pointed as one of the major factors in virtually all known occurrences of firm's distress in the country. On 24th March, 2017 SEBI ordered and commanded a penalty of Rs. 1000 crore on Reliance Industries and the 12 entities for contravening the provisions of Section 12A of the SEBI Act, 1992 and SEBI Regulations, 2003. They were found culpable on fraudulent and manipulative trades. This is by far the largest penalty imposed by SEBI in over 20-year of its history. whereas for Sahara group money laundering case, owner of the company Subrata Roy's personal asset is assessed much more than the liability but he is not paying off the debt for one reason or the other and rather agreed to be in jail or parole and in other case, Kingfisher chairman & MD Vijay Mallaya is still explicitly living a luxurious life and trying to negotiate with the banks for writing off company's debt. Auctioning all his assets could not even recover one thirds of the loan amount. A methodical corporate governance structure could provide guidelines to avoid unethical practices that are practiced in the name of enterprise. CG supports in the efficient functioning of an organization which leads to wealth maximization, economic growth and development. In order to imprint best corporate governance practices in India, various committees were setup to look after corporate governance system. Three significant committees are:

- SEBI constituted Kumar Mangalam Birla Committee (1999)
- Government constituted Naresh Chandra Committee (2002), and
- SEBI constituted Narayana Murthy Committee (2003)

The outlook and recommendations of these committees were similar to England's Cadbury Committee and America's Sarbanes-Oxley Act (2002). These committees suggested corporate governance procedures for Indian listed companies that are equivalent with global corporate governance practices. On 7th May 1999, Securities and Exchange board of India (SEBI) instituted a committee led by Kumar Manglam Birla to recommend best corporate governance measures to be followed by listed companies of India which is based on CII (Confederation of Indian Industry) code. It aims to encourage companies to "adopt best

practices on corporate governance”. All listed companies need to follow rules mentioned under clause 49 set by it. Clause 49 of the equity listing agreement was established on proposal of this committee. The committee came up with a report in 2000 but it was not implemented immediately on all the firms. It was applied thoughtfully first on new and large listed firms. This cautiousness was due to the realization that these rules were just imported from other developed countries. Year 2001 observed the occurrence of some major scams around the world including India like Enron scam in the U.S. and Ketan Parekh scam in India, the Government of India passed an order on August 21, 2002 to establish a high-level committee under the chairmanship of Naresh Chandra to inspect the auditor-company relationship and to standardize the role and functions of auditors. It entails the necessity for customization of imported rules in Indian context. SEBI also initiated another committee under the chairmanship of Narayan Murthy in 2003 to bring up with better procedures to implement corporate governance. Recommendations given by Kumar Manglam Birla and Narayana Murthy committees formed the Clause 49 of the listing agreement which was finally applied in 2006. Some changes and amendments were made in the clause which became effective from October 1, 2014 onwards. India's reform efforts had confirmed that its corporate governance rules follow Anglo-American corporate governance model. Nevertheless, its incapability to implement and impose all-embracing new norms entirely indicates that the full implementation of imported norms from one system to another is highly complex. This is highly acknowledged that companies with superior corporate governance system create faith and goodwill amongst the investors that empowers them to obtain funds at most rational costs. Investors are always motivated to invest in a firm which is safe and translucent in all its transactions. Corporate governance practices concerning financing decisions offer a trade-off between shareholders and stakeholders by choosing an optimal capital structure. There is no one correct answer of what exact amount of equity and debt should be employed to create an optimal capital structure. But it is always suggested not to embrace high debt as it reduces the tax benefits and increases the overall cost of capital. Therefore, choosing the wrong mixture of capital structure could lead to financial distress and corporate frauds. Existence and composition of the board (i.e. number of executive, non-executive directors, independent directors and nominee directors), remuneration to the board members, relations with the shareholders (including involvement in the Annual General Meeting), accountability and audit, committees formed to observe strategic decisions are the few parameters on which governance can be analysed and measured.

1.2. CONCEPT OF CORPORATE GOVERNANCE:

The term corporate governance is getting immense recognition and importance these days in the developed as well as in the developing economies of the world. The necessity of this has gained attention after the collapse of business giants such as Enron, Xerox, WorldCom and Tyco, etc. in USA and UK. It is considered to be different from corporate management. In management, prime concern is running of the corporations and the governance aims to ensure that the corporation is running in a fair and transparent way to the best welfares of all the stakeholders who are directly or indirectly attached to it. Eminence of corporate governance depends upon the integrity, ability and cohesiveness of the members of the board, justice and equality on the part of management, quality of corporate and financial reporting and the contribution of all the stakeholders in decision making process. The management officials, board of directors and the shareholders are the main parties in corporate governance. The board of directors are considered to be influential instrument in corporate governance matters because of separation of ownership, control and management. Since the proprietors of the company i.e. the shareholders often belong to far and wide places, hence it becomes tough for them to keep a track on each and every activity of the company to which they belong. Hence, the separation of ownership, control and management in joint stock companies roots certain expenses to incur.

1.2.1.Types of expenses:

Jensen and Meckling (1976) divided these **expenses** into the following three categories:

- a. **Monitoring Expense** is incurred by the principal to put a check on distortive activities of the agent;
- b. **Bonding Expense** is incurred by the principal to ensure that the agent is not performing against the interests of the firm and
- c. **Residual Expense** is incurred when the agent deviates from the objective of wealth maximization.

Thus, the shareholders, in order to safeguard their benefits in the company, appoint their representatives named as directors. The board of directors' act as a trustee for them and work like middle-men between the shareholders and the management. They are accountable to protect the interest of investors because investors are considered to be *raison de'être* for the growth and progress of a company and for the capital market as a whole. As the excellence of governance relies upon the quality of board, in the same way the quality of the board depends upon certain features such as the structure of board (duality or independent chairmanship position), size in terms of total number of directors on the board, composition in terms of proportion of executive, non-executive, independent and nominee directors on the board, joint understanding of the directors at the time of decision-making, comprehension and expertise of members of the board. The board is responsible to shareholders for all the activities of the managers. Essentially, the board has to accomplish the roles of strategic decision making, establishing objectives, policies formulation and monitoring or evaluating the performance of CEO of the company.

1.2.2. Role of Directors

Johnson et al. (1996) classified the directors' roles into the following three categories:

- a. *Service Role:*** Directors develop the strategies or policies and further guide the CEO and other senior managerial personnel for its execution;
- b. *Controlling:*** Directors keep a track of the performance of CEO and observe them and other senior managerial personnel of the company to ensure that the managers are not expropriating the shareholders' interests and
- c. *Resource Dependency:*** According to this role, the board is cooperative in obtaining the scarce resources for the company due to its network characteristics.

As a matter of fact, the role of board is just restricted to give the direction. The real management rests in the hands of CEO or other managerial workers of the company. Board of directors can formulate the policies or strategies but eventually the management has to assume the responsibility for its enactment.

Figure -1.1 Continuum of Directors, Involvement in Strategic Management

Low (Passive)

High (Active)

Phantom	Ruber Stamp	Minimal Review	Nominal Participation	Active Participation	Catalyst
No degree of involvement	Pemits managers to take all the decisions and signs as the officer recommends	Formally reviews the selected issues which the officers bring to their attention	Limited involvement in selected key decisions indicators of programs of management	Active board committees Make decisions strategies polices and objectives and performs management andits als	Active strategy Committee Lead role in establishing and modifying the mission objectives strategies and polices
<i>Souce Adopted from corporate Governance edited Arya et at (2003) P 237</i>					

Fundamentally, the term corporate governance has been introduced to keep a track on all the affairs of the organizations through various board committees which comprise audit committee, remuneration committee, investor’s grievance committee and other functional committees, etc. Though, the growing eminence of this subject has also made it more problematic to define due to its multi-disciplinary nature having its associations with philosophy, economics, law, accounting and finance and politics, etc. So, variety of disciplines makes it difficult for us to reach at a single definition. There are countless definitions based on the narrow as well as the broader notion of corporate governance. All the definitions given on CG, throw a light on law, customs, organizational factors, profit maximization, wealth maximization, rights of shareholders and other stakeholders, transparency and accountability, etc. Regardless of these factors, ethical behaviour of corporate organizations, their honesty and loyalty matter more in conveying efficiency in our present system. Hence, corporate governance should not be an issue of mere compliance of all the statutory pre-requisites as given by regulatory

authorities from time to time. It should be established on the set of values, beliefs, morale and ethics of business leaders.

1.2.3 The objectives of good governance are as follows:

- i. The elementary objective of corporate governance is to refine the association between the company and the shareholders so that it can have an impact on the long-term performance and sustainability of the company.
- ii. To have a methodical, fair and translucent administration as well as full disclosure of financial information so that Independent flows of information can be possible from private domain to public domain.
- iii. To certify the responsibility and accountability of all the members of the board and management individuals towards all those persons who are directly or indirectly attached to the company.
- iv. To make the company cognizant of the environmental and societal matters of the community in which it operates because such concerns will definitely improve the goodwill of the company.
- v. To safeguard the balance of authority so that no single individual can have excessive powers.

1.3. RATIONALE OF THE STUDY

The above deliberations lead to a prominent conclusion that corporate governance can easily help in mitigating corporate frauds and can serve as a tool to improve transparency. Corporate governance takes into cognizance the relationship between shareholders, managers and other stakeholders and is imperative in managing and controlling any organization. The idea of corporate governance is even more significant in adaptive economy like India. Even the best standards fail to prevent occurrences of major corporate misbehaviours. In India, the key features of corporate governance rules and standards are imported from the sway of other developed countries. It is understandable that every country is different from each other in terms of social, economic, cultural and legal environment and consequently there is a necessity to understand what norms are likely to work in the Indian scenario. Effective implementation can be achieved only when these international standards and

norms are established and customized according to the unique issues of the Indian system. There is a need to understand what makes the Indian scenario different so as to develop and give some practical suggestions on how to strengthen the Indian corporate governance within its own legal structure. So far, review of literature recommends that the studies on the relationship between corporate governance, default risk and earning response coefficient have not been adequately explored. This study examines the relationship between corporate governance, default risk and earning response coefficient in background of Indian firms. An exhaustive review of related literature discloses that although there are number of related prior empirical studies conducted in developed economies. However, the same cannot be said of developing economies. Off-late, there is a growing interest among researchers in management in the area of corporate governance especially among large and listed firms. Unlike Anglo-Saxon countries, where equity markets tend to be the primary source of financing, the use of the equity market by Indian businesses has always been low. Small Indian firms depend profoundly on banks for both short and long-term capital necessities. but in big states, the equity market plays a more significant role in providing business finance. The high degree of dependence on debt financing, while justified on the ground of faster processing and easier access for smaller firms, makes a contractual obligation on the part of the borrowing firm to service the debt in the form of regular interest and principal payments. This in turn introduces default risk. It is unusual to make seasoned equity offerings in India. Hence, even mature listed firms tend to depend mainly on debt from commercial banks to finance their growth needs. Firms also raise debt by issuing bonds. Bond issuance needs a rating judgment conducted by the credit rating agencies in India (CRISIL, CARE, ICRA, SMERA, ONICRA, FITCH India). Debt ratings are essentially determined by the probability that an organization will be able to meet its debt obligations or not. However, the amount of debt raised from commercial banks far exceeds that raised by bond issues. A debt is of high significance to the Indian market, default risk is closely monitored by market players. Since risk is an important factor in debt contracts, companies with excessive debt face constraints in the form of debt covenants. At loan inception, the lender estimates the expected credit risk that the borrower presents over the life of the loan. In the absence of measures to control increases the chances of credit risk, the lender prices the expected outcome into the interest rate fixed for the loan. Both lender and borrower are affected by high risk of the borrower. The lender suffers increased risk over the life span of the loan and the borrower from high

interest rates (Demerjian and Ross, 2007, p.4.). The debt contracting literature suggests that contracts between debt holders and owner- managers contain covenants that restrict management behaviour because owner-managers have incentives to take actions that may negatively affect the debt holders' wealth position.

The debt-equity ratio is a widely used variable in capital market research. In the words of Watts and Zimmerman (1986, p.216) researchers using the Debt-Equity Ratio in investigations of discretionary accounting choices are actually testing the debt-equity hypothesis, which they mention as follows:

Ceteris Paribus the larger a firm's debt-equity ratio the more likely the firm's manager is to select accounting procedures that shift reported earnings from future periods to the current period. This hypothesis was derived from the covenant-based hypotheses which suggest that the closer an organization is to a particular accounting-based covenant restriction, the more likely the manager is to choose accounting methods that increase current earnings.

Sound corporate governance monitors managerial practices in dealing with debt financing. In its absence, the cost of debt rises up and organizations with high leverage become prone to earnings management, which ultimately adversely affects public confidence in the reliability of corporate reporting. Other contemporary papers to inspect the relationship between governance and the cost of debt include Bhojraj and Sengupta (2003); Cremers, Nair and Wei (2004); Anderson, Mansi and Reeb (2004); Klock, Mansi and Maxwell (2005); Sarkar and Sarkar (2008); and Larry (2010).

Hence, this study examines the influence of corporate governance on the default risk rate and earnings response coefficient of listed firms in India. This study emphasizes on board of directors, audit committees because they are some of the most important mechanisms of corporate governance. Some of prior studies suggest that the cost of poor CG is borne more heavily by the minority shareholders, especially in emerging markets like India. According to Frost, Gordon and Hayes (2006), improvements in corporate governance practices that contribute to better disclosure in business reporting can facilitate greater market liquidity and capital formation in emerging markets. Corporate governance is hence of eminent importance to the investors, insurers, regulators, creditors, customers, employees and other stakeholders. This research adds to the literature by highlighting the significant link between some

corporate governance measures and default risk rate. Therefore, this study theoretically and practically attempts to provide evidences for the existence of relationship between corporate governance default risk and earning response coefficient in India.

1.4. RELEVANCE OF THE STUDY

The study is relevant from the perspective of academic, managers, regulators and policy makers. This study offers contribution to the existing body of literature on the relationship between corporate governance, default risk and earning response coefficient. To my knowledge and information, a very limited research has been conducted recently. The result may provide a good guideline for managers and stakeholders to understand whether their companies are exercising good corporate governance practices or not. Without empirically testing the effect of corporate governance norms it would be difficult to say that board characteristics or functions and audit committees have brought any significant change in the decision-making. Just as any change takes time, so too good corporate governance application will bring alteration in the system with time. India has adopted the best and most robust corporate governance norms from the other countries' jurisdiction. But just having best rules or regulations of the world could not bring the change in the corporate functioning and corporate misbehaviours. Listed companies are trying to comply with corporate governance norm which is very much evident from the outcomes of the checklist provided by SEBI. Compliance is the necessity in Indian environment but the purpose should not be just to complete the paper work. There are few old corporates that practice the corporate governance long before it became obligatory like Tata, Birla and Infosys. Though, recent cases of Tata and Infosys are examples that irrespective of having best norms of the world, there is something in which India is lagging which made us fail on effective decision making. Consequently, empirical studies are mandatory to understand what works in Indian system so that proper and effective norms are enforced otherwise it would remain a box ticking exercise.

1.5. SCOPE OF THE STUDY

This study tries to link the research gap through investigating the relationship between the board characteristics, audit committees and default risk rates. As board plays an important role in determination of financing mix of the companies. This study addressed the issues relating to some pertinent questions emerging within the domain of study problems. The study seeks to answer the following questions:

- I. There are some queries in context of Indian companies like Corporate Governance has a positive or negative relationship with ERC & Default risk?
- II. Whether default risk & earning response coefficient are correlated or not?
- III. Does audit quality effect the association between default risk & ERC?
- IV. Does audit quality expertise effect the association between default risk & ERC?
- V. Does audit committee independence effect the association between default risk & ERC?
- VI. Does board independence effect the association between default risk & ERC?
- VII. Does board shareholding effect the association between default risk & ERC?

1.6. LIMITATIONS OF THE STUDY

In-spite of all precautions taken, this study is not completely independent of limitations. First, the study relates to just one emerging economy India. Second, the operational concepts used as measures for the pure constructs. Variables used in the study may actually have a poor correspondence with the variables. Results may also suffer from omitted variables problem. Sample selection criteria have limited the study to large and listed firms only.

1.7. SUMMARY OF CHAPTER

This chapter summaries the entire philosophy and thought-process behind undertaking this research. It familiarizes the background of the study, speaks of few previous studies in the related area, and mentions the rationale, relevance and scope of the present study. It also outlines the scope of the research while also stating its limitations.

CHAPTER – 2

THEORETICAL FRAMEWORK

2.0. INTRODUCTION

This chapter presents a theoretical grounding of the research and review of the literature. Theoretical underpinnings have explicated on the theoretical perspectives that are supposed to be significant in a study pertinent to the relationship between corporate governance, default risk and earnings response coefficient. Several studies around the world have found that good corporate governance practices help in mitigating negative impacts of default risk on earnings response coefficient and prevent companies from earnings management. This implies that corporate governance practices may have an impact on decisions of the firms in minimizing the chances of default risk.

2.1 Theoretical framework for Corporate Governance

Theory of Corporate governance was first authored by Berle and Means in 1932. During the last few decades corporate governance has become a debatable issue among academic researchers, regulators and policy makers in context of board responsibilities and role of audit committees' in fraud detection and prevention. The capital structure of a firm is basically the financial framework which mainly consists of the debt capital and equity capital, raised from the capital market to finance the firm, which lays the background of a company's decision regarding debt equity ratio, pay-out ratio which later on exposes stakeholders to the risk of default in payment obligations.

2.1.1. MAJOR THEORIES OF CORPORATE GOVERNANCE:

The major theories associated with corporate governance are:

1. Shareholder Theory
2. Stakeholder Theory
3. Stewardship Theory
4. Agency Theory

2.1.1.1 Shareholder Theory

Shareholder theory supports the approach of maximizing wealth of the shareholders. Shareholder theory outlines that shareholders invest their capital in the firm and expect to get higher return on it, in the long-term. Shareholders are known as the real proprietors of an organization who invest their money into the business but, are the last claimants on company's profit. After paying off all the liabilities they get the remaining profits in the form of dividends whereas in case of loss they tolerate all the loss. As the profit enhances their chances of getting return also shoot up. Most of the time they lack expertise to run and manage the business and are dispersed widely all over the world, so in such cases management executives are hired and they work as the agents of the shareholders. Management makes decisions on behalf of shareholders and they are legally and morally responsible for making decisions that are expected to be in the interest of shareholders. However, it is also expected from them that policies to maximize profits should not be damaging to the society and bounded within the business ethics.

2.1.1.2. Stakeholder Theory

Stakeholder theory was propounded by Edward Independent man. This theory explained the social responsibilities of the business from shareholders welfare point of view to a broader concept of stakeholders' welfare. Social responsibility can be termed as responsibility towards anything that could be related to economy, law, and ethics or even philanthropy. He made use of the word 'value' in place of 'profits' as business functions in society comprising of stakeholders, who are directly or indirectly affected by it. Gamble and Kelly (2001) mentioned that any person or group which can affect or be affected by the actions of a business are called stakeholder(s) of the business. It comprises of employees, customers, competitors, suppliers, creditors, government and the community. This theory seems to be heuristically stronger than shareholders theory. Scholars like Mills & Weinstein (2000); Greenwood (2001); Post et al. (2002); Ertuna (2005) under pins stakeholder theory which advocates the interest of all stakeholders and is essential for the survival and sustainability of the firms.

2.1.1.3. Stewardship Theory

Stewardship theory was presented by Donaldson and Davis in the year 1991. They were of the opinion that apart from motivation that is financial in nature there are other motivators that are non-financial or intangible in characteristics that could lessen the self-interest and opportunistic attitude of managers. This theory does not approve the agency problem. Under this approach, stewardship on shareholder's assets, the chief executive officer inherently has the motivation for maximizing the value of the firm. Davis et al. (1997) pointed that stewardship theory presupposes that there are no inherent problems in the managerial motivation. It supposed that the chief executing officers believe that their own self-interest is not superior to firm's interest and consequently they are always persuaded towards decision making that are beneficial and effective for the firms.

2.1.1.4. Agency Theory

A study of the literatures manifested that agency theory is the most popular theoretical perspective in the field of corporate governance and displayed that it has gained much attention from researchers exploring issues pertaining to corporate governance and executive compensation. Consequently, governments and regulatory bodies have been prejudiced by this perspective in developing their regulations, rules and principles. That is, agency theory is legally presumed to provide the most comprehensive theoretical explanation for the relationship between management and shareholders, along with projected explanations for the agency problem. Agency theory was coined by Jensen and Meckling in 1976. This theory was grounded on economic theory. According to agency theory shareholders (principals) delegate the control of the business (as they are dispersed) to managers (agents).

2.2. Indian Model of Corporate Governance

Indian model of corporate governance is somewhat homogenous to the Anglo-American Model. Here, in majority of the cases, the company board is governed by the family members/founders. "There are no occurrences of corporate failures in Indian companies due to the methodical management by family promoters who despite their large shareholdings in their companies always appraised themselves as trustees of public

wealth (*TN Kumar, 2006*)". The scam of Satyam Computer Services Ltd can be quoted as an exception to this. In Indian model of corporate governance, the shareholders have the right to choose the members of the board. The primary function of the members of the board is to develop all the policies and strategies for top management and observing their performance. Government, regulatory agencies and stock exchanges keep a track on the companies through various codes, regulations and policies, etc. for continual development, an organization takes care of stakeholders' interests who are directly or indirectly associated with the company.

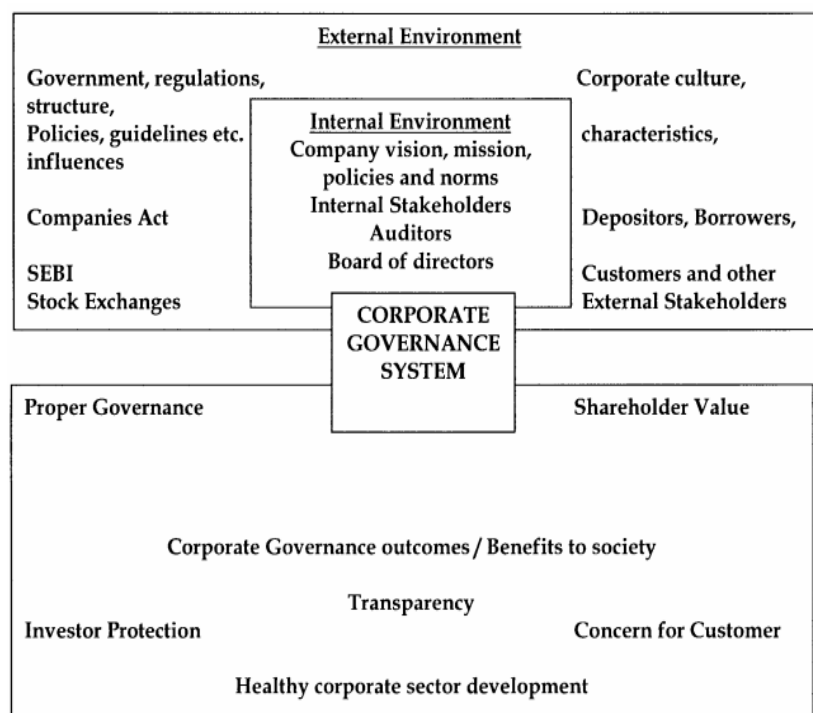


Figure 2.1 Indian Corporate Governance Model

2.2.1. Elements of Good Corporate Governance

Good governance has 8 major physiognomies. Good governance is receptive to the present and future requirements of the organization, exercises far-sightedness in policy-setting and decision-making, and that the best benefits of all stakeholders are considered. Following are the eight elements mentioned:

2.2.1.1. Rule of Law:

Good governance necessitates fair legal outlines that are enforced by an unbiased regulatory body, for the full protection of all the stakeholders.

2.2.1.2. Transparency:

Transparency means that data should be presented in easily comprehensible forms and media; that it should be independently accessible and directly reachable to those who will be affected by governance rules and practices, as well as the consequences resulting therefrom; and that any decisions taken and their execution are in obedience with recognized rules and regulations.

2.2.1.3. Responsiveness:

Good governance necessitates that organizations and their procedures are intended to serve the best interests of stakeholders within a judicious timeframe.

2.2.1.4. Consensus-Oriented:

Good governance entails discussion to understand the different interests of stakeholders in need to reach towards a broad consensus of what is in the best favour of the entire stakeholder group and how this can be attained in a justifiable and sensible manner.

2.2.1.5. Equity and Inclusiveness:

The organization that delivers the prospects for its stakeholders to maintain, enhance, or generally improve their well-being provides the most captivating message regarding its motive for presence and value to society.

2.2.1.6. Effectiveness and Efficiency:

Good governance encompasses that the processes employed by the organization to generate favourable results meet the requirements of its stakeholders, while making the optimal use of resources – human, technological, financial, natural and environmental – at its conveyance.

2.2.1.7. Accountability:

Accountability is a key theory of good governance. Who is accountable for what should be recorded in policy reports? In general, an organization is answerable

to those who will be influenced by its decisions or actions as well as the related rules of law.

2.2.1.8. Participation:

Participation by both men and women, either directly or through legal representatives, is a key stone of good governance. Participation requires be informing and organizing, including liberty of expression and meticulous concern for the best interests of the organization and society in general.

The framework of Indian corporate governance is comprised of different enactment and controls like the Companies Act, 1956, the Securities Contracts Act, 1956, the SEBI Act, 1992, the Depositories Act, 1996, Listing Agreement with Stock Exchange, 2000 and so on. All recorded and unlisted companies in India are administered by the Companies Act 1956 and it is administrated by the Department of Companies Act (now it is service of corporate issues). This demonstration was changed in 2000. It was more centred on current principles of corporate governance principles. The intensity of Securities Contracts Act covers a wide range of tradable government shares, debentures, stocks and different types of marketable securities issued by companies. The essential targets of SEBI act are to ensure the interests of financial specialists in securities and advance and control the securities market. To engage the SEBI and to build up an all-around anchored security exchange the demonstration was revised twice in 1995 and in 1999. The posting understanding characterizes the principles, divulgence and procedures that companies must take after to stay as recorded substances on a stock trade.

2.3. Laws and Regulations

The corporate governance framework in India primarily consists of the following legislation and regulations:

2.3.1. *The Companies Act, 1956:*

Companies in India, regardless of whether recorded or unlisted, are administered by the Companies Act. The Act is regulated by the Department of Companies Act (DCA). In addition to other things, the Act manages principles and techniques with respect to the fuse of an organization; plan and assignment of normal

and inclination offers and debentures; management and organization of an organization; annual returns; recurrence and lead of shareholders' gatherings and procedures, upkeep of records, top managerial staff, counteractive action of mismanagement and persecution of minority investor rights; and the intensity of research by the Governance, including forces of the CLB. The company's demonstration (Amendment) Act, 2000 acquainted huge changes with expedite centre the principles of present-day corporate governance.

2.3.2. The Securities Contracts (Regulation) Act, 1956:

It covers a wide range of tradable government paper, shares, stocks, securities, debentures, and different types of marketable securities issued by companies. The SCRA characterizes the parameters of the lead of stock trades and also its forces.

2.3.3. The Securities and Exchange Board of India (SEBI) Act, 1992:

This demonstration set up the independent capital market administrative specialist, SEBI, with the target to ensure the interests of financial specialists in securities, and advance and control the securities market. This demonstration was revised twice in 1995 and in 1999 to elucidate the 'divulgence' standards and further enable SEBI to ensure the interest of financial specialists and to build up an anchored securities exchange.

2.3.4. The Depositories Act, 1996:

This demonstration built up offer and securities stores, and made a legal framework for dematerialization of securities.

2.3.5. Listing Agreement with stock exchanges, 2000:

This assertion characterized the rules, procedures, and exposures that companies must take after to stays as recorded elements. A key segment of this assertion is Clause 49, which expresses the corporate governance rehearses that recorded companies must take after. These proposals managed to pay and compensation and lead of the board individuals

2.4. Model of Corporate Governance practiced in India

The Indian companies are represented by the Company's Act of 1956 which takes after pretty much the UK show. The example of privately-owned businesses is generally that of firmly held or ruled by an originator, his family and partners. India

has received the key inhabitants of the Anglo-American outer and inward control component after financial liberalization.

The structure and procedures of corporate governance are not all-around the same in all nations. Diverse nations have embraced distinctive structure and procedures in administering their companies relying upon the reasonableness of their socio-culture, monetary condition, government strategy and capital and currency market frameworks and so on. Whatever structures of corporate governance are embraced, one thing is regular that the top managerial staffs has been redesigned as the core of the structure of corporate governance and the board forms have been acknowledged as the most imperative procedures of governance. It has additionally been redesigned that alongside the governing body, alternate members, viz. shareholders including institutional speculators or extensive shareholders, different stakeholders, banks and auditors and so forth do have critical parts in the governance structures and their responsibilities in the procedures of corporate governance. In this way, while talking about the different structures and procedures of corporate governance, it will be reasonable to contact upon the parts and responsibilities of these members all the while, without which the exchange on governance structures and procedures stay inadequate.

2.4.1. Indian Committees and their Guidelines

Some major committees for corporate governance in India are:

- Kumar Manglam Birla Committee, 1999
- Naresh Chandra Committee Report, 2002
- Narayan Murthy Committee Report, 2003
- Dr. J. J Irani Committee on Company Law, 2005

2.4.1.1. Kumar Mangalam Birla Committee, 1999:

- The Birla Committee's suggestion comprises of mandatory proposals and non-mandatory proposals.

- Mandatory suggestion incorporates a synthesis of Board of executive and audit committee, the compensation committee of the board system of the board, management or way of usage.
- Non-mandatory suggestions incorporate part of the administrator, arrangement of the compensation committee, privileges of shareholders, postal poll methodology and so on.

2.4.1.2. Naresh Chandra Committee Report, 2002

The Naresh Chandra Committee was delegated as an abnormal state committee to examine different corporate governance issues by the Department of Company Affairs on 21 August 2002. Naresh Chandra Committee investigates 'Corporate Audit and Governance' has taken forward the suggestions of the Kumar Mangalam Birla Committee on corporate governance which was set up by the Securities Exchange Board of India on the accompanying checks:

- Representation of independent directors on an organization's board.
- The organization of the audit committee.

The Naresh Chandra Committee has set down stringent rules characterizing the connection among auditors and their customers. In a move that could affect small audit firms, the committee has prescribed that alongside its auxiliary, relates or associated substances, an audit firm ought not to infer more than 25 percent of its business from a solitary corporate customer. The Committee has additionally suggested the following measures:

- Tightening of the noose around the auditors by soliciting them to make a cluster from divulgements.
- Calling upon CEOs and CFOs of all posting companies to confirm their companies' annual records, other than proposing.
- Setting up of quality audit sheets by the Institute of Chartered Accountants of India (ICAI), Institute of Company Secretaries of India (ICSI) and Institute of Cost and Works Accountants of India, rather than a public oversight board like the one in USA.

2.4.1.3. Narayana Murthy Committee Report, 2003

Under the committee on corporate governance set up by SEBI under N. R. Narayana Murthy, the terms of references were:

- To survey the execution of corporate governance and
- To decide the part of companies in reacting to market information and other value delicate data efficiency in the market.

The committee report communicates its aggregate simultaneousness with the proposals contained in the Naresh Chandra Committee's provides details regarding the accompanying tallies:

- Disclosure of unforeseen risk
- Certification by CEO's and CFO's
- Definition of independent directors * Independence of Audit committees

The committee turned out with two arrangements of suggestions, in particular, mandatory proposal and non-mandatory proposals.

- **Mandatory recommendation** incorporates an arrangement of the audit committee, related gathering exchanges; Proceeds from initials open contributions, risk management implicit rules for the Board or arrangement of nominee directors and so on.
- **Non-mandatory recommendation** relates to moving to a governance accommodating unfit corporate financial articulations, preparing of board individuals and assessment of non-executive chief's execution by an associate gathering including the whole governing body, barring the chief being assessed.

2.4.1.4. Dr. J. J. Irani Committee Report on Company Law, 2005

The Government of India established a specialist committee on Company Law on 2 December 2004, under the chairmanship of Dr. J. Irani. Set up to basically assess the perspectives of a few stakeholders in the advancement of the Company Law in India in regard of the concept paper proclaimed by the association service of organization undertakings, the J. J. Irani Committee has turned out with recommendations that will go far in laying the sound base for corporate growth in the

coming years. The principle highlights of its suggestions relating to corporate governance are as per the following:

A) Number of Directors and their span in organization

- Age of Directors
- 1/3rd of Independent Directors (alongside the definition of Independent Director)
- Maximum No. of Directorship hold by Individual
- Remuneration Policy
- Sitting Fee Structure for Directors
- Requisite Board Meetings in a year

B) Number of Independent Directors in the Audit Committee

- Constitution of Remuneration Committee
- Protections of Minority shareholder's rights
- Appointment of Auditors
- Certificate Issued by CEO and CFO
- Subsidiary Company Transactions
- Disclosure of directorship and shareholding example of the organization
- Responsibility of the Board in Public Subscriptions
- Roles and Responsibilities of Independent Directors
- Appointment of Stakeholders Relationship Committee
- Appointment of Nominee Directors
- Interactive Dialog between proficient bodies and corporate area to empower the development of corporate governance codes
- Appointment of Regulators to screen the end utilization of assets gathered from the general population

C) Credit Rating Mechanism ought to be trailed by corporate

- Whistle-blower concept (Irani Committee Report on Company Law (2005))
- It is vital to specify here that regardless of different suggestions made by the above committees on corporate governance, the Committees kept silence on two noteworthy issues on corporate governance. They are:

- Chairman and CEO Duality (especially with respect to partition of these two posts), and
- Appointment of Nomination Committee

2.5. Role of SEBI

With the annulment of the workplace of the Controller of Capital Issues, The Security and Exchange Board of India (SEBI) were established. It was set up initially in 1988 however was just given statutory power with authorization of the SEBI Act in January 1992. The specialist in key territories stayed with the Department of Company Affairs (DCA). The statutory and administrative forces to SEBI have been given by the Government with the mission to move from control Governance to prudential directions.

SEBI presented another provision 49 in the posting assertion of the stock trades vide its round (SM/DRP/Policy/CIR-10/2000) dated 21st February 2000, determining the principles of corporate governance. From that point it issued booklets on a ninth walk, 2000, twelfth September 2000, 22nd January 2001, 16th March 2001 and 31st December 2001, bury alia itemizing arrangements of corporate governance, its immaterialness, reporting necessities, alterations to condition 49. Following the proposals of Narayana Murthy committee on corporate governance SEBI, in the exercise of forces presented by Section 11(1) of the SEBI Act 1992, read with Section 10 of the SCRA Act, 1956, updated proviso 49 again vide its round (SEBI/MRD/SE/2003/26/08) dated 26th August 2003. Be that as it may, this roundabout was conceded for execution lastly pulled back by SEBI because of its disputable and far from being obviously true arrangements. It was supplanted by new SEBI roundabout (SEBI/CFD/DIL/CG/1/2004/12/10) dated 29th October 2004, after total update of provision 49 (modified proviso 49), superseding every past round about issued by SEBI in such manner.

The arrangements of the updated Clause 49 must be executed for the accompanying substances:

- For elements looking for posting out of the blue, at the season of looking for in-principle endorsement for such posting.

- For existing recorded substances which were required to agree to Clause 49 which is being amended, i.e. those having a paid-up share capital of Rs. 30 million or more or total assets of Rs. 250 million or more whenever ever of organization, by April 1,2005.
- The companies following the arrangements of the current Clause 49 at present should keep on doing so till the amended Clause 49 is agreed to or till March 31, 2005, whichever is prior.
- For other recorded substances which are not companies, but rather body corporate (e.g. private and open part banks, financial foundations, insurance agencies and so forth.) incorporated under different statues, the overhauled Clause 49 would apply to the degree that it doesn't disregard their separate statues and rules or orders issued by the important administrative experts. The reconsidered Clause 49 isn't material to common assets.

The primary necessities of the modified Clause 49 of the Listing Agreement are condensed here under:

- Mandatory necessities (Annexure 1 of Clause 49) incorporates the structure of Board, Non-executive Directors' Compensation and Disclosures, set of principles, synthesis of the Audit Committee, gatherings, part, and forces of the Audit Committee, related gathering exchange, CEO/CFO confirmation or compliance and so forth.
- Non-mandatory necessities (Annexure1 D of Clause 49) incorporates maintenance of board, the structure of compensation committee, shareholders rights, Auditor capability, training of board individuals, mechanism for assessing non-executive board members or whistle blower policy and so on.
- As of late, SEBI has included some new arrangements in Clause 49 of the Listing Agreement which stipulate that:
 - If the non-executive administrator of a recorded organization is a promoter or is identified with the promoters or people possessing management positions at the board level or one level beneath the board, no less than oneportion of the leading body of the organization should comprise of independent directors.
 - An independent chief ought to have a base age of 21 years.

- The time gap between the exit and passage of independent directors will not surpass 180 days.
- The exposures of connections between directors will be made in archives and documents.

2.6. Corporate Governance Effects

Following are some of the effects of presence of Corporate Governance mechanisms within an organization:

2.6.1. Shareholder Confidence- Good corporate Governance can positively affect financial specialist certainty by reassuring them that the association is settling on sharp business decisions and is effective inside. Beyond any doubt, investors are presumably going to put greater proportions of trade out an effectively managed association in light of the fact that a positive profit for the hypothesis is likely. This can provoke extended market trust in the association, which can serve to construct its general stock regard. Exactly when the stock estimation of an association rises, so does its general regard.

2.6.2. Business Growth and Development- As the estimation of organization increases, so does its straight forwardness in making funding to make purchases went for supporting development. Corporate Governance can decidedly influence business development by making it less requesting for an enterprise to raise the essential funding to anchor new areas or develop new things. Raising capital is less demanding in light of the fact that speculators trust they are stretching out cash to a well-run organization with the protected framework important to settle on shrewd financial choices.

2.6.3. Economic Effects-A company with poor corporate Governance procedures can affect the business advertise and the greater economy. Non-attendance of practical corporate Governance at the authority and Governance level can incite awful business decisions, which can cut down the general estimation of the association and make it more troublesome for the business to meet its budgetary responsibilities. This was seen in the midst of the money related crisis of 2009 when poor corporate decisions incite falling frustrations in the

land and auto markets, which hence caused broad-scale work reductions and monetary directing.

2.6.4. Public Perception of Business- Corporate governance systems can affect the general population perception of a corporation. An organization with solid corporate governance techniques identifying with dependable spending, treatment of specialists and biological concerns can deliver a considerable measure of the uplifting state of mind among the all-inclusive community. In like way, an association with little stress for the biological impact of its business practices or the prosperity of its laborer can deliver a great deal of open uncertainty. This non-attendance of certainty moreover can show itself as extended government oversight of an association as chose and state workplaces eagerly screen the organization to promise it is adhering to every single proper direction.

2.7. Limitations of Corporate Governance Implementation in India

2.7.1. If the Board is in control of the family official, it makes it troublesome for the Board here and there to make extreme inquiries or at different occasions the correct inquiries at the opportune time keeping in mind the end goal to serve the interests of the shareholders better. Thus, genuinely independent directors are once in a while found in Indian companies. Serving on different boards is tricky in light of the fact that doing as such can overburden directors, in this manner hampering their execution, and increment the potential for directors to encounter irreconcilable circumstances between the different corporations they serve.

2.7.2. It is conceded that the commitment of the independent directors is constrained on the grounds that the normal time spent in Board gatherings by these directors is scarcely 14 to 16 hours in a year. Sometimes, it has been discovered that no legitimate preparing and introduction in regard to the attention to rights, obligations, obligations and liabilities of the directors is given to a person before naming him/her as a chief in the Board. Additionally, there is concealed however the dynamic investment of political class.

- 2.7.3.** The directors on the board are to a great extent dependent on data from the management and auditors, with their ability to independently confirm financial data being very constrained, while auditors, as this case proposes, have additionally been similarly dependent on management data. The pertinent issue here is the degree and the profundity of auditors' exertion in their activity of due determination. Over the top dependence on data from the management is symptomatic of the proprietorship or control of companies in India by business families, and that represents a specific test for corporate governance in India.
- 2.7.4.** The best downside of financial scams in India is the non- attendance of point by point reporting on related board meetings, low quality of merged book-keeping and section reporting prompts distortion of the genuine photo of a business meeting.
- 2.7.5.** Although India's speculator insurance laws are refined, defendants must hold up quite a while before getting a judgment. Post-ponements in the conveyance of decisions, high expenses of the case and the long legal arrangement process in courts make the legal authorization instrument inadequate. As per the OECD, "the validity and utility of a corporate governance framework lay on its enforceability."
- 2.7.6.** In India, the two audit-related issues which are regularly perceived are that of auditor independence and the apparent feebleness of auditors even with corporate weight. By and large, they are badly prepared to deal with the requirements of extensive companies, in light of the fact that even with an audit disappointment, it is extremely hard to perceive whether the auditors were smug or they were pressurized by the deliberate endeavours of the insiders.
- 2.7.7.** There is no legitimate framework to screen the work of audit firms or to survey the records arranged by the organization's statutory auditors. Be that as it may, in the result of the Satyam case, the SEBI has chosen to acquaint an associate survey component with survey the records arranged by an organization's statutory auditor. What's more, the SEBI has additionally

chosen to comprise a board of auditors to survey the financial proclamation of all BSE Sensex and NSE Nifty companies.

2.7.8. Also, there is no statutory consistency for the companies to acquire a give an account of Corporate Governance Rating by the Credit Rating Agencies in India.

2.8. Need for Corporate Governance

Before going into corporate governance of banks specifically, let us a review, only for setting, why corporate governance is imperative by and large. At its most fundamental level, corporate governance sets up the "rules of the diversion" to manage issues emerging from the partition of possession and management with the goal that the interests of all stakeholders are secured. Observational proof demonstrates that organizations with prevalent governance hone produce greater benefits, higher returns on equity and bigger profit yields. Critically, great corporate governance likewise appears in such delicate zones as representative inspiration, work culture, corporate value framework and corporate picture. Then again, the disappointment of prominent companies, for example, BCCI, Enron, WorldCom and Parmalat was an example of terrible corporate governance scam. Notably they had a corporate outrage of remarkable measurements in Satyam Computers where the organization's CEO confessed to having adulterated records to the tune of more than 7000 crores, and that excessively spread more than quite a long while. Indeed, even as the legal procedure identifying with this asserted extortion is still underway, the unavoidable issue is in what ways was this disappointment of corporate governance and how are we settling those lacunae? We had occasions of poor governance in the banking part too - the disintegration of models in forex subsidiary exchanges and extortion in riches management plans - advising us that we have to work hard to get the chance to best practice in each zone of corporate governance.

Regardless of what perspectives of the corporate goal are taken, compelling governance guarantees that boards and administrators are responsible for seeking after it. The implementation of strong corporate governance is of massive eminence for the general public in totality, as follows:

- Firstly, it advances the proficient utilization of rare assets both inside the association and the bigger economy.
- Secondly, it makes the assets stream to those areas or elements where there is proficient creation of merchandise and enterprises and the return is sufficiently sufficient to fulfil the requests of partners.
- Thirdly, it gives abroad instrument of picking the best administrators to oversee the rare assets.
- Fourthly, it encourages the managers to stay concentrated on enhancing execution, ensuring that they are supplanted when they neglect to do as such.
- Fifthly, it pressurizes the association to agree to the laws, controls and desires for society and last however not the minimum it helps the directors to manage the whole financial segment without prejudice and nepotism.

2.9. Issues in Corporate Governances Ethics

Corporate Governance envelops pledge to values and moral direction of organizations to amplify investor's riches while guaranteeing reasonableness to all stakeholders and hold financial specialists' trust. Moral issues emerge from clashing interests of the gatherings included and chiefs should settle on choices in light of an arrangement of principles impacted by the values, setting and culture of the association. What establishes great Corporate Governance will advance with the changing conditions of an organization and must be custom fitted to meet these conditions.

2.9.1. Accountability issues: Straight forwardness in decision-making prompts responsibility since duties could be settled effectively for moves made or not taken. The responsibility for defending the interests of the stakeholders and the financial specialists in the association is foremost and rests with the management.

2.9.2. Efficiency issues: Efficiency issues are worried about the proficient execution of the management to guarantee reasonable returns to the shareholders. This implies the accomplishment of financial efficiency containing locative and beneficial efficiencies.

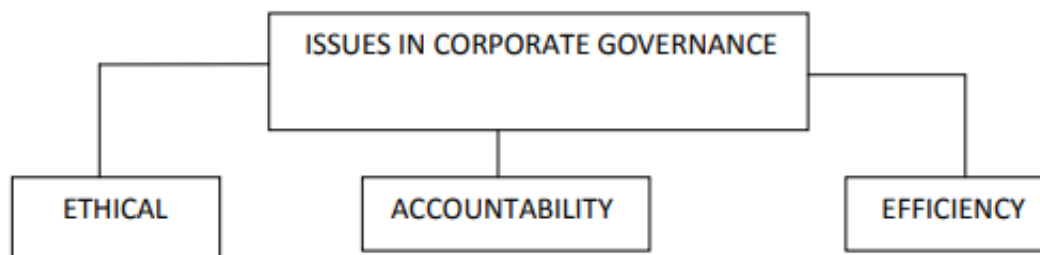


Figure 2.2 Issues in Corporate Governances

2.10. Development of Corporate Governance Indices

It is commendable that Good Corporate Governance practices lessen the office costs. Nevertheless, a significant portion of the Corporate Governance forms are emotional. Consequently, a target evaluation of Corporate Governance practices helps in better understanding and evaluation of the same. Measures to monitor and examine encourage better assessment of the CG practices of a firm. A Corporate Governance list, in its easiest shape, is a device outlining in a quantifiable frame, the different Corporate Governance factors which impact the execution of a firm. The thought and concept of Corporate Governance Indices (CGI) has been received by researchers, business offices and others to measure the level of governance in recorded companies. It is important to benchmark the Corporate Governance remainders of companies and through it the capital markets of nations. S&P has formulated a corporate governance assessment and scoring system; comparably the FTSE Group in the UK; ICRA/CARE in India et cetera. Both S&P's Corporate Governance score and FTSE/ISS's CGI are essential instruments for establishment financial specialists to measure the Corporate Governance practices of recorded companies and to oversee risks related with poor Corporate Governance when putting resources into worldwide values. They are each obtained from an arrangement of target criteria under which an organization's Corporate Governance hones are assessed. These criteria depend on all around acknowledged Corporate Governance principles of reasonableness, straight forwardness, responsibility, and obligation. In addition to other things, such criteria examine the structure and straight forwardness of an organization's possession, the structure, independence, and effectiveness of its board, the organization's investor rights and partner relations, shareholders gatherings and voting methodology, the straight forwardness, substance and convenience of revelation, the audit procedure

and inward control, and the remuneration approach of its senior officials and directors. Lately, the corporate social duty of an organization is additionally considered as an imperative model. A few researchers utilize the information given by the organizations or assemble their own particular list in view of the above principles. CGI measures the non-financial quality of companies. Together with the standard financial information and data, CGI would empower speculators to have comprehensive research of the risk profiles of companies in their portfolio. All things considered, corporate scams over the most recent couple of years have demonstrated that poor governance is a high-risk factor for financial specialists. As a subjective score, the CGI will be a focused differentiator for companies inside a similar market, and in addition among various markets. With a CGI, there will be a prepared refinement among companies of various qualities in the market and in the meantime, CGI will likewise recognize the quality of one market from those of others in the locale. Subsequently the significance of CG Index, as a metric, is increasing more acknowledgements in view of its comprehensiveness, more extensive appropriateness and a solid conviction that these files decidedly relate with the financial execution.

2.11. Benefits of Corporate Governance

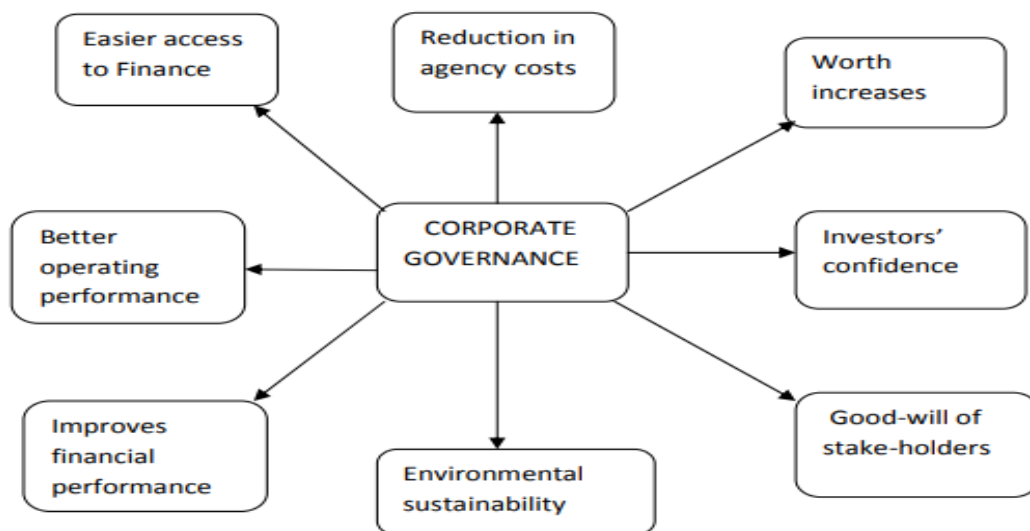


Figure 2.3 Benefits of corporate governance

Firm performance researchers have different perspectives of the terms firm performance, financial performance and firm values and these terms are being interchangeably used. Many researchers have used Tobin's Q as a market based

financial performance measure and also considers the same as a measure of value added by the management. In their studies on Board independence and managerial entrenchment, have considered Tobin's Q as a financial performance measure. Tobin's Q has been considered as a proxy for firm values by many researchers in developed and emerging markets.

2.12. Default Risk

Default risk can be defined as the risk that a lender takes on in the anticipation that a borrower will be incapable to make the obligatory payments on their debt obligation. Lenders and investors both are exposed to default risk in almost all types of credit extensions. A higher level of default risk leads to a higher mandatory return, consequently resulting into a higher interest rate. An Independent cash flow numeral that is near zero or negative could specify a higher default risk. Default risk can be evaluated by using FICO scores for customer credit and credit ratings for company and government debt issues. Rating agencies simplify credit ratings for companies and debt into either investment score or non-investment score. Whenever a lender gives credit to a borrower, there is a possibility that the loan amount will not be paid back. The dimension that looks at this probability is the default risk. Default risk not only covers individuals who borrow money, but also companies that issue bonds and due to financial restraints, fail to make interest payments on those bonds. Whenever a lender offers credit, quantifying the default risk of a borrower is vital as part of its risk administration strategy. Whenever an investor is assessing an investment, determining the financial well-being of a company is eminent in evaluating investment risk.

Default risk can variate as an outcome of wider economic changes or variations in a company's financial state. Economic recession can influence the incomes and earnings of many companies, persuading their ability to make interest payments on debt and, eventually, repay the debt itself. Companies may face issues such as enlarged competition and lower pricing power, resulting in a similar financial impression. Organizations need to create sufficient net income and cash flow to mitigate default risk. Default risk can be measured by using standard measurement tools, encompassing FICO scores for consumer credit, and credit ratings for corporate and government debt issues. Credit ratings for debt issues are stated by nationally

recognized statistical rating organizations (NRSROs), such as Standard & Poor's (S&P), Moody's, and Fitch Ratings.

2.12.1. Determining Default Risk

Lenders generally scrutinize a company's financial statements and calculate several financial ratios to determine the probability of debt repayment. Independent cash flow is the cash that is produced after the business reinvests in itself and is calculated by subtracting capital expenditures from operating cash flow. Independent cash flow is considered for debt and dividend payments. An Independent cash flow numeral that is near zero or negative shows that the company may be facing trouble generating the cash essential to deliver on promised payments. This could be indicative of a higher default risk. The interest coverage ratio is one such ratio that can help in evaluating the default risk. The interest coverage ratio is arrived at by dividing a company's earnings before interest and taxes (EBIT) by its periodic debt interest payments. A higher ratio indicates that there is adequate income generated to cover interest payments. This could signify a lower default risk. The aforementioned measure replicates a high degree of conservatism, deliberative of non-cash expenses, like, depreciation and amortization. To evaluate coverage grounded purely on cash transactions, the interest coverage ratio can be considered by dividing earnings before interest, taxes, depreciation, and amortization (EBITDA) by periodic debt interest payments.

2.12.2. Types of Default Risk

Rating agencies rate businesses and investments to help measure default risk. The credit scores devised by the rating agencies can be assembled into two categories: investment grade and non-investment grade. Investment-grade debt is regarded to have low default risk and is usually more sought-after by stockholders. On the contrary, non-investment grade debt proposes higher yields than safer bonds, but it also originates with a significantly higher chance of default. Though, the grading scales practiced by the rating agencies are to some extent different, most debt is graded likewise. Any bond issue given AAA, AA, A, or BBB rating by S&P is considered investment grade. Anything given the rating of BB and below is considered non-investment grade.

Default risk may emerge as a consequence of firm's poor performance and high leverage. Zeitun, Tian and Keen (2007) in their study suggested that firms' capital structures are essential in forecasting default as they affect a firm's capability to access external sources of capitals. A study conducted on a Jordanian firm revealed that default probability is negatively associated to high cash flow and greater sales volume. Their results suggest that financial performance affects default risk.

Default risk may also ascend as an outcome of feeble internal control. Doyle, Ge and McVay (2007) examined the factors of weaknesses in internal control for 779 firms unveiling material weaknesses in their internal controls. Gauging financial health as a collective loss indicator variable and a proxy for the probability of bankruptcy, they explored those firms revealing material weaknesses in internal control are significantly feebler in both of their financial health measures. Firms' proprietorship also affects default risk prospect. Zeitun and Tian (2007) elucidate firms with default risk as those that have had a receiver or liquidator selected or that have been de-listed from the Amman Stock Exchange. In addition, companies that have stopped issuing financial statements for two or more years are contemplated to be in default. Their findings display that the largest five shareholders and government ownership are significant and negatively correlated with the chances of the default.

2.12.3. Default risk as a supplementary ERC determinant

Default risk plays a vital role in elucidating ERC as beta may not fully represent the pertinent risk of particular securities or portfolios (Fama and French, 1992). Based on US data, Laxmi (1988) observes whether expected common stock yields are positively associated to the debt-to-equity ratio after controlling for beta and size. Her outcomes suggest that beta may be an insufficient measure of risk. She recommends the firm's debt to equity ratio as a more natural proxy for the risk to common equity of a firm. From investigative results, Dhaliwal et al. (1991) formulated the hypothesis that ERC is a negative function of default risk. They used the matched-pair method to empirically separate the effects of leverage, as a measure of default risk on ERC. They compared the ERCs based on 2 partitions: all equity *versus* levered firms, and low-leverage firms *versus* high-leverage firms. Their results illustrate that ERC is greater for all-equity and low-leverage firms. They also recommend using other proxies for default risk, for example, bond rating. Grounded

on a sample of 3587 firm-year observations over an 11-year period of 1978-1988, Dhaliwal and Reynolds (1994) observe the effect of default risk on the ERC. They employ bond rating as a proxy for default risk to examine the hypothesis that ERC is a negative function of default risk. Their results display that the effect of default risk is negative and significant to ERC. They also find that the outcomes are adequately robust to survive a validity test using the debt-to-equity ratio as a substitute proxy for default risk. They advocate that 'equity beta is unlikely to capture fully the suitable discount rate and that the default risk of debt may offer an additional proxy for the discount rate'.

Billing (1999) re-enters into the discoveries of Dhaliwal and Reynolds (1994) using 8620 firm-year observations for 1986-1996 bond-rating and 1982-1996 debt-equity samples. He explores that negative association between bond ratings and ERC found in Dhaliwal and Reynolds (1994) is basically due to bond ratings reflecting anticipated earnings growth and this is likewise, in part, accurate for the debt-to-equity ratio. He summarises that default risk of debt has a partial role in explaining ERC that is not captured by beta and expected earnings growth.

In a research conducted on the Japanese market, Kai (2002), calculated default risk by using 3 proxies: the debt ratio, an index based on earnings, power and safety, and the indication from negative earnings. His research hypothesises that the lesser the default risk, the higher the ERC. He explores that ERC rises as default risk decreases for the first two proxies but not for the signal from negative earnings.

In a similar study on 114 Korean firms during the period of 1984-1998, Kim (2005) inspects the impact of default risk on ERC. He follows the recommendations made by Dhaliwal et al. (1991) concerning the use of issuance and redemption of debt as a proxy for variations in the level of default risk. His results display however, that the Korean indication is only weakly consistent with the anticipation that ERC is a negative function of default risk. He states that the issuance and redemption of debt may not be a good proxy for calculation of the effect of default risk on ERC.

Shangguan (2007) re-investigates the association between default risk and ERC in the existence of illiquid growth opportunities, based on a 1988-2000 sample of US manufacturing firms. He records evidence that the negative marginal effect of default risk on ERC is moderated by illiquid growth opportunities. He asserts that illiquid

growth opportunities may decrease the firms' equity risk and default risk by inducing a risk aversion incentive.

Cheng and Nasir (2010) study the influence of seven financial risk factors on the earnings return association for 14 Chinese commercial banks. Their results specify that the banks have a robust earnings-return relationship but of the seven risk factors only liquidity risk is meaningfully related to ERC.

2.13. Earnings Response Coefficient

Easton and Zmijewski (1989) define ERC as the coefficient concerning the surprise component in new information in an accounting earnings declaration to irregular stock returns. It is hence a measure of the range to which new earnings information is capitalised in a stock price (Teoh and Wong, 1993). In proposition, ERC can be sustained as the slope coefficient in a regression of abnormal stock returns on unexpected earnings. Research on ERC has led to an improved appreciation of the nature of earnings information and the function of accounting information within the market's general information structure. Earnings-returns studies have a tendency to start with a valuation model that links dividend, cash flows or earnings, to value. Cho and Jung (1991), for example, recommend that all earnings-returns studies employ a valuation model that discounts future dividends or cash flows. In elucidating ERC, it is presumed that accounting earnings are closely associated to future dividends. Hence, any unexpected earnings may source investors to revise their expectations of future dividends therefore leading to security price variations (Collins and Kothari, 1989; and Dhaliwal and Reynolds, 1994).

2.13.1 ERC AND ITS DETERMINANTS

Researchers of capital markets have reliably found the subsequent factors to be significant determinants of ERC: beta, growth, earnings persistence, size and some non-financial variables such as industry (see Bernard and Ruland, 1987; Easton and Zmijewski, 1989; Collins and Kothari, 1989; Biddle and Seow, 1991; Cho and Jung, 1991; Dhaliwal and Reynolds, 1994; Kai, 2002; Kim, 2005; Cheng and Nasir, 2010). If the determinants of ERC can be recognized, the ERC can be used to forecast the influence on returns of changes by firms in respect of their operations or reporting (Bernard and Stober, 1989).

2.13.1.1 Beta

From earlier researches on ERC it is evident that ERC declines with increasing expected rate of return. That is, assumed the common association of higher risk with higher expected return, ERC deteriorates with increasing risk. Explicitly, if it is supposed that expected rate of return is determined by the (Sharpe-Lintner-Mossin) SLM capital asset pricing model (CAPM), ERC is negatively related to beta. The CAPM expresses that:

$$E(R_{it}) = R_{ft} + [E(R_{mt}) - R_{ft}] \beta_{it}$$

Where:

$E(R_{it})$ is the anticipated return on the firm;

R_{ft} is the risk-Independent amount of interest;

$E(R_{mt})$ is the anticipated return of the market;

β_{it} is the methodical risk of the firm,

Then presuming that beta is either persistent through time or highly auto-correlated through time, it follows that ERC is negatively associated to beta, that is, to systematic risk. Correspondingly, the ERC is negatively connected to the risk-Independent rate (if beta is less than one) and *vice versa*. The higher the risk-Independent rate, the advanced is the anticipated return and hence the lower the ERC if beta is less than one. Using yields of long-term U.S government bonds as a proxy for the risk-independent interest rate, Collins and Kothari (1989) establish a significant negative association between interest rates and ERC each year. In tune with Collins and Kothari (1989), Easton and Zmijewski (1989) also explored that ERC is negatively related to beta. Succeeding studies that have verified various capital market phenomena using ERC have encompassed beta as a control variable and found a negative relationship (for example, Vafeas, 2000; Shangguan, 2007; and Cheng, Crabtree and Smith, 2008).

2.13.1.2 Growth

Collins and Kothari (1989) illustrate that cross-sectional variation in earnings-return associations are in part explained by differences in growth. However, they employed market to book value of equity as the proxy for probable growth, which is also expected to be affected by earnings persistence. A research by Martikainen (1997) displays those losses which can be anticipated to be temporary, that is those that have low persistence, have utmost impact on firms with high growth opportunities. That is, ERC is positively related to growth.

Barth, Elliot and Finn (1999) approve that ERC is higher for firms announcing sustained increase in earnings. Skinner and Sloan (2002) underpin the part of growth on ERC. They offer evidence to show that the lesser returns to growth stocks relative to value stocks is due to the asymmetrically greater negative price response to negative earnings surprises for growth stocks. Ghosh, Gu and Jain (2005) differentiate the outcome of growth according to earnings increases resulting from revenue growth or other sources (cost decreases). They found that ERCs are higher for firms with earnings growth resultant from revenue growth.

2.13.1.3 Earnings persistence

Earnings persistence computes the extent to which current period earnings shocks persist in the future and thus influence future earnings expectations (Collins and Kothari, 1989; and Richardson, Sloan and Soliman, 2005). Kormendi and Lipe (1987) and Park and Pincus (2000) explore that organizations vary in their ERCs because of differences in their degrees of earnings persistence. Kormendi and Lipe (1987) find pragmatic proof for the Miller and Rock (1985) analytical finding that the enormity of the return reaction to an earnings innovation should be a function of the persistence of earnings. Subramanyam and Wild (1996) point that the influence of earnings persistence is determined by the magnitude of revisions of future benefits and the extent of time the revision is expected to persist. They infer that the anticipated length of revision horizon is directly related to an entity's going concern status and show factually that the ERC, as a measure of earnings informativeness, deteriorations notably as the probability of termination of a firm increases. That is, ERC is positively related to earnings persistence. Lipe (1990), by studying the same sample of 145 firms as in Kormendi and Lipe (1987), investigates the relationship between earnings and stock returns assuming that the market has a second source of existing period information in accumulation to earnings. Lipe (1990) treasures that the ERC is positively linked to the capacity of past earnings to predict future earnings and also to earnings persistence.

2.13.1.4 Firm size

Collins et al. (1987) find that returns lead earnings for large firms. However, once differences in the information environment are controlled for by varying the return holding period, there is little difference in the extent to which price changes covary with earnings changes across firms of different sizes (Collins and Kothari, 1989). Easton and Zmijewski (1989) find firm size to be positively related to ERC but the association is not consistently significant and size may just proxy for other sources of cross-sectional variation in ERC. Imhoff and Lobo (1992) add firm size in a sensitivity test while examining the effect of uncertainty in analysts' forecasts on ERC. Measuring firm size by 50 market value of common equity, they find that their results are not driven by firm size. Brown (1994) summaries the

role of size by stating that size itself is unlikely to be a determining variable of ERC but tends to be related to other variables that do determine ERC.

2.13.1.5 Other ERC determinants

Industry is a non-financial factor that may influence ERC. Bernard and Ruland (1987) observe 27 industries to estimate time series regression of industry returns on unexpected industry historical cost and current cost income. They explore a significant cross-industry difference in ERC. Biddle and Seow (1991) examine the relation between ERC and industry features. They find ERC differs significantly across industries and that ERCs are positively related to growth, product type and barriers to entry, and negatively related to financial and operating leverage.

The quality of audit too may impact ERC. Teoh and Wong (1993) find bigger auditors are more credible and audit quality is a positive and significant determinant of ERC. Grounded on a matched pair sample according to industry membership, they explore that the ERCs of Big 8 client firms are significantly higher than those for non-Big 8 clients. Using data across 28 countries and 20 industries, Kwon, Lim and Tan (2007) offer evidence that customers of industry specialist auditors have a higher ERC. They advise the earnings quality of firms is strengthened when firms are audited by a specialist auditor. Their evidence also recommends that the incremental impact on ERC from having industry specialist auditor's decreases as the legal environment strengthens.

A firm's monopoly influence may also impact ERC. Based on 144 Korean firms listed on the Korean Stock Exchange during 1986 to 1992, Lee, Jin and Huh (2005) observe the outcome of a firm's monopoly power on ERC. They describe firms elected as market-dominant enterprises by the Monopoly Regulation and Fair-Trade Act as firms with monopoly power. They compare the ERCs of firms elected as market-dominant companies with non-designated ones. Their results display that the ERC is positively related to a firm's monopoly power.

2.14. Model Formulation

Equation 1, Mathematically ERC is expressed as,

$$\text{Equation 1: UR} = a + b(\text{ern} - u) + e$$

UR is unexpected return,

a = benchmark rate,

b = $\text{erc}(\text{ern} - u)$ = actual earnings less expected earnings = unexpected earnings,

e= random movement.

Equation 2, presents the returns-earnings (Easton and Harris, 1991) model.

Equation 2: Returns and Earnings association based on the earnings valuation model.

$$R_j = \beta_0 + \beta_1 E_j + \beta_2 \Delta E_j + v_j$$

R_j is the change in the price per share of firm j scaled by beginning price,

E_j is accounting earnings per share of firm j ,

ΔE_j is the change in accounting earnings per share of firm j .

A valuable explanation of the weak returns-earnings association is that accounting earnings lack information relating to future earnings and cash flows (e.g. Kallunki and Martikainen, 1997; Easton et al., 1992; Lev, 1989).

Equation 3: Corporate governance, earnings management, and the information content of accounting earnings

$$R_j = \beta_0 + \beta_1 E_j + \beta_2 \Delta E_j + v_j$$

$$\beta_1 + \beta_2 = f(CG | EM)$$

R_j is the change in the price per share of firm j scaled by beginning price,

E_j is accounting earnings per share of firm j ,

ΔE_j is the change in accounting earnings per share of firm j ,

CGEM is corporate governance attributes conditioned by earnings management. Equation 3 explains that shareholders use additional variables, in this case corporate governance conditioned by earnings management, to guide their assessment of earnings reliability. The equation is based on the notion that earnings management and corporate governance are used as cues by shareholders to assess the information content of earnings. While earnings management reflects management's incentive to act opportunistically, corporate governance is used to reflect the degree of control exercised over the financial reporting process (e.g. Peasnell et al., 1998, 2000a; Chtourou et al., 2001).

CHAPTER – 3

REVIEW OF LITERATURE

3.0. Introduction

The goal of this chapter is to offer a review of the literature relevant to ERC, default risk, corporate governance, and the associations among them. The analysis provides an understanding of the returns-earnings relationship that is in line with equity valuation models. It makes use of agency theory to form a framework that relates default risk and corporate governance to the returns-earnings relationship. Based on equity valuation models and identifying a positive relation between current earnings and expected future dividends, this study connects unexpected earnings to abnormal stock returns *via* ERC.

3.1. PRIOR STUDIES

Bai, Liu, Lu, Song and Zhang (2002) recognized a thorough arrangement of an internal and external governance mechanism for China's recorded companies and constructed relevant measures for each of them, they then created a rating index (the G index) to mirror the overall level of governance practice for China's recorded companies. They took a sample of 1006 firms recorded in Shanghai and Shenzhen stock exchange. They found that better-governed companies according to their index were related to higher market value as estimated by TOBIN's Q and the ratio of market value and a book value of total assets. They concluded that corporate governance matters greatly in China's emerging market and China's investors are willing to pay a significant premium for better governance standard.

Directors are one of the most important mechanisms for ensuring corporate governance practices. The piece of board incorporates setting the organization's vital points, giving the initiative, administering the Governance of the business and answering to the investors on their stewardship. Diverse committee reports have emphasized on their part and strengthening the standards for ensuring the independence of the directors. As of late, by the efforts of various regulatory authorities, the composition of directors has been drastically changed. This change is

concerned with introducing more non-executive and independent directors, assorted variety of the directors, fixing their remuneration, their code of morals and their entrepreneurial performance in Indian companies. Empirical work in the area has again given mixed results given the contrasts between the parameters contemplated and characteristics peculiar to the sample under study. The present section centres around the studies relating to the diverse characteristics of the board like composition, size, busyness, activity, leadership structure and so on for ensuring corporate governance.

Black, Jang and Kim (2003) detailed confirmation that corporate governance is a vital factor in clarifying the estimation of Korean Public Companies. They developed a corporate Governance file (on 100) for 531 of the 560 companies recorded on the Korea Stock Exchange (KSE), relying primarily on the response to a review led by the KSE amid the essential portion of 2001. The record depended on six sub-files for investor rights, top managerial staff when all is said in done, outside chiefs, review panel and interior examiner, disclosure to financial specialists and proprietorship equality. They found a solid positive relationship between them in general corporate governance file and firm esteem, which was ground-breaking crosswise over OLS, 3LS regressions, in subsamples, in exchange determinations of corporate Governance list, and with substitute proportions of firm esteem. A moderate 10- point increment in CGI foreseen a 6% expansion in Tobin's Q a 105% increment in market/book ratio.

Park (2003) tried to empirically the impact of corporate governance issues on profitability and growth in Korea by surveying 38 firms recorded in Korean stock exchange. A multivariate analysis framework was drawn consisting of four key areas; ownership, management, social responsibility and institutional interface. The empirical findings upheld a positive relationship between firms' performance measured by profitability measures like ROE, ROA, profit margin, sales growth rate and the four key areas chalked out for the purpose.

Bauer, Giinster and Otten (2003) analyzed the effect of corporate governance on stock returns, firm value and performance in Europe. They utilized Deminor's corporate governance ratings to rate around 250 firms included in Euro top 300 over the day and age 2000 – 2001. They found a positive relationship between firm valuation and corporate governance yet this relationship weakened substantially after

adjusting for nation contrasts. Firm performance measures were approximated by net profit margin and return on value and the relationship ended up being negative captured the looks of corporate voluntary revelation practices of the private area in India focusing on both the thing insightful and corporate-wide exposure of the chose companies belonging to various age groups, listing status, industries, sizes and profitability levels. They concluded that the annual report is the most vital record to present information however style of presentation and technique for accounting treatment and reporting vary. They were confident that with an ever-increasing number of companies trying to get recorded in foreign countries; divulgence practices would enhance to be in consonance with the international practices.

Miguel, Pindado and Torre (2003) examined how the main institutional factors characterizing corporate governance systems around the world affect the relationship between ownership structure and firm value. They found that ownership concentration and inside ownership levels are determined by several institutional features, for example, investor protection improvement of capital markets, the activity of the market for corporate control, and effectiveness of boards. The relationship between ownership concentrations was not specifically affected by these institutional factors. There was an immediate influence of corporate governance characteristics on the relationship between inside ownership and firm value. Their study included six countries: U.S, U.K, Australia, Japan, Germany, and Spain. They also concluded that the factors which are more relevant or play an important part in explaining how ownership structure affects firm value were those encapsulated in the laws.

Nigel Sarbutts (2003) communicated the method for doing CSR by little and medium estimated organizations. The exploration delineated that an organized approach to overseeing corporate notoriety and benefit boost of SME"s through CSR. The people group exercises of little and medium estimated organizations depend on their Cost and Benefit Analysis. Little Corporation dependably battles for more notoriety and decrease of risk. In such a condition, CSR comes to seek after these organizations. SMEs need assets contrasted with substantial organizations consequently CSR exercises are more actualized in huge firms. SME"s can diminish their risk and oversee CSR so that they by granting much data, appropriate use of assets, they can improve the situation for organizations, A discourse conveyed by Mr. Fredrick Ma, secretary, financial Governances of Britain, in view of Corporate Social

Responsibility (2004) sorted out by the British office. The speaker investigated the idea of CSR based on a review of 1500 business pioneer going to the world financial discussion. In which 5% pioneers said that CSR is critical for the achievement of the business, while 24% said CSR isn't essential yet the investor's advantage is most noteworthy for the organizations. Yet, for the speaker, CSR and corporate governance are integral to each other. Corporate governance is a medium of driving CSR among corporate. Assist the speaker likewise discussed the part of the government in CSR, SMEs and for unlisted organizations. It was additionally incorporated into their perspectives that CSR ought to be a piece of the organization's goal.

Orlitzky (2003) their meta-research on corporate social duty and financial execution were an aggregation of 52 ponders more than 30 years. Their research demonstrated that a decidedly and factually huge relationship between corporate social execution and financial execution exists, which changes from exceedingly positive to humbly positive. Nonetheless, because of shifting and sketchy measures of CSR, contrasts in measures of business achievement and research system utilized, there have been irregularities in investigations of the relationship among CSR and corporate execution. Choices have been uncertain about whether the connection between the two variables stays negative, positive or impartial. Clients may positively be arranged to results of firms seen to be socially capable. Likewise, they will probably trust that by expending those items they are straightforwardly or in a roundabout way supporting the CSR cause. In the United Kingdom alone, the moral purchaser buys, at a preservationist gauge, made up more than 14 billion out of 2000.

Gupta (2003) examined the corporate governance reporting practices of 30 chose Indian organizations, recorded on the Bombay Stock Exchange. Corporate governance section of the annual reports for the years 2001-2002 and 2002-03 had been breaking down by utilizing content research. The specialist had utilized the divulgence score as reliant variable and size of the organization as far as aggregate resources, a number of independent executives and posting status were taken as independent variables. Customary minimum square regression method was utilized for information research. The researchers discovered varieties in the reporting practices of the organizations. In specific cases, oversight of compulsory necessities according to provision 49 had likewise been watched.

Joh (2003) examined the corporate governance and firm productivity of Korean firms previously the financial emergency. His discoveries uncovered that frail corporate governance framework offered a couple of impediments against controlling investor's confiscation of minority investors. Feeble corporate governance framework offered the chance to ineffectively oversaw firms to remain in the business and along these lines, it brought about the wastefulness of asset distribution and low benefit of the firms throughout the years.

Weir (2003) surveyed the effectiveness of inside and additionally outer governance frameworks and their further effect on the company's execution measured by Q proportion. A sample of 312 U.K. firms had been chosen from 1996 Times 1000 with the end goal of study. Audit committee, level of independent and outside executives on the board, a shareholding example of CEO, normal no. of extra directorships held by non-executive executives and takeover power by segment had been taken as governance measures. The information as for governance variables and firm execution had been removed from budgetary articulations of firms and Excel Company Analysis Database separately. At last, a powerless relationship had been seen between the interior governance systems and the firm execution. It was likewise presumed that the market for corporate control had a positive effect on firm execution. The researchers had called attention to in their investigation that interior governance structure ought not to be taken as a compelling measure to ensure shareholders' interests.

Solomon (2003) considered the states of mind of Taiwanese organizations' chiefs towards the part and capacity of the top managerial staff in corporate Governance. Their findings embraced the importance of outside directors in the corporate governance system in Taiwan. They also recommended that remuneration arrangements were not sophisticated. Moreover, it was discovered that directors were dissatisfied with the influence of founding families on the corporate governance of recorded companies and also, they wanted international coordination of corporate governance standards and saw corporate governance reforms as means of attracting foreign assets in Taiwan. While there have been countless that have examined various aspects of corporate governance of industrial area however less empirical work has

been done on the governance of particular divisions, especially the telecom segment. The past work is inclined towards the regulation of telecom rather than corporate governance. The researcher did not go over any study covering corporate governance in telecom. Past work which covered a few segments in certain countries had, for the most part, rejected telecom from their sample. This section centres around studies which covered some related aspects on the area.

Gutierrez (2004) attempted to integrate the available data in a more far-reaching institutional index of regulatory pattern in tele-communications for a sample of Latin American and Caribbean countries. He took a sample of 25 countries in the region for the period 1980-2001 and endeavoured to construct an index based on autonomy, accountability, clarity of parts and goals, transparency and participation, and the sort of legal mandate that creates a regulatory body. The study demonstrated that, in general, most countries embraced strong regulatory reforms along the lines suggested by specialists and practitioners however their pace and extension has varied.

Aggarwal and Fuloria (2004) and Mudhaki and Joshi (2004) examined the composition, centre and functions of audit committees, the impacts of gatherings and criteria used in the determination of people by Indian recorded organizations and concluded that the concept of the audit committee was not new in India yet their formation was slow and their composition lacked independence. Also, audit committee functions were concentrated in the traditional areas of accounting and their part was not changing fast enough to make corporate governance more effective. Also contemplated the perceived connection between aggressive believability and corporate governance from two alternate points of view; companies and consumers they covered Indian IT segment for their study and concluded that corporate governance was not a necessity for successful competition in Indian IT division yet a requirement for global competitiveness. In spite of the fact that companies agreed that consumers wanted to see corporate information however consumer expectation was not a key incentive to exposure.

Klapper and Love (2004) investigated the distinctions in firm-level governance mechanisms, their relationship with the national level legal environment, and correlations between governance and performance using data from a report by CLSA (Credit Lyonnais Securities Asia) that constructed corporate governance rankings for

495 firms across 25 emerging markets and 18 divisions. It was discovered that firms in countries with weak overall legal systems have on average lower governance rankings; firms that trade shares in the United States have higher governance rankings. Great governance is decidedly correlated with market valuation and operating performance and this relationship are stronger in countries with weak legal systems.

Darker and Caylor (2004) related corporate governance to firm performance of 2327 firms to measure the quality of a firm's governance, they created a 51-point governance code using data from Institutional Shareholder Services (ISS) and related it to operating performance, valuation and shareholder pay-out. Better governed firms were observed to be generally more beneficial, more important and paid out more money to their investors.

Moon (2004) paper examined the part of government in driving corporate social duty among the corporate. The research explained that the drivers of CSR are connected with business and society. The business incorporates its notoriety, partnership itself, workers connection information, objectives and so forth further, the research cleared that legislature is the driver of CSR by making this relationship genuine and reasonable through making approaches and controls. The investigation likewise set out other's nation's circumstance that how their legislature went into organizations for driving CSR. Another point of view of corporate social obligation is corporate social reporting. It very well may be contended that companies have a moral obligation to reveal the effect their activities have on society. Today with the death of state ventures and the developing pre-dominance of business, there is an emphasis on management perspective as there is an agreement that business flourishes best under certain vital and basic conditions.

Aggarwal (2004) watched the changing perception of business morals after Enron fall. Business morals are not just connected with the conduct of organizations towards its representatives yet in addition to the nature and quality of association with every one of the partners. It had been recommended in the setting of corporate governance that the business must adjust its longing for benefits against the craving and needs of the general public while applying morals to it. So, the analyst accentuated the requirement for embracing the corporate social obligation idea by the firms.

Agrawal and Fuloria (2004) broke down the apparent association between the upper hand and corporate governance from the point of view of both organization and purchasers. An endeavour had been made to distinguish the parts of corporate governance that purchasers and organizations were thinking about as vital in Information Technology (IT) area. The creators directed a purchaser review with 200 buyers and survey was coursed to 5 chose Indian IT organizations. The discoveries uncovered the varieties between the customer desires and companies 'perceptions with respect to the parts of corporate governance. The creator additionally gave certain proposals for the IT area to pick up the upper hand through corporate governance and recommended that corporate governance may turn into an aggressive need in future.

Bakshi (2004) in his article reasoned that negligible consistency of the principles of administrative experts, for example, Companies Act 1956 and Stock Exchange directions did not guarantee the effectiveness and proficiency with respect to the Governance for leading the undertakings of the organization. The creator had additionally seen that the duality on the board without a doubt did not fill the need for good governance. It was recommended that a legitimate model of corporate governance ought to be there to ensure the investors' interests.

Bathala (2004) depicted the qualities of sheets of little firms particularly of exclusive firms and further attempted to relate them with corporate governance and monetary strategies. A sample of 2870 firms, both private (2251) and open (619), had been drawn from Standard and Poor (S&P) catalogue of companies. The information concerning proprietorship structure, CEO qualities, monetary arrangements and control systems of firms had been gathered with the assistance of the poll. T-Test, Chi-square test and various regression procedures had been utilized for information investigation. The outcomes uncovered that exclusive firms had a higher level of outside chiefs, yet the genuine expert of basic leadership vested in the hands of CEO and significant investors. Besides, outside executives were seen as asset suppliers as a result of their outer contacts. The creators recommended the little firms to incorporate individuals on the sheets having mastery in different fields as at exactly that point, they could outline the monetary arrangements all the more effectively as for raising capital, obligation governance and profit strategy.

Brown and Caylor (2004) distinguished the different variables speaking to great governance and their relationship with firm's execution. Governance scores in view of 51 factors and partitioned in 8 classifications had been registered for 2327 individual firms as on Feb 2003. The information as for governance scores and firm's execution had been taken from Institutional Shareholders Services (ISS) and Compo stat Database individually. The researchers had thought about the six execution measures, for example, return on equity, net revenue, deals growth, Tobin's Q proportion, profit yield and offer repurchase. Pearson, Spearman coefficient of relationship and multivariate regression strategies were utilized for research reason. Results demonstrated that firms with better governance had high ROE, high net overall revenue, high profit yield and more offers repurchases.

Das and Ghosh (2004) examined the connection between CEO turnover and bank execution for 27 open division banks in India. The investigation secured a time of 7 years from 1996 to 2003. The outcomes uncovered that the CEOs of low performing banks had higher turnover than the CEOs of well performing firms. Comparable outcomes were acquired when sample reached out to whole saving money framework and it was gathered that corporate governance was compelling in developing market. The researchers recommended that as the Indian economy developed, there is having to rearrange the corporate governance framework.

Doidge (2004) attempted to examine the connection between nation qualities like lawful security to speculators, monetary and money related advancement and the selection of corporate governance measures by the firm. The information as for firm qualities, for example, deals growth; add up to resources, proprietorship, money possessions and standard modern order code (SIC) had been gotten from Thomson Financial World scope database. Against executive rights and run of law had been utilized as nation qualities variables. The sample comprised of 15,000 non-monetary firms accessible on World scope. Logic regression system had been utilized to break down the information. By utilizing CLSA (Credit Lyonnais Securities Asia) corporate governance rating of 495 firms of 25 nations and Standard and Poor (S&P) straight forwardness and exposure appraisals of 711 firms of 39 nations, it was presumed that the bigger varieties in these evaluations were essentially due to the country's qualities. In the event of created countries, firm attributes had more noteworthy effect on the governance evaluations. Additionally, the investigation likewise uncovered that the

financial specialist insurance system embraced at the nation level was to be considered as an imperative determinant of corporate governance. The monetary and money related advancement of a specific nation influences the firm's choice to embrace great measures of corporate governance.

Gupta (2004) made a research of the proposals of various committees set up in India. He raised certain issues like non-audit assignments given to the auditors, the present compensation structure surrounded by the chiefs, their expert abilities and occupied timetable. It had been indicated out consider upon these issues top to bottom. The creator proposed that present directions ought to be made more reasonable and functional and in addition a total lawful sponsorship of committees" suggestions ought to be there.

Jog and Dutta (2004) portrayed the connection between the quality of corporate governance, firm's execution and CEO's compensation. A sample of 260 Canadian firms, having a place with Standard and Poor (S&P) and Toronto Stock Exchange (TSE) record had been chosen from Globe and Mail. Return on Assets, return on equity, securities exchange returns, and Tobin's Q proportion or cost gaining proportion was taken as execution variables. Likewise, size and creation of board, board responsibility for, board autonomy, capital market condition, possession structure and CEO motivators were taken as governance variables- risk, age, size, R&D, normal aggregate resources of the firms was taken as control variables. The information regarding governance and money related execution variables had been gathered from Canadian Financial Market Research Centre database, stock guide productions and annual reports of the organizations. Multivariate regression investigation had been performed to discover the outcomes. The creators discovered an immaterial connection between firm execution and corporate governance yet so far as CEO's compensation was concerned; the specialist found a positive and critical relationship with the board measure.

Lal (2004) talked about certain hypothetical issues on corporate governance. He gave three angles i.e. responsibility, straightforwardness and equality of treatment for all partners for dealing with the companies proficiently. He raised the issue of unnecessary advantages or perquisites drawn by the CEO of the organization and expressed that the full divulgence of these advantages in the annual reports was

missing. It was recommended that the business administrators should approach with the thoughts of self-control keeping in mind the end goal to render more successful governances to the entire network.

Marisetty and Vedpuriswar (2004) in their research utilized the information of NSE top 100 organizations for a time of 1996 to 2003 keeping in mind the end goal to think about the profit approach, mergers and takeover issues, special allocation of offers and offer of benefits. Standard and Poor (S&P) rating criteria was utilized to recognize great and terrible governance organizations. It was presumed that the offer mispricing was low for good governance organizations when contrasted with terrible governance organizations. Be that as it may, great represented organizations were observed to be profoundly mispriced amid the occasion declaration.

Morck (2004) concentrated on specific favourable circumstances of family control business, for example, opportunity from organization issues, non appearance of takeover and difficulties by the institutional speculators at shareholders' gatherings. The specialist inferred that the broad corporate control by couple of old families was not alluring from shareholders perspective on the grounds that the administrators of these firms served at the delight of the family and not at the joy of overall population. It was likewise seen that the nations with poor legitimate shareholder's assurance and nearness of degenerate judiciaries by and large have exceptionally thought possession.

Mukherjee and Ghosh (2004) concentrated on the money related choices taken by the directors and their effect on execution. The investigation secured the time of 6 years from 1996-2001 for 4 chose Indian ventures viz. electrical apparatus, pharmaceutical, programming and materials. Ordinary Least Square (OLS) regression display and the connection coefficients were utilized for research reason. The after effects of the investigation changed from industry to industry yet all in all, they demonstrated that specific imperative choices on R&D and import were not considered by the firm's chiefs important. Additionally, the elements, for example, shareholder's fixation and director's shareholding were likewise observed to be inadequate for esteem augmentation in the greater part of the businesses. The scientist had likewise inferred that the choices taken by the chiefs on some essential issues were as yet considered as an issue of routine nature.

Srikrishna (2004) inferred that because of globalization, the changing points of view of speculators and changing idea of risk, there was requirement for the experts to raise their abilities and capacities to oversee company's assets viably with exclusive expectations of morals. He additionally expressed that the advancement of this corporate governance idea had changed the points of view of accountants too.

Wolfgang Bauer and Marc Ryser, (2004) in their research made an endeavour to break down ideal risk management procedures of a bank financed with stores and equity in a one period demonstrate. The bank's inspiration for risk management originates from stores which can prompt bank runs. In case of such a run, liquidation costs emerge. The supporting methodology that boosts the estimation of equity is inferred. The investigation recognizes conditions under which surely understood outcomes, for example, entire supporting, maximal theory or immateriality of the supporting choice are acquired. The underlying obligation proportion, the extent of the liquidation costs, administrative confinements, the instability of the risky resource and the spread between the riskless loan fee and the store rate are appeared to be the critical parameters that drive the bank's supporting choice. The investigation additionally stretches out this essential model to incorporate counterparty risk limitations on the forward contract utilized for supporting. The focal point of this paper is to think about the method of reasoning for banks' risk management procedures where risk management is characterized as set of supporting methodologies to adjust the likelihood circulation without bounds estimation of the banks' advantages. The investigation has introduced a one-period display in which we break down the bank's risk management choice. The bank is administratively limited, financed by stores and is liable to liquidation costs in case of a bank run. The researchers found that the basic translation of equity as a common call choice does not matter: Equity esteem isn't constantly expanded by expanding the benefit's instability, since this likewise raises the probability of a bank run. At whatever point the normal expenses of such a keep running for shareholders can't be exceeded by an expansion of the normal return (in light of the fact that administrative limitations restrict the most extreme achievable risk), it isn't ideal to go out on a limb as could be allowed. In these cases, safe saves money with low obligation proportions and resource unpredictability can in any case expand their risk presentation to the point where drawback misfortune becomes possibly the most important factor. Be that as it may,

for manages an account with a high obligation proportion and high resource unpredictability, risk decrease is the ideal methodology.

Nestor (2005) stressed on an all-around defined corporate governance regime as an important tool to make the transition period for the privatization of the telecom area shorter and less painful. After reviewing the partially or entirely privatized European telecom sector, he proposes seven lessons for arrangement makers in charge of designing privatization. Where the state remains an important proprietor after partial privatization it ought to organize its shareholdings to seek after only shareholders value destinations. In the event that there are any privatization related asymmetries between control and cash flow rights, then shareholding ought to be constrained in time and degree. While some minority shareholding powers, coordinate shareholder nomination and cumulative voting are welcome, the board needs to maintain its own particular cohesiveness and culture. The board ought to be actively and effectively involved in the advancement and validation of the company's qualities and control the major transactions. The privatized firms should endeavour to list in markets with high and trustworthy exposure requirements. Privatized firms should centre on developing an exposure culture, especially as regards financial revelations. The board should conduct a regular, exhaustive and independent evaluation of the CEO based on an arrangement of criteria and yearly destinations agreed at the beginning of each year.

Kula Veysal (2005) had made an attempt to find the effect of parts, structure and process of the board of directors on the performance of Turkish companies. Drawing on the data obtained from a sample of 386 for the most part small and non-recorded stock ownership companies, it was discovered that the separation of chairman and general manager positions has a significant positive impact on firm's performance. From the board parts of control, governance and asset acquisition firm performance was observed to be decidedly related only to the level of adoption of asset acquisition part. It was also discovered that the effectiveness, information access and performance evaluation attributes of boards are emphatically and significantly associated with the firm's performance.

Fisher and Lovell, (2009) Dentchev, (2005) this offered to ascend to the idea of corporate governance, which is the arrangement of directions that control the activities of an organization. Business consultants consider it to be a procedure of

abnormal state control of an association. Corporate governance is anyway not a dynamic objective but rather exists to fill corporate needs by giving a structure inside which investors can track most viably and dependably the goals of the partnership. Regardless of whether a business should complete CSR, and the structures the obligation should take, depends on the financial perception that is embraced by the firm. An expansive number of experimental papers have examined in the past the connection between social obligation and corporate execution. Contention about the relationship has anyway been bantered since the mid-1970s and still has not brought about an agreement. A noteworthy extent of going before explore uncovered that there is an unfriendly connection among CSR and financial execution because of the extra expenses related to high interests in social duty. The conviction those benefit openings renounced by putting resources into CSR will discourage the benefit of the association).

Selarka (2005) contributed to the understanding of corporate governance issues in emerging economies by examining the part of block holders in influencing firm value. Using a cross-sectional sample of 1397 manufacturing firms traded on the Bombay Stock Exchange for the year 2001 she presented a more profound understanding of interaction between ownership structure and firm value in the following ways. She analysed the pretended by the shareholders with substantial voting power in situations when value holding is less versus more concentrated in the hands of promoters. She also attempted to check whether these investors coordinate among themselves to constrain the insiders from expropriating corporate assets and found a significant curvilinear relationship between firm value and the fraction of voting rights claimed by insiders. The bend inclines downward until the point when the insider ownership reaches approximately between 45% and 63% and then slants upward. Empirical results on ownership concentration by minority shareholders did not bolster the monitoring hypothesis of these investors.

Collett and Hrasky (2005) examined the connection between the wilful exposure of corporate governance data by the organizations and their goal to raise both equity share capital and obligation. A sample of 299 organizations, recorded on Australian stock trade had been taken for the year 1994 and Connect 4 information base had been utilized for the accumulation of annual reports of the organizations. The information as for intentional divulgence had been gathered for the year 1994 as later it ended up

obligatory for the Australian organizations to unveil corporate governance honours. The multivariate strategic regression method had been utilized. The researchers had discovered that just 29 Australian organizations made deliberate corporate governance divulgence and the level of revelation differed from organization to organization. On one hand, critical affiliation was found between wilful divulgence and equity share issue yet then again, the specialist found no huge relationship between obligation raising and intentional revelation.

Dwivedi and Jain (2005) researched the connection between corporate governance and firm's execution of 340 huge recorded Indian firms for the time of 1997 to 2001. Tobin's Q proportion had been taken as a measure of budgetary execution and board estimate; shares held by FIs, remote shareholdings, chiefs and open shareholdings were considered as corporate governance variables. Notwithstanding, R&D use, return on capital utilized no. of offers exchanges, obligation equity proportion of the firm were taken as control variables. It was reasoned that remote shareholdings had positive effect on firm execution and open shareholdings contributed contrarily to the firm execution. In addition, immaterial positive affiliation was likewise discovered between board size and firm esteem. So also, the creator watched the immaterial however positive effect of "Indian institutional investors" shareholdings on firm's execution the creator had likewise expressed the future extent of the research in setting of different credits of governance identified with board.

Kang and Zardkoohi (2005) featured the required conditions for the selection of duality. By breaking down the 30 observational investigations on duality and execution relationship, the specialist recommended the five recommendations, for example, compensate arrangement, control, and social trade correspondence and institutional. The researcher had recommended for testing these recommendations on open recorded organizations having changed from non-double to double board initiative structure. It had been additionally recommended to take unnecessary care in receiving duality on the board in light of the fact that the expansion or lessening in firm execution relied upon the states of its reception.

Khiari (2005) in their research researched the relationship between firm execution and its attributes by utilizing Governance Efficiency Index. The scientist had additionally endeavoured to think about the reliance between governance instruments.

The investigation led on 320 substantial American firms for a time of 8 years from 1994 to 2001 of. Tobin's Q was taken as a measure of firm execution. Profit yield, use, firm size and ROE had been utilized as control variables. None straight factorial investigation procedure had been utilized for research reason. The firm's attributes, for example, measure, profit yield and ROE positively affected firm's execution. It had been additionally seen that inside control effectiveness and budgetary control productivity had likewise huge positive effect on firm's execution. Be that as it may, governance instruments, for example, administrative tact, proprietorship fixation, strength of the board by CEO and manager's entrenchment had negative effect on firm's execution.

Kim (2005) broke down the board arrange attributes, for example, board organize thickness and board outside social capital and its further effect on firm's execution. The creator had additionally talked about in detail the three imperative parts of board to be specific observing, benefit part and asset reliance. The scientist had clarified the asset reliance as far as gaining the rare assets for the organization with the assistance of board arranges attributes. The research secured an era of 10 years from 1990 to 1999 of 199 expansive open exchanged Korean organizations. ROA was utilized as a measure of firm's monetary execution. Use, measure as far as aggregate resources, board size and age of the firm had been utilized as control variables. The information as for administrators had been gathered from Korean Listed Companies Associations. Not with standing, the information regarding money related execution variables had been gotten from the annual reports of the recorded organizations. Summed up Generalised Least Square (GLS) with year fakers had been utilized to investigate the information. Year fakers had been acquainted with control the impact of year particular heterogeneity because of Asian budgetary emergency. It was presumed that the board organize thickness positively affected the firm's execution. A positive relationship had been seen between board members' efficiency attributes and firm's execution however the outside associates attributes had no noteworthy effect on firm's execution.

Kula (2005) examined the effect of part, structure and procedure of sheets on the execution of Turkish organizations. A sample of 386 little and non-recorded stocks possession organizations had been taken with the end goal of study. The information as for parts, structure and board process properties had been gathered with the

assistance of survey appropriately topped off by the chiefs of the organizations. Growth in profits, deals volume, market share, protection from aggressive powers and appropriation of items by market were taken as firm's execution variables. Firm execution had been considered as reliant variable. Factor investigation and ordinary least square was utilized for research reason. It was inferred that board structure had critical positive effect on firm's execution. So far as board process qualities, its effectiveness and access to data were concerned, a positive relationship was found with firm's execution. Out of three board parts i.e. control, Governance and asset securing, the specialist saw that just asset obtaining was emphatically connected with firm's execution. The scientist had additionally called attention to the likelihood of biasness of respondents while outfitting the significant data.

Phani (2005) in their paper examined the connection between insider proprietorship and firm execution of Indian firms. The investigation secured the time of 12 years from 1989 to 2000 separated into four sub times of 3 years each for all assembling organizations recorded on BSE. Promoter's possessions in the firm had been taken as insider proprietorship variable. Thus, ROA, net revenue, resource turnover proportion, premium inclusion proportion, labour proportion, and reinvestment rate, obligation equity proportion and remote borrowings/add up to obligation had been utilized as firm execution variables. Size of the firm as far as deals and age were utilized as control variables. The analyst found no connection between insider possession and firm execution if there arises an occurrence of dominant part of the enterprises. So far as different businesses were concerned, the effect of insider proprietorship on execution was watched for a specific day and age of concentrate as it were.

Prasanna (2005) in her investigation of 130 Indian organizations, concentrated on connection between independent executives and money related execution. The research secured a time of three years from 2002 to 2004. Organization of independent executives, interest in executive gatherings, annual general gatherings, audit committee gatherings and chairmanship of governance committee were taken as independent variables. Be that as it may, esteem creation as measured by market an incentive to book esteem proportion had been taken as a needy variable. Multivariate regression research method had been utilized to dissect the information. She discovered negative connection between independent board and esteem expansion.

Further, banter on a few issues identified with independent chiefs as talked about by Iran committee and SEBI had been called attention to.

Sheu and Yang (2005) considered the connection between insider stock possession and firm's execution of 333 Taiwanese electronic organizations for a time of 5 years from 1996 to 2000. Add up to factor profitability had been taken as firm execution measure and age, innovative work costs were taken as control variables. Limited (or remaining) Restricted (or residual) maximum likelihood (REML) had been utilized for evaluating the coveted outcomes. A positive relationship had been discovered between firm efficiency and official to insider holding proportion. Then again, irrelevant connection was seen between board to insider holding proportion and aggregate factor efficiency. The creator had additionally expressed that expansion in official stock possession would enhance firm profitability as a result of high innovation aptitude of official individuals. The board individuals and square holders did not have administrative gifts and mastery to manage critical vital issues. It had been recommended that the firms should build the stock responsibility for in cutting edge firms to enhance firm's execution.

Wan and Ong (2005) in their paper contemplated the hole between board structure and board execution through board process. A sample of 212 open recorded organizations in Singapore stock trade had been accepted and the data procedure and parts had been acquired by circling a poll to the executives of the organizations. Chief Chairman Duality and insider versus outside directors" connections were taken as measures of board structure. So also, board process had been measured regarding exertion standards, clashes, aptitudes and learning of chiefs. Board size, industry and friends measure were utilized as control variables. A straight forwardness file, given in the Business Times daily paper of Singapore had been utilized to measure the load up execution Reliability and legitimacy regression research had been performed to evaluate the significant outcomes. It was inferred that board structure did not influence board process and execution. Be that as it may, board process was identified with board execution. From governance perspective, just board structure was the deciding segment however so far as board changes were concerned, a need emerged to focus on significant issues, for example, executive gatherings, banter in the gatherings on specific things, individual clashes of board individuals, their abilities and information.

Barako, Hancock and Izan (2006) proposed that the extent of voluntary exposure by firms is influenced by its corporate governance attributes, ownership structure and company characteristics. Presence of audit committee, proportion of non-executive directors on board, institutional or foreign ownership were found to have a significant impact on level of revelation whereas board leadership structure, liquidity, profitability and sort of external audit firm did not have a significant influence on the level of voluntary divulgence by companies in Kenya.

Douma, George and Kabir (2006) investigated the differential impact of foreign institutional and foreign corporate shareholders on the performance of 1005 emerging market firms using Capitaline 2000 database. They utilized OLS regression to estimate the relation between performance measured by ROA and Tobin's Q and ownership variables to conclude that the effect of foreign ownership on performance is substantially attributable to foreign corporations and the impact of foreign institutional investors on performance isn't clear cut. They reported the positive influence of corporations versus financial institutions concerning household shareholdings as well.

Patibandala (2006) separated large institutional investors into 2 groups – private foreign institutional investors and government claimed local financial institutions in context of Indian economy as a developing nation using firm level data of 12 Indian industries from 1989 – 2000 including 148 firms using CMIE database. He argued that government possessed institutions had lower incentives in monitoring managers. Empirical results demonstrated that increasing presence of foreign institutional investors has a constructive outcome on corporate performance as far as profitability and firms that rely upon government financial institutions for external finance indicate decline in performance.

Goncharov, Werner and Zimmerman (2006); Florou and Galarniotis (2007) built up the governance rating for Greek recorded companies by benchmarking their governance structures against three levels: the minimum requirements under Greek regulations (low-level), recommendations of the Greek code (center-level) and the additional international accepted procedures endorsed by UK combined code (more elevated amount). They found that the average governance rating at the lower level was 65.5%, this lessened significantly as it moved to center and more elevated

amount, the average rating being 44%. Moreover, governance scores increased with firm size. They archived a relatively high lack of transparency in relation to Greek governance practices. Also examined the pricing effect connected to the declared degree of compliance with the German codes of governance and found that degree of compliance was consistently value relevant information for the capital market and higher compliance receives a premium on pricing suggesting the existence of capital market pressures for adoption of code's recommendations.

Barako (2006) examined the degree of intentional revelation by Kenyan organizations well beyond the compulsory necessities. The specialist likewise measured the degree to which corporate governance properties, proprietorship structure and familiar attributes impact deliberate exposure practices of the organizations. The investigation secured a time of ten years from 1992 to 2001. It involved every one of the organizations recorded on Nairobi stock trade, ordered into agribusiness, business and Governance, back and speculation and mechanical and unified parts. Weighted revelation record had been utilized for research reason. The outcomes uncovered that the audit committee was a noteworthy factor related with the level of deliberate exposure while the extent of non-executive chiefs on the board was adversely related. It was additionally seen that institutional and outside proprietorships had critical positive effect on deliberate revelation however then again; board Governance structure, liquidity, benefit and sort of outer audit firm had no impact on the level of wilful exposure.

Dhawan (2006) distinguished the part of top managerial staff in corporate governance in substantial recorded firms of India. The essential information had been gathered through a survey from 89 organizations recorded on Bombay Stock Exchange and Delhi Stock Exchange. It was reasoned that expansion in turnover affected the barricade measure just to a specific level. Nonetheless, the aptitudes and learning of executives were of principal significance. The proper age gathering of chiefs was observed to be 25-70 years. So far as gatherings of executives were concerned, it was discovered that this ought to be assembled every other month or quarterly and every chief must have data and insights about the gatherings and plan.

Gupta (2006) followed out the distinctions in corporate governance practices of few privately based chosen organizations of vehicle industry in Haryana. Three

organizations in particular Hero Honda Ltd, Maruti Udyog Ltd and Escorts Ltd were chosen based on their size and notoriety in the market. The information as for governance honours had been acquired from the annual reports of the organizations for the year 2004-05. The creator saw that consistence of provision 49 of posting assentment was 90% if there should arise an occurrence of Hero Honda Ltd taken after by Maruti (80%) and Escorts (70%). The creator didn't watch noteworthy deviations of real governance honours from proviso 49 of the posting assertion.

Mayur and Saravanan (2006) investigated the connection between board size and execution of Indian Banking division. Further, an endeavour had been had to think about the effect of other corporate governance properties on firm execution. A sample of 37 banks recorded on BSE and NSE had been drawn from Prowess Database of CMIE for the time of 2001-05. Board estimate, board arrangement and occasions in the term of normal no. of gatherings in a year had been taken as governance variables. Measure as far as resources, age, use and aggregate capital utilized were utilized as control variables. The information concerning these variables had been gathered from Prowess database and annual reports of the organizations. Tobin's Q and market-to-book esteem proportions had been utilized as firm execution measure. Various regression researches had been performed to get the outcomes. The outcomes uncovered no connection between board size and firm execution. Be that as it may, the specialist found that age, measure, and long-haul borrowings were related with cultivate execution.

Prasanna (2006) examined the commitment of independent board to mark validity and desire for scams concerning the part and working of independent directors. The information had been acquired from organization secretaries through poll to examine the perceptions of independent chiefs of the organizations arranged in and around Chennai. Factor research procedure, elucidating insights and rates had been utilized for information investigation. It had been inferred that independent executives added to the viable board working and brought believability and better governance. He additionally recommended the need of formal procedure of arrangement and occasional execution assessment of independent chiefs.

Singh and Sharma (2006) examined the idea and models of the corporate governance, for example, single layered model and two layered model. Single layered

model otherwise called investor model or Anglo-American model concentrated on the requirements of the shareholders exclusively. Then again, two layered model (German and Japanese) models secured the necessities of the considerable number of partners who are specifically or in a roundabout way connected to the organization. The creators had additionally talked about governance structure in Indian setting and obviously featured the questionable perspectives of the researchers about these two models. It had been presumed that great governance of organization depended on the models to be taken after as well as on the standards and guidelines of certain outside instruments, for example, Govt., administrative offices and securities exchanges. Tricks and outrages dependably happened when inward members (chiefs, and so forth) took the benefit of provisos present in our framework. It had been proposed that the administrative offices ought to effectively take an interest in observing the consistence for corporate governance.

Spanos (2006) evaluated the consistence level of Greek organizations having extensive capitalization, with worldwide prescribed procedures of corporate governance. A survey was planned, in view of OECD standards (1999) and other all around respected corporate governance codes. It comprised of five classes, to be specific (i) rights and commitments of shareholders, (ii) straightforwardness and revelation of data and auditing, (iii) the leading group of directors, (iv) official governance and (v) corporate governance duty, the part of partners and corporate social obligation. The weights were looked for from the senior individuals from the exploration group so designated. The rating structure of corporate governance, subsequently created, had been connected on 20 vast capitalization organizations for the years 2001 and 2003. The creators watched the most elevated consistence in the class of shareholders' rights taken after by CEO/Executive Governance and straightforwardness. Then again, a direct consistence level had been found if there should be an occurrence of top managerial staff and powerless consistence level had been seen as for pledge to corporate governance, corporate social duty and the association with shareholders.

Subramanian (2006) distinguished the distinctions in divulgence design on money related data and governance properties in particular board and Governance structure and process and proprietorship structure and financial specialist's relations of Indian organizations. A sample of 90 organizations from BSE 100 record, NSE Nifty and

Nifty Junior had been taken, ordered into open division and private part including the backups of multinational organizations. The information regarding revelation score had been gathered from the annual reports of the organizations for the money related year 2003-04. The specialist had utilized the Standard and Poor's Transparency and Disclosure Survey Questionnaire for accumulation of information. This poll depended on 98 things, isolated into three classifications, for example, money related straightforwardness and data exposure, board and Governance structure and process and proprietorship structure and financial specialist's relations. Divulgence score on board traits, budgetary data and possession structure had been taken as needy variable. Then again, Governance control as Government control, private promoter control and MNCs control had been taken as independent variables. Remote institutional investors' property, deals and posting status were utilized as control variables in this investigation. Multivariate regression strategy was utilized for investigation. The researcher saw that there were no distinctions in exposure example of open area and private division organizations so far as money related straightforwardness and data divulgence were concerned. It had been additionally seen that privately owned businesses revealed more data under the class of board and Governance structure. The analyst had likewise brought up that his research did not separate among required and intentional things of exposure record.

Kumar T N (2006) in his article featured certain abnormalities present in the governance structure of Indian family oversight organizations. The creator had expressed the genuine picture of governance issues particularly in setting of proprietorship debate between two siblings of Reliance Industries Ltd. Additionally, the cases of Associated Cement Co's, and Tata Group Companies had likewise uncovered the issues identified with independent executives. It had been seen that the controls of SEBI and Department of Company Affairs (DCA) on corporate governance, made perplexities in the psyches of organizations with respect to the rules to be taken after. It had been recommended to render the forces of confining governance structure to DCA. The creator had likewise talked about specific strides towards "Best" and "Next" practices of governance. It had been additionally proposed to family oversight firms to receive the prescribed procedures of corporate governance for a definitive growth of the country.

Rekha Arunkumar and G. Koteswar (2006) in their research felt that the Credit Risk is the most established and greatest risk that Banks confronted, by temperance of their extremely nature of business acquire. The pre-predominance of credit risk is the fundamental segment in the capital designation. According to their gauge credit risk takes the real piece of the Risk Management mechanical assembly representing more than 70 for every penny everything being equal. According to them the Market Risk and Operational Risk are critical, however more consideration should be paid to the Credit Risk Management in Bank Concentration risk is an exceptionally noteworthy segment of by and large credit risk profile of a banking foundation. A judicious credit risk management depends on the rule of enhanced portfolio to maintain a strategic distance from fixations in any one or couple of occupations or industry. Essentially, under the fixation list technique it was discovered that there exists solid connection between occupation-wise focus risk profile and NPAs level with higher estimations of coefficient of assurance of 0.64 and 0.45 for open part banks and private area banks separately. Correspondingly, solid positive connection between industry-wise fixation risk and NPAs level if there should be an occurrence of open division banks, as confirmed by high estimation of $r^2=0.78$. Be that as it may, same isn't articulated if there arises an occurrence of private part banks.

At long last, the outcomes inferred that The declining patterns in Non-Performing Assets (NPAs) out in the open area banks amid the post-advancement period is a result mostly caused by the enhanced credit portfolio broadening, The focus risk profile of credit arrangement of private part banks is higher than that of open division banks affecting antagonistically the NPAs level of private segment banks opposite public banks.

Mohammed T. Amro (2006) has explored the different sorts of risk (credit , liquidity, market, task and capital risk) that the Jordanian business banks opens to an acknowledgment that banks announce and deal with these kinds of risk, keeping in mind the end goal to propose demonstrate that empower these banks to bargain and oversee risk in an effective way. The investigation contains 11 Jordanian banks amid the period from 2000-2005. The outcome demonstrated that banks as far as risk acknowledgment understand all risk composes together, and just as separately understand the operational and capital risk. What's more, it likewise demonstrates that it can manage all risk composes, yet at the individual level banks can oversee just the

liquidity and capital risks. Result additionally showed in term of management and acknowledgment of risk that banks have not the capacity to oversee at both entire and individual levels. Result as far as financial proportions demonstrated that banks have capacity to concede and deal with all sort of risks. The investigation has recommended scientific models in which banks can profit to deal with all sort of risk.

Mohammed T. Amro (2006) has examined the different kinds of risk (credit , liquidity, market, task and capital risk) that the Jordanian business banks opens to an acknowledgment that banks proclaim and deal with these sorts of risk, to propose display that empower these banks to bargain and oversee risk in an effective way. The investigation contains 11 Jordanian banks amid the period from 2000-2005. The outcome showed that banks regarding risk acknowledgment understand all risk composes together, and just as exclusively understand the operational and capital risk. Furthermore, it likewise a show that it can manage all risk composes, yet at the individual level banks can oversee just the liquidity and capital risks. Result likewise showed in term of management and acknowledgment of risk that banks have not the capacity to oversee at both entire and individual levels. Result regarding financial proportions demonstrated that banks have capacity to concede and deal with all kind of risks. The research has proposed scientific models in which banks can profit to deal with all kind of risk.

Fatemi A. furthermore, Fooladi I. (2006) has explored the present practices of credit risk management by the biggest US-based financial establishments. Attributable to the expanding assortment in the kinds of counterparties and the consistently growing assortment in the types of commitments, credit risk management has hopped to the cutting edge of risk management exercises did by firms in the financial governances industry. This investigation is intended to reveal insight into the present practices of these firms. A short poll, containing seven inquiries, was sent to every one of the main 100 banking firms headquartered in the USA. It was discovered that recognizing counterparty default risk is the absolute most-essential reason served by the credit risk models used. Near portion of the reacting establishments use models that are likewise equipped for managing counterparty movement risk. Shockingly, just a minority of banks right now use either a restrictive or a seller marketed display for the management of their credit risk. Strikingly, those that use their own in-house display additionally use a merchant marketed demonstrates. As anyone might expect,

such models are all the more generally utilized for the management of non-exchanged credit advance portfolios than they are for the management of exchanged bonds. The outcomes assist one with understanding the present practices of these firms. All things considered; they empower us to make surmising about the apparent significance of the risks. The paper is of specific motivation to the researchers proposing to more readily comprehend the ebb and flow drifts in credit risk management, and to scholastics aiming to complete research in the field.

Adjaond, Zeghal and Andleeb (2007) tried the link between the board's quality and corporate performance. Board's quality was determined by using a scoring mechanism utilized by McFarland (2002) to rank a sample of boards of Canadian firms on four criteria of board composition, compensation, shareholder rights and divulgence. Firm performance was based on accounting-based measures ROI, ROE, EPS and market – to– book ratio and measures of value creation like economic value added and market value added. The empirical results appeared, when performance was based on accounting income-based measure, the contrasts between the best and the most exceedingly bad boards was not significant. Anyway, when performance was defined as far as value added, statistically significant contrasts were found between higher ranked and lower ranked firms. These results propose that performance measure adjusting for risk and cost of value lead to a better correlation with governance. Their regression results indicate that compensation and shareholders rights are significant variables in value creation.

Choi, Park and Yoo (2007) and **Nicholson and Kiel (2007)** examined hypothesized links between the board of directors and firm performance as anticipated by three predominant theories in corporate governance research, namely agency theory, stewardship theory and asset reliance theory. They utilized a case-based approach to link board demography and firm performance under each theory for seven companies as case studies. They found that however each theory can explain a particular case; no single theory explains the general pattern of results. Also examined the part of outside directors and foreign investors in Korea empirical results indicated that outside directors had a significant and constructive outcome on firm performance. They also found that institutional value ownership especially by foreign investors had a constructive outcome on board and firm performance. In contrast to this, family ownership was observed to interfere with board independence and was coming out as

a hindrance to firm performance in Korea. The effects of Cabals were statistically insignificant.

Garca and Anson (2007) AND Zang (2007) in an offer to evaluate the Chinese government's ongoing market-situated efforts to advance great corporate governance conducted a reconsideration of the working mechanics for market competition and other market-based governance mechanisms to guarantee great corporate governance. He concluded that utility of market mechanisms may have been exaggerated, and they are not effective in disciplining genuine managerial misbehaviours. He advocated legal sanction as fundamental to great corporate governance by combating genuine misbehaviour and curbing illegitimate improvement. Also analysed the effect of the Spanish privatization process on the performance and corporate governance of the firms that were privatized through offerings over the period 1985-2003 and did not find any significant upgrades in privatized firms profitability and effectiveness. However, their results suggested a change in firms' ownership structure and in the characteristics of the board of directors after privatization. The ownership concentration decreased with the relinquishment of control by the state and board of directors were restructured with the creation of new specialized committees and incorporation of new executives.

OkanVeli Şafakli (2007) has examined the credit risk for the banking segment of Northern Cyprus, which conveys a great deal of criticalness for the banking part. At the point when examined reflectively, it is seen that the credit risk had a deciding impact on the banking emergency already experienced in the nation. As to key proportions, until the beginning stage of the emergency, however, there were relentless increments in the credit risk of banking area all in all. Nonetheless, after the emergency, it is seen that with the managerial, legitimate and financial measures taken, the risk dropped. Not just this circumstance has been resolved with the credit risk proportions; however, it has likewise been discovered amid the administrative and supervisory phase of credits that no arrangement for advance misfortunes had beforehand been apportioned. Be that as it may, the need for reinforcing of banks, from the perspective of equity capital, which is viewed as a security valve, has been exceptionally evident. Besides, important arrangements of innovative, regulatory, know-how and qualified faculty ought to be made as per Basel II structure.

Al-Tamimi and Al-Mazrooei (2007) have researched the UAE national and outside manages an account with a sample of 17 banks. The information was gathered through polls and Pearson connection and standard slightest square regression were utilized to test the information. Look into helping them to locate that three most vital kinds of risk confronting the UAE business banks were remote trade risk streamed by credit risk and afterwards working risk. They found that the UAE banks were fairly productive in overseeing risk; anyway, the variables, for example, risk ID, appraisal and investigation turned out to be all the more impacting in the risk management process. At last, the outcomes showed that these banks are more proficient in overseeing risk and furthermore found that there is a noteworthy separation between the UAE national and outside banks in seeing of risk evaluation and research and in risk examine and control.

Abu Kamal, Mervat (2007) has assessed the credit risk management frameworks and techniques that the working banks in Palestinian banking framework command. Also, the means they take to build up these works on as per the global banking supervision controls and norms "Basel II: Revised universal capital system". That to embrace a philosophy for overseeing credit risk identified with the contemporary banking risks management. The research utilized the systematic portrayal technique, to depict the new Basel accord for successful banking supervision, the standards for the management of credit risk which arranged by Basel committee Sep 2000. Also, examine the measurement approaches for computing capital prerequisites to credit risk. At that point investigate and assess the competency of credit risk management in the working banks in Palestine, and their capacity to build up their frameworks. The primary aftereffects of the research are: the competency of credit risk management in working banks in Palestine, the ampleness of stores and arrangements for supporting the likelihood of advances misfortunes, the banks prevailing in treatment the farfetched advances in their portfolios, there's a consistency of PMA guidelines and directions, that are important to moderate credit risk, there's additionally independent inside auditing in keep money with guide relationship to the leading group of executive, however, banks confront challenges to actualize the Basel techniques for credit risk measurement. Those banks don't have the elements expected to actualize these procedures. Banks like to utilize the institutionalized approach than the inside rating-based approach IRB and PMA hasn't decided the reasonable approach for

credit risk measurement yet. The research came to the accompanying principle proposals: Banks need to keep on better and more orderly risk management rehearses particularly credit risk management. Additionally, keep on correction their credit policies to changes in monetary conditions. Also, must be a specific credit risk management office to recognize, measure, screen, and control credit risk. Likewise bolster independent inside and outside bank auditing forms, centre credit risk. What's more, create HR by leading worth instructional classes. What's more, create scientific procedures.

O.B. Sathish Kumar (2007) in their research assessed the financial execution of Indian private part banks. Private division banks assume an essential part being developed of the Indian economy. After progression, the banking business experienced significant changes. The monetary changes absolutely have changed the banking part. RBI allowed new banks to be begun in the private segment according to the proposal of Narasimhan committee. The Indian banking industry was commanded by open area banks. However, now the circumstances have changed new age saves money with utilized of innovation and expert management has picked up a sensible position in the banking business. It abridged that ICICI Bank workers are individuals who produce more benefit. Correspondingly the working benefit is the most noteworthy among all private area banks. ICICI Bank Ltd., and Yes Bank Ltd., are those which keep up a decent liquidity position.

OkanVeli ŞAFAKLI (2007) has examined the credit risk for the banking segment of Northern Cyprus, which conveys a considerable measure of noteworthiness for the banking division. At the point when examined reflectively, it is seen that the credit risk had a deciding impact on the banking emergency already experienced in the nation. With respect to essential proportions, until the beginning stage of the emergency, however, there were unflinching increments in the credit risk of banking area all in all. Be that as it may, following the emergency, it is seen that with the regulatory, legitimate and financial measures taken, the risk dropped. Not just this circumstance has been resolved with the credit risk proportions; however, it has likewise been discovered amid the administrative and supervisory phase of credits that no arrangement for advance misfortunes had beforehand been apportioned. Be that as it may, the need for reinforcing of banks, from the perspective of equity capital, which is viewed as a security valve, has been exceptionally clear. Moreover,

vital arrangements of mechanical, authoritative, know-how and qualified workforce ought to be made as per Basel II structure.

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Chiang and Lin (2007) analysed the relationship between ownership structure and board of directors' composition and their influence on the total factor productivity (TFP) of Taiwan's firms and found that a curvilinear specification better captured the relationship between inside ownership and firm profitability. They also found that more collateralized shares by board decreased profitability of a firm however institutional shareholdings could alleviate this negative impact of collateralized shares on TFP and that the combined titles of CEO and chairman of the board of directors may have the capacity to enhance efficiency. The conglomerate, innovative and non-family-possessed firms were more profitable than their counterparts.

Pant and Pattanayak (2007) examined the effect of insider ownership on the corporate value in India for the period of 2001 – 2004; using 1833 (BSE) recorded firms. They give prove that the relationship between insider shareholding and firm value is non-linear in nature and there exists a significant non-monotonic relationship between the two. Tobin's Q initially increased, then declined and finally ascended as ownership by insiders increased. The study also confirmed that foreign promoter/collaborator shareholding has a significant positive impact on the firm value.

Shen and Chih (2007) considered the impact of corporate governance on earnings management in nine Asian countries and found that firms with great corporate governance tended to conduct fewer earnings management. Also, large firms were prone to earnings smoothing yet great corporate governance could mitigate the effect on average. Where the governance index was large, there was leverage effect, otherwise, reverse leverage effect existed. Firms with higher growth were prone to engage in earning smoothing and earnings aggressiveness, however great corporate governance could mitigate the effect.

Mollah (2007) observationally examined the connection between possession structure, corporate governance characteristics and firm execution. A sample of 55 organizations, recorded on the Dhaka Stock Exchange in Bangladesh had been taken for the time of 2002-04. With a specific end goal to evaluate the governance practices of the firms, a survey was produced covering the primary measurements, for example, general data, executive gatherings, audit and official committee and CEO of the firms. The information as for execution and possession structure had been gathered from the optional wellsprings of Dhaka Stock trade for a similar period. Two-organize customary Ordinary Least Square (2OLS) demonstrate was kept running for information investigation. ROA, ROE and market capitalization were utilized as firm execution variables. Be that as it may, support possessions, Govt. possessions, institutional property and open property were utilized as proprietorship variables. The scientist presumed that the support and Govt. possessions were emphatically connected with firm execution. Then again, from a governance perspective, board size and audit committee, having support chief as an administrator, were observed to be essentially contrarily connected with firm execution. A research of the above audit of writing uncovers that a bunch of exact investigations have been directed in India

identified with corporate governance and firm execution. Also, a couple of researchers have concentrated on the Indian statement 49 of the posting assertion. Subsequently, in this research an exertion will be made to think about the corporate governance revelation rehearses, both compulsory and non-required according to provision 49 of the posting assertion and its further effect on monetary execution of the chose organizations from various enterprises. Additionally, an exertion has likewise been made to consider the intentional corporate governance divulgence made by the organizations far beyond the governance necessities according to provision 49 of the posting understanding.

Cai and Tylecote (2008) put forward two frameworks, one for measuring static and dynamic technological capability in developing countries and other for predicting effects finance and corporate governance characteristics on the first and applied them together to Chinese portable tele-communication manufacturing industry. It was discovered that ownership compose matters yet the government's influence over management selection matters more. Technological capability varied among sorts and levels in its permeability, and that state ownership and control was probably going to make corporate governance less able to adapt to low permeability technological capability. At the same time, it was probably going to enhance access to finance. Be that as it may, semi-privatized firms were generally dynamic.

Cheung, Jiang, Limpaphyom and Lu (2008) assessed the quality of corporate governance practices of Chinese Listed firms. They constructed a corporate governance index (based on the OECD principles of corporate governance) to measure the quality of corporate governance and exposure practices of 100 largest Chinese recorded firms. The study demonstrated no significant relationship between market valuation and corporate governance practices as measured by CGI for the sample. Be that as it may, it was discovered that there was a significant distinction in CGI of best 20 versus base 20 performing companies. Further overseas recorded Chinese companies demonstrated more regard for the part of stakeholders and divulgence and transparency than non-overseas recorded Chinese companies.

Gond, Crane (2008), made an investigation on the twisting of corporate social execution idea. The research dissected that the past looks into and discovered some reason for rising fall in light of a legitimate concern for corporate social execution

investigate among the researchers. The paper additionally proposed models based on which the scientist clarified why the CSP idea has lost its significance and improvement. Further, the scientist delineated some model which the specialist can utilize in their exploration identified with corporate social execution. The paper contended that strains and logical inconsistencies are the beginning stage to build up the CSP idea. CSP has an umbrella of exercises which need to measure contrastingly so as to move the looks into from a straightforward idea to advancement.

O'Thman, Mohammed Daoud (2008) has investigated the impact of utilizing the strategies of credit risk moderation on banks' esteem including standards of good loaning, market division, credit portfolio broadening, credit protection, checking credit and bank methodology. It additionally investigates the familiarity with Jordanian banks of credit portfolio risk that leads at last to credit default in an instalment of commitments and its impact on the market estimation of the bank through returns to proprietors and investors. To evaluate the bank esteem, the specialist applies the measurement on the surmised condition of Tobin's Q. The research sample comprises of eleven Jordanian business banks amid the long stretches of 2001-2006. He centres on finding the connection between the independent variables and the needy variable through utilizing Multiple Linear Regression, a survey and the financial markers relying upon the financial articulations of the banks.

The scientist has demonstrated the nearness of a constructive outcome between the bank esteem and credit risk alleviation. He likewise considered the significance of keeping up the quality and parts of the credit portfolio and containing its risks inside acknowledged levels to build up the bank's esteem. Taking everything into account, the scientist affirms the need of utilizing credit risk relief by Jordanian business banks to diminish portfolio credit risk and default risk with a specific end goal to guarantee adequate returns for proprietors and investors. The scientist suggested that reliance on the standards of good loaning when granting credit, notwithstanding crafted by observing an occasional survey.

Jawbreh, Wafaa (2008) in her research planned to dissect the different kinds of risks (credit, liquidity, task & capital risk) at the Jordanian business banks uncovered on and the techniques, Which take after by this banks to deal with these sorts of risk's, at long last show up impact's on basil 2 on this sorts of risks (credit, liquidity, activity

&capital risk). The sample of the research contains 4 Jordanian banks amid the period from 1995-2007. The review strategy from one side and the pooled information regression strategies from another side were used to investigate the research information. The outcomes as far as financial proportions showed that banks can consider and deal with a few kinds of risks, and there is an insights connection between add up to risk and a wide range of risks. These researches show up (liquidity risk and credit risk) is the most impact on adding up to risk, and task risk is minimal impact on adding up to risk contrasted with another risk

Usha, Janakiramani (2008) surveyed in detail the status of operational risk management in the Indian banking framework with regards to Basel II. The normal inclusion of banking resources and the approach received for operational risk capital calculation is contrasted extensively and the situation of the banking framework in Asia, Africa and the Middle East. A study led on twenty-two Indian banks shows deficient inward information, challenges in gathering of outside misfortune information and displaying complexities as huge hindrances in the execution of operational risk management structure in banks in India. The review underscores the need to dedicate additional time and assets if banks want to actualize the propelled approach under Basel II. The consequences of the overview obviously show that the way toward planning the system for operational risk has recently started for Indian banks. Basel II/administrative consistence and want to build up and actualize great controls rose as two noteworthy drivers of operational risk management in banks. The positive highlights are that all banks have all around characterized authoritative structure and Board endorsed strategies for operational risk management; a lion's share of the banks was utilizing some for of self-appraisal a subjective factor, as a critical apparatus in their operational risk system; numerous banks had begun the operational risk misfortune information accumulation practice for moving over to the propelled approaches however these were still in the developmental stages. In any case, it additionally rose that numerous banks did not have an unmistakable thought regarding the components/factors required for moving over to the Advanced Measurement Approach (AMA). Deficient information, troubles in get-together outer information and displaying challenges were referred to as extremely noteworthy snags in the usage of the operational risk management (ORM) structure in banks. A greater part of the banks has additionally referred to the absence of administrative lucidity as

a respectably huge hindrance in moving over to the propelled approaches. Banks anticipate administrative direction especially on the evaluation angles. With respect to approach to be embraced for administrative capital under Basel II, every one of the banks hopes to receive the Basic Indicator Approach by 2008-09. A dominant part of the banks wanted to move over to the propelled approaches, however, no unmistakable guide/Board endorsement for moving over to cutting edge approaches proved. The whole business banking framework in India, i.e. 100% of the business banking resources is relied upon to be Basel II consistent by 2009, but with the less complex approaches to begin with. This position thinks about positively to the inclusion of Asia (70% of banking resources), Africa (65% of banking resources) and the Middle East (89% of banking resources).

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through utilizing Multiple Linear Regression, a poll and the financial markers relying upon the financial explanations of the banks. The scientist has demonstrated the proximity of a beneficial outcome between the bank esteem and credit risk alleviation. He likewise examined the significance of keeping up the quality and parts of the credit portfolio and containing its risks inside acknowledged levels to build up the bank's esteem. All in all, the analyst states the need of utilizing credit risk relief by Jordanian business banks to diminish portfolio credit risk and default risk with a specific end goal to guarantee satisfactory returns for proprietors and investors. The analyst suggested that reliance on the standards of good loaning when granting credit, notwithstanding crafted by observing and intermittent audit.

Romzie Rosman (2009) made an endeavour to propose a research structure on risk management hones and the parts of risk management forms. The four imperative parts of risk management forms are: (1) understanding risk and risk management; (2) risk recognizable proof; (3) risk investigation and appraisal; and (4) risk checking. Conceptual and experimental literary works are disclosed to recommend the applied model. The system proposes that there is a positive connection between the parts of risk management procedures and risk management hones. At that point, the discourses are utilized to create investigate hypotheses to propose the connections. Subsequently, additionally, research can demonstrate observationally the connections and give a commitment to the region of Islamic banking.

Bodla, B. S., Verma, Richa (2009) planned a paper to ponder the execution of the Credit Risk Management Framework by Commercial Banks in India. The outcomes demonstrate that the expert for endorsement of Credit Risk vests with 'Top managerial staff if there arises an occurrence of 94.4% and 62.5% of people in the general area and private division banks, separately. This specialist in the rest of the banks, in any case, is with the 'Credit Policy Committee'. For Credit Risk Management, the greater part of the banks (if not all) are discovered playing out a few exercises like industry think about, intermittent credit calls, occasional plant visits, creating MIS, risk scoring and an annual survey of records. Be that as it may, the banks in India are declining the utilization of subsidiaries items as risk supporting apparatus. The study has drawn out that independent of division and size of the bank, Credit Risk Management structure in India is destined for success and it is completely in light of the RBI's rules issued in such manner.

Singh and Gaur (2009) tried to understand how business group affiliation, within-firm governance and external governance environment affects firm performance in top 500 Indian and Chinese firms and found that group affiliated firms performed more awful than unaffiliated firms and the negative relationship was stronger in case of Indian firms than the Chinese firms. Ownership concentration was found to have a constructive outcome on firm performance while board independence had a negative effect on the performance. They also concluded that group affiliation – firm performance relationship in a given national context was moderated by ownership concentration.

Zattoni and Cuomo (2010) Jackling and Johl (2009) analysed the recommendations of corporate governance scores created worldwide before the finish of 2005, about the independence, skills and incentives of non-executive directors. Their results demonstrated that non-executive directors' independence is a commonly prescribed governance practice. Non-executive directors' skills and incentives are not considered a governance issue to be regulated in detail. Also examined the relationship between board structure a firm performance in the Indian context and gave some help to the agency theory as a greater proportion on outside directors on boards were associated with enhanced firm performance. In any case, agency theory's notion that great CEOs have a detrimental effect on performance was not upheld. There was some help for asset reliance theory suggesting that a large board size have a positive impact on performance however at the same time there was observed to be no help for the asset reliance theory as far as the association between recurrence of board meetings and performance. They also found that outside directors with different appointments appeared to have a negative effect on performance.

Sarkar and Sarkar (2009) Using a sample of 500 large firms and a measure of "busyness" that is more general in its applicability, found numerous directorships by independent directors to correlate emphatically with firm value. Independent directors with various positions were also found to attend more board meetings and will probably be present in a company's annual general meeting. These findings were largely in contrast to the existing confirmation from the US studies and loan support to the "quality hypothesis" that occupied outside directors are probably going to be better directors and the "asset reliance hypothesis" that numerous directors may be better organized thereby helping the company to establish more linkages with its

external environment. Different directorships by inside directors were, be that as it may, negatively related to firm performance. Their results recommended that the institutional specificities of emerging economies like India could work in favour of sustaining large amounts of different directorships for independent directors without necessarily impairing the quality of corporate governance.

Shafiq& Nasr (2010) in their investigation expected to investigate the present risk management that are being taken after and practised by the banks particularly, business banks in Pakistan. Essential and auxiliary information sources are utilized to serve this investigation. Results uncover a huge distinction in the use of risk management perspectives among people in general segment business banks and neighbourhood private banks. Likewise, the financial soundness markers contrast in an incentive for each sort of business bank. In spite of the fact that there is a general comprehension about risk and its management among the staff of business banks, still, there is a requirement for business banks to devise instructional classes custom fitted to the necessities of Banking Personnel in Risk Management. This investigation has been led to assess the normal returns on venture portfolio and risk engaged with the return on speculation of the portfolio in every one of those insurance agencies when General agreement on trade in service (GATS) participation. The investigation infers that there is an important contrast between the normal return of venture of every one of the Pakistani insurance agencies when GATS. Indeed, even subsequent to performing great, there is a concentrated increment in the risk engaged with venture after GATS participation. The research is required to give a valuable reference to Insurance supervisors and in addition the service of Finance and Securities and Exchange Commission of Pakistan in their endeavours to control and enhance the execution of protection in Pakistan.

Bujerami, Shadi (2011) went for perceiving the part of an interior audit in risk management at the banking segment, inner audit work helps the senior management and top managerial staff during the time spent distinguishing and evaluating risks and reaction to it, through the arrangement of counselling and affirmation Governances amid the usage of the risk management process. The research results that there is no powerful commitment to the inward audit work during the time spent risk management in the Syrian open banks, and that to the all means of the risk management process, the recognition, assessment, and risk reaction. The inner audit

work contributes adequately during the time spent risk management in the Syrian private banks, where they add to all means of the risk management process, they distinguish assessment and risk reaction. There are huge contrasts for the private division between the reactions of respondents from the general population and private parts with respect to the commitment of inner audit to distinguish and survey risks and react to them. The analyst suggested that the need for actuating the part of the inward audit works during the time spent risk management in the Syrian open banks to help them despite future financial emergencies. The need for open banks to the procedure of risk management has, and its generous part even with the kinds of risks encompassing their work. The requirement for people in general and private banks to direct inward and outside preparing, and proceeding in the territory of inside audit and risk management for the survival of their workers Informed of continuous advancements proficient in these zones and some other territories identified with the interior audit.

Ahmed (2011) concentrated the Islamic banks of Pakistan with a sample of 6 Islamic banks for the day and age of 2006 to 2009. The information was gathered through optional sources. Pearson connection was utilized to discover the connection among variables and regression was utilized to discover the coefficients. The outcomes showed that the size of bank has specifically connected with credit and liquidity risk, while its relationship with operational risk is observed to be negative and measurably unimportant. The advantage management makes a positive connection with liquidity and operational risk. The adapting proportion and Non-Performing Loans proportion have a negative and critical relationship with both liquidity and operational risk while these have specifically connected with credit risk. The capital ampleness has a negative and huge association with credit and operational risk, while it has a positive relationship with liquidity risk.

T. Veerabhadra Rao (2011) in his investigation surveyed the Risk Management, Regulation and Supervision of the Financial Sector as a rule and the Banking Sector specifically is of vital significance for the precise growth of the economy. The present investigation is attempted to survey the effect of such Risk Management and Risk-Based Supervision measures presented by the Reserve Bank of India (RBI) in the post Reform period. The primary target of the investigation is to assess the advantages of these measures on the general working of the Scheduled Commercial Banks

(SCBs) belonging to the three Sectors viz., Public Sector, Private Sector and Foreign Banks. The investigation likewise made between area cross-correlations with check whether the effect is uniform among these areas and if not, to discover which part has performed better because of these progressions. It found that the effect of the progressions was great on account of the sample SCBs all in all. It saw that the Public Sector Banks have demonstrated extraordinary execution showing huge contrast in their working the after effects of the ANOVA and Post Hoc Tests have likewise confirmed that that the distinction is huge on account of Public Sector Banks when contrasted with Private Sector and Foreign Banks. It presumes that Sector shrewd, the Public Sector Banks have indicated noteworthy contrast in their working. Banks in all three Sectors have additionally been positioned based on their execution on singular parameters. Composite Ranking likewise was given considering the consequences of the considerable number of Parameters. According to this research, Development Bank of Singapore in Foreign Sector anchored the first Rank, while the second position has gone to Corporation Bank Ltd. in the Public Sector. HDFC Bank Ltd. in Private Sector stood fourth in the general Ranking. It prescribed that Banks ought to receive Risk-Based Audit which ought to be more IT-based. Also, On the Human Resources Development front, it is prescribed that Banks ought to grow all around composed preparing offices in territories, for example, Treasury Management, Credit Risk Management, and Operations Risk Management and so forth. It is additionally suggested that advancements should be founded on justifying instead of ordinary position.

Bujerami, Shadi (2011) went for perceiving the part of an inward audit in risk management at the banking segment, inner audit work helps the senior management and governing body during the time spent distinguishing and evaluating risks and reaction to it, through the arrangement of counselling and confirmation Governances amid the execution of risk management process. The investigation results that there is no compelling commitment to the interior audit work during the time spent risk management in the Syrian open banks, and that to all means of the risk management process, the recognize assessment, and risk reaction. The inward audit work contributes viably during the time spent risk management in the Syrian private banks, where they add to all means of the risk management process, the distinguish assessment, and risk reaction. There are noteworthy contrasts for the private segment

between the reactions of respondents from the general population and private segments concerning the commitment of inward audit to recognize and survey risks and react to them. The analyst suggested that the need for initiating the part of the inward audit works during the time spent risk management in the Syrian open banks to help them despite future financial emergencies. The need for open banks to the procedure of risk management has, and its generous part even with the kinds of risks encompassing their work. The requirement the general population and private banks to lead interior and outer preparing, and proceeding in the region of inside audit and risk management for the survival of their representatives Informed of progressing improvements proficient in these territories and some other zones identified with the inner audit.

Asim, Abdullah, et al (2012) in their paper assessed the firm's level perspectives which have more impact on the Credit risk overseeing of local and outside banks in Pakistan. Auxiliary information for the time of 2001 to 2010 is utilized, taken from different information sources. Expanded Dickey-Fuller test is utilized for checking stationary, while for long-run relationship Johansson's Co coordination test is utilized. Direct regression show is utilized for coefficients investigation with OLS equations. The outcome demonstrates that the model is the best fit for both Domestic and Foreign banks. Bank estimate has a positive and critical association with credit risk in household banks and positive and irrelevant in outside banks. Fluid resources and credit risk have a positive and immaterial relationship in residential banks and negative and huge in outside banks. The specialist has prescribed that credit risk might be limit on the off chance that (I) size of the banks keeps up with indicate the farthest point and (ii) increment liquidity of the banks.

Bansal, Parida, Kumar (2012) paper entitled "Rising patterns of Corporate Social Responsibility in India" in KAIM Journal of Management and Research broke down 30 organizations of 11 divisions recorded in the Bombay Stock Exchange with the assistance of their annual reports. A portion of these segments was Transport Equipment part, Finance and Metal Mining division, IT and Power, Capital products, Telecom, Housing, FMCG, Oil and Gas and Cipla. The paper considered the nature and zones of society in which the organizations are contributing. By considering every one of those territories it was deduced in the paper that today organizations are not working just to win benefit but rather additionally have understood the hugeness

of being social cordial. In this way, based on the paper it very well may be said that social obligation has now progressing taking a turn the new way.

Swaranjeet Arora (2013) made an endeavour to distinguish the variables that add to Credit Risk research in Indian banks and to look at Credit Risk investigation rehearses taken after by Indian open and private area banks, the exact research has been led and perspectives of workers of different banks have been tried utilizing factual instruments. Present investigation investigated the wonder from alternate points of view and uncovered that Credit Worthiness research and Collateral prerequisites are the two essential elements for breaking down Credit Risk. From the expressive and diagnostic outcomes, it reasoned that Indian banks effectively oversee credit risk. The outcomes additionally demonstrate that there is a huge contrast between the Indian Public and Private Part banks in analysing Credit Risk.

The Economic Times (2013), the news featured about the organization Dell's technique of persuading its workers in instating CSR. The news talked about that organization's representatives are the power that constrained the organization to help out the general public. Organizations with its representatives are occupied in social duty exercises in the territories of training, condition and worker's welfare. Close to Dell Company, the news likewise examined about different organizations like Maruti and Godrej that these organizations additionally give acceptance preparing to its representatives for setting them up for network Governances. Maruti Company runs a program named e-Parivartan for a gathering of workers to make them mindful about network issue and their answer.

Akwasi et al. (2014) has categorized the risks into four primary categories namely Institutional related, Financial management related, and external factor-related and operations related. Institutional risks are defined as loss of business or social purpose of the MFIs whereas financial management is defined as an asset vs. liability issues. External factor-related risks are those that are not beyond the control of the management and often relate to natural and man-made perils. Operational risks are exposures bringing from the normal daily activities of businesses. The most obvious being those arising due to fraudulent activities and loan defaults. It is found that these are strongly related mutually and usually exist due to insufficient fund allocation, bad labour regulations, mismanagement, etc. A study of literature in general shows that

there are seven main areas of risk that may be understood at institutional, these being Credit-related, Liquidity related, Market-related, Operations related, Interest risk-related, Foreign exchange, and Environment Compliance & Regulatory related.

Nikolaidou & Vogiazas (2014) have defining credit risk management differently as a serial grouping of formal activities primarily for organizing and directing risks faced by an institution with the help of implementation of certain managerial practices that are vital for the institution. A general practice adopted by institutions is to charge higher premiums for greater credit risk which leads to an improvement in net interest margins (Hanweck and Ryu, 2004).

Fredrick Mukoma Kalui & Eunice Kiawa (2015) observed that the institutions considered the identification of risk, monitoring of risks, assessment of risk, and risk analysis as a process in credit risk management. This study established that these processes were vital as they ensured that the risk management function was entrusted for the institution. The study concluded that the management of MFIs is putting proper enhanced measures in place in order to reduce risk and improve the services of the institutions. The study recommended more stringent measures to be followed while handling credit risk in order to ensure and enhance the performance of the institutions. This study suggested MFIs to adopt newer technologies and credit management procedures for enhancing performance.

In a similar study conducted to investigate the influence of credit risk management practices on loan delinquency in Kenya, **Justus, Dickson & Harrison Mwangi, (2016)** found that there exists a strong relationship between credit risk controls, collection policy and loan defaults. The researcher used Multiple linear to show the relationship between loan delinquency and credit risk control and collection policy. This study used the regression equation:

$$LD = \beta^0 + \beta^1 CRP + \beta^2 CP + \varepsilon,$$

Where, LD is Loan Delinquency, CRP is Credit Risk control and CP is Collection Policy.

Myers (2001, p. 96) emphasizes that fights between debt and equity investors only arise when there is a risk of default. If debt is entirely independent of default risk, debt holders have no interest in the earnings, worth or risk of the firm. But if there is a

probability of default, then equity investors stand to gain at the expense of debt investors.

Sheikh and Wang (2011) while shifting value from debt holders to shareholders, managers can bring into play abundant options. For illustration, managers can invest in riskier assets, borrow additional and pay out cash to shareholders, cut back equity-financed capital investments and delay instantaneous bankruptcy or reorganisation by obscuring financial problems from the creditors.

Even though prior studies (see **Dhaliwal and Reynolds, 1994; Kai, 2002; Kim, 2005, Shangguan, 2007; Cheng and Nasir, 2010**) have revealed that default risk is significant to ERC as an additional risk factor, default risk nevertheless is a non-systematic risk. Default risk may be moderated with a proper conduct of corporate governance. Corporate governance can be employed to keep a track on firms' debt and repayment activities. Boards of directors, for example, are charged among other things, with monitoring and disciplining senior management, and similarly lending agreements typically require boards to provide audited financial statements to the firm's creditors (**Dichev and Skinner, 2002**).

Corporate default may have an impression on the firm's ownership and governance. Based on 111 US publicly traded firms that either went insolvent or privately restructured their debt, **Gilson (1990)** explored that creditors exercise significant influence over resource allocation decisions, specifically in financially distressed firms. His results depict that whenever banks increase their monitoring on troubled firms, more than half of the directors and CEOs resign. Furthermore, the average size of the board also declines.

After investigating the effect of governance variables on bond ratings, **Bhojraj and Sengupta (2003)** concluded that institutional proprietorship and outside directors have a favourable influence on default risk. Employing a sample of 1005 industrial bond issues for the period of 1991–1996, and after controlling for other probable determinants of ratings and yields, they display that firms with larger institutional ownerships relish higher bond ratings and lower bond returns. Their conclusions also specify that institutional ownership and outside directors have stronger influence on bond ratings for lower rated bonds. They emphasize that the monitoring role of

governance mechanisms would be more serious when dealing with debt of poor quality.

Feeble corporate governance may upsurge the possibility of a firm becoming financially distressed. **Lee and Yeh (2004)** observe three corporate governance variables: percentage of directors associated with the controlling shareholder; the percentage of the controlling shareholders shareholding guaranteed for bank loans; and the deviation in control away from the cash flow rights. Grounded on Taiwanese listed firms which are featured as primarily family controlled with a high degree of ownership concentration, they find that all three proxies for corporate governance risk stated are positively related to the risk of financial distress in the following year.

Using an agency theory framework, **Ashbaugh-Skaife et al. (2006)** observe whether credit ratings have any association with corporate governance practices for a sample of US firms. Concentrating on the worth of governance from the bondholders' viewpoint, their results display that firms experience higher debt financing costs as a result of poor governance. Their results also specify that credit ratings are positively linked with takeover defence, accrual quality, earnings timeliness, board independence, board ownership and board expertise while CEO power and the number of block holders, whereas, are negatively related to credit ratings.

Chiang, Yeh and Chen (2008) split their Taiwanese sample firms into high-tech and conservative industries to inspect how corporate governance characteristics may influence default risk. Their inclusive findings display that firms face higher default risk with larger institutional proprietorship, higher percentage of large shareholders, and stock pledge ratio while higher managerial ownership seems to reduce the firm's default risk. For the high-tech industry sub-sample, their results specify that the association between government ownership and default risk is negative and both large shareholders and board size have positive impact on default risk. Nevertheless, in the conventional industry sub-sample, default risk is bigger for firms with larger institutional proprietorship and stock pledge ratio are. Their inclusive results imply that corporate governance mitigates default risk, at least to some extent. A research conducted to examine whether the quality of a firm's corporate governance practices and its sustainability disclosures are inversely related to its evaluated default risk,

James-Overheu and Cotter (2009) observe that, for a sample of Australian firms, annual report disclosures about corporate governance practices and sustainability practices are not valuable for the calculation of default risk, when firm size is controlled for. Considering the eminence of the quality of corporate governance on a firm's credit rating, rating agencies are found to integrate corporate governance factors in their rating methods. Standard and Poor's (2002) rating framework emphasizes on four major components of governance: ownership structure and influence; stakeholder's rights and relations; financial transparency; and board structure and processes. Credit rating agencies are worried with corporate governance because feeble corporate governance could impair a firm's financial position and leave debt stakeholders susceptible to losses (**Fitch Ratings, 2004**).

3.2 CORPORATE GOVERNANCE MONITORING MECHANISMS

Prior studies have shown that corporate governance mechanisms can alleviate agency costs and any inefficiency that arise from moral hazards. The external auditor, the board of directors and the board's audit committee are the key players in a firm's corporate governance structure. The basic function of the board is to oversee the performance of management and to determine whether the business is being soundly managed. Keenan (2004) points out that the board's key tasks can be divided into three main areas: determining the strategy of the business; identification and appointment of senior management, particularly the CEO; and ensuring that the company has appropriate, adequate and relevant information, and a control and audit system is in place. Enhancing the effectiveness of the board should thus improve performance and ensure that shareholder interests are promoted (Boo, 2003). The audit committee (AC) is an operating committee of the board of directors charged with oversight responsibility of financial reporting and disclosure. The AC thus needs to meet regularly with the company's external and internal auditors to review the corporation's financial statements, audit process, and internal accounting controls.

3.2.1 Audit quality

Audit quality is vital to ensure the reliability of a firm's financial reports and the opinion on going concern status. Quality audits are performed to verify conformance to reporting standards through review of objective evidence. According to Gallegos (2004), the external auditor's report in corporate financial statements is

seen as providing key assurance to the shareholders' interests. Auditors have an important role in facilitating reliable external assessment of the financial well-being of a company.

The Generally Accepted Auditing Standards (Generally Accepted Auditing Standards (GAAS) are the rules by which a Certified Public Account (CPA) must conduct while performing an audit of a company or government entity's financial statements. It was established by the American Institute of Certified Public Accountants in 1947), AU Section 341 specifies that in performing audit procedures, the auditor may identify information about certain conditions which indicate substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, for example, financial difficulties arising from possible default on a loan. Mutchler, Hopwood and McKeown (1997) find that auditors' going-concern opinion, decisions are significantly correlated with the probability of bankruptcy and with an audit-report lag variable. Based on a sample of bankruptcy-filing companies from 1974 to 1985, they find that the going-concern opinion is significantly correlated with both payment and covenant defaults.

Abbott, Parker and Peters (2003) examine whether auditors use the client's private information related to debtor-in-possession (DIP) financing in their going concern decisions. DIP financing consists of post-bankruptcy financing which is positively related to emergence from bankruptcy. Based on 124 financially distressed firms, their results suggest that auditors are more likely to modify their going concern decision for clients receiving DIP financing.

Ashbaugh and Warfield (2003) investigate the corporate governance role of external audits where companies traditionally rely more on debt than on equity capital. They partition the German audit market into dominant auditors' clients and all other auditors' clients. They find a positive relation between a company's demand for audit services and the stakeholders' interest in auditors (proxy provided by shareholders dispersion and foreign suppliers of audit service). Their results suggest that auditors play a corporate governance role subject to companies' relations with alternative stakeholders.

Auditor quality may reduce the impact of market conditions on client financial decisions and capital structure. Chang, Dasgupta and Hillary (2009) examine the

effect of auditor quality on financing decisions based on a sample of companies listed in the Compustat Industrial Annual files between 1985 and 2005. The results indicate that companies audited by Big 6 (Competition among public accountancy firms intensified from the Big 8 became the Big 6 in 1989, when Ernst &Whinney merged with Arthur Young to form Ernst & Young, and Deloitte, Haskins & Sells merged with Touche Ross to form Deloitte &Touche.)

Firms are more likely to issue equity than take on debt than are those audited by non-Big 6 firms. Their results also show that companies audited by Big 6 auditors are capable of making larger equity issues than are those audited by non-Big 6 auditors. However, they find that improvement in market conditions reduces such difference. Additionally, the debt ratios of companies decrease less in response to favourable market conditions, at least over the medium term, when auditor quality is high.

Clients of a reputable auditor, e.g., Big 4 (This group of public accountancy firms was once known as the "Big 8" (1987), and was reduced to the "Big 6" (1989-1998) and "Big 5" (1998-2001) by a series of mergers. The Big 5 became the Big 4 after the demise of Arthur Andersen in 2002.The final Big 4 are Deloitte, Ernst & Young, Price water house Coopers (PwC) and KPMG and affiliates, are expected to exhibit higher accruals quality than clients of local auditors. However, Kabir, Sharma, Islam and Salat (2011) provide evidence that Big 4 affiliates do not have a positive impact on the accrual's quality of their clients in an emerging market, Bangladesh. Kabir et al. (2011) suggest that affiliation with a Big 4 international accounting firm may not improve the quality of audit provided by the local affiliate unless there is market demand for quality differentiated audits and a strong monitoring and enforcement regime is in place.

3.2.2 Audit committee expertise

The rules set by the Sarbanes–Oxley Act of 2002 (SOX) (Also known as the Corporate and Auditing, Accountability and Responsibility Act. SOX, is a United States federal law enacted on July 30, 2002, which set new or enhanced standards for all U.S. public company boards, management and public accounting firms.) Require the presence of at least one financially knowledgeable director on the AC and the independence of all its members while the NYSE requires all members of the AC to

be independent and financially knowledgeable. The NYSE also requires at least one member of the AC to have accounting knowledge. Auditing experts believe committees with such composition provide effective monitoring because they are Independent from any influence from the firm's CEO and possess the financial and accounting background needed to understand what is going on in the firm.

Accounting expertise is important to AC because AC best practice requires members to have relatively high degree of accounting sophistication. 'Good governance promotes relationships of accountability among the primary corporate participants to enhance corporate performance. It holds management accountable to the board and the board accountable to shareholders. In this paradigm, the board is in place to ensure that management is working in the best interests of the corporation and its shareholders by working to enhance corporate economic value. The AC's role flows directly from the board oversight function. Such oversight includes ensuring that quality accounting policies, internal controls, and independent and objective outside auditors are in place to deter fraud, anticipate financial risks and promote accurate, high quality and timely disclosure of financial and other material information to the board, to the public markets, and to shareholders (Blue Ribbon Committee (BRC) report, 1999, p. 20).

Defond, Hann and Hu (2005) analyse 702 announcements of newly appointed outside directors to AC from the Corporate Library database from 1993 to 2002. They find a positive market reaction to the appointments of accounting experts to ACs but no reaction to appointments of non-accounting experts to such committees.

Additionally, they find that the market reacts positively to firms with relatively strong corporate governance. They suggest that strong governance helps to channel the expertise toward enhancing shareholder value. Chan and Li (2008) examine the relation between independence of audit committee and firm value. Based on 200 sample firms, their findings indicate the independence of AC results in higher firm value when a majority of expert-independent directors serve on the board. Based on a sample of 1052 firm-year observations in the U.S., Anderson et al. (2004) find no relation between debt costs and financial experts serving on the audit committee.

3.2.3 Audit committee independence

The composition of the AC contains important information on the credibility and independence of the committee. An independent AC acts as a safety net protecting the auditor from undue pressure from management by providing assurance that the auditor appointment and reappointment decisions are in the hands of the committee and not in those of management. An independent AC is also more likely to mitigate any pressure on the auditors by management matters of disagreement on accounting treatments, to issue an unqualified report and therefore enable the auditor to be more objective and effective.

Carcello and Neal (2000) present evidence on AC composition and auditors' going concern reporting behaviour. In a sample of financially distressed US firms in 1994, they find an inverse relation between the likelihood of receiving a going-concern qualification and the percentage of affiliated directors on the AC. In other words, in firms experiencing financial distress, the greater the percentage of affiliated directors on AC, the lower the probability auditors will issue going-concern qualifications.

The AC is an appropriate device for strengthening the monitoring system, financial reporting quality and corporate governance environment. Piot (2005) examines the AC determinants based on 285 listed firms in France. His results show that the existence of an AC and its independence are both negatively correlated with insider ownership. His findings indicate an AC complying with corporate governance recommendations has positive impact on leverage if the firm has a high Investment Opportunity Set (IOS) (Kallapur and Trombley (2001, p. 4) define IOS as value of options to make positive Net Present Value investments). This occurs because debt holders who invest in high IOS companies demand greater guarantees regarding the value of the firm.

AC members are required to be independent in order to monitor the firm's activities in the capital market. Para 15.10 BMLR stresses this issue by highlighting AC composition in Malaysia. Malaysian listed firms are required to ensure that a majority of their AC members are independent. The BRC (1999) and the National Association of Corporate Directors (NACD) (1999), both suggest ACs are likely to be

more effective in protecting the credibility of the firm's financial reporting if committee members are independent of management.

Chen, Kilgore and Radich (2009) examine the relationship between firms' characteristics and incentives for the voluntary formation of audit committees. Based on a random sample of 224 non-top 500 firms listed on Australian Stock Exchange for 2005, their results show a significant and positive association between voluntary formation of ACs and cost of debt, firm size, board size, directors' independence, and board chair independence. Additionally, their results suggest ACs will be established in situations where the agency cost of debt is high: there are economies of scale; a desire to reduce information asymmetries, and a desire to reduce risk and liabilities of outside directors.

3.2.4 Board independence

Another important corporate governance mechanism is board quality as these manifests in board independence and board ownership. Pearce and Zahra (1992) examine the association between corporations' environments, strategies, and past performance and the composition of their boards of directors. Their results indicate a positive association between outside board members and financial performance. Beasley (1996) examines the relationship between the composition of the board of directors and financial statement fraud using a sample of 75 firms subject to fraud and another 75 firms independent from fraud. He finds that no-fraud firms have boards with a significantly higher percentage of outside members than do fraud firms.

Using the expense ratio as a measure of board effectiveness, Del Guercio, Dann and Partch (2003) analyse whether board structure and director independence in closed-end investment companies (Del Guercio et. al (2003) explain that the closed-end fund industry is a useful setting for analysing the extent to which boards of directors serve shareholder interests because that boards of closed-end funds have limited monitoring responsibilities. This is in contrast to industrial corporations where boards often provide strategic expertise as well as monitoring management.) are related to shareholder interests in ways consistent with boards being effective monitors. Using 506 closed-end funds, their results show smaller boards and boards with a higher percentage of independent directors to be more effective.

In the UK, Peasnell, Pope and Young (2005) examine the relationship between earnings management and board monitoring. They use outside board members and AC as proxies for board monitoring. Their results show the likelihood of managers making income-increasing abnormal accruals is negatively related to the proportion of outsiders on the board. They suggest that boards contribute towards the integrity of financial statements.

Ding and Wermers (2005) analyse the relationship between performance and governance structure of US open-end, domestic-equity mutual funds during the 1985–2002 period. Examining the role of fund boards, they find that boards with a greater number of independent directors are associated with better performance and are more likely to replace underperforming portfolio managers. They assert that board structure, as measured by its degree of independence, is an important determinant of governance quality. Black, Jang, and Kim (2006) find stronger governance increases a firm's value. They find that Korean firms with 50% outside directors have a higher Tobin's Q (roughly 40% higher share price). Their evidence supports the idea that greater board independence causally predicts higher share prices in emerging markets.

Dunstan, Keeper, Truong and van Zijl (2011) examine the relationship between board structure and firm value and the extent to which this relationship may be affected by the level of growth options relative to assets-in-place. Based on a sample of 543 firm-year observations from the firms listed on the New Zealand Stock Exchange, they find a higher percentage of independent directors on the board and a larger board size to be more value relevant for firms with higher growth options.

However, outside directors in the board may not always improve governance practices. Investigating the effect of board composition on earnings management in Canada, Park and Shin (2004) find no significant relationship between discretionary accruals and board composition. They do not find that monitoring by outside directors is more effective after the issuance of the Toronto Stock Exchange's Corporate Governance Guidelines of 1994.

3.2.5 Board shareholding

Board proprietorship is an indispensable corporate governance instrument ensuring boards have a direct impact, either individually or collectively, on any corporate performance. If the board occupies a higher share of equity ownership in a firm, the risk of being incapable to meet debt repayment responsibilities would be lower because the board members have incentives to protect their own reputation in the labour market for directors and also the status of the firm in the debt market. Thus, higher board ownership is likely to be negatively related with default risk.

The standard agency cost theory recommends that increasing controlling owners' equity interest in a firm can lessen asymmetric information and increase monitoring of managers (Shleifer and Vishny, 1986). A research by Yermack (1996) employing Tobin's Q as an approximation of market valuation based on 452 large US industrial corporations concludes that officers' and directors' stock ownership are expressively linked to market value and negatively correlates with board size.

Greater board ownership infers higher responsibility as they own the company. Bhagat and Bolton (2008, p. 258) discuss that 'corporate boards have the authority to make, or at least ratify, all important decisions including decisions about investment policy and management compensation policy'. They explore that proprietorship of board members and CEO-Chair separation is significantly and positively correlated with better contemporary and subsequent year return-on-assets.

Table 3.1. Summary of Prior Studies on ERC and Default Risk

Author/s	ERC specification (Unexpected earnings)	Default Risk measures	Result
Cheng and Nasir (2010)	Unexpected annual earnings were computed using the naive expectation model, which assumed that the next period's expectation is simply the current period's annual earnings.	Seven financial risks were grouped as factors used for factor analysis which included interest risk factor, liquidity risk factor, credit risk factor, solvency risk factor, stock price risk factor, market risk factor and exchange risk factor.	Liquidity risk factor contributed significantly to the earnings return relation among China commercial banks.
Shangguan (2007)	72 months stock return with 60 months before and 12 months for the current year. Unexpected annual EPS was deflated by price.	Long term debt / total asset	The negative marginal effect of debt on the ERC is mitigated by illiquid growth default risk by inducing a risk aversion incentive.
Kim (2005)	Random walk with a drift model, averaging EPS changes for the five previous years.	Capital structure change events were identified for Korean sample firms by identifications of issues and redemptions of bonds.	This study uses a general to specific method of regression analysis to avoid problems associated with omitted variables. The results show that issues and redemption of debt appear to be associated with factors other than default risk of debt.
Kai (2002)	Earnings per share	1)Debt ratio	ERC increases as

	(EPS) was subtracted from last year EPS and deflated by prior year stock price.	2) index based on Japan earnings power and safety 3) positive and/or negative earnings	default risk decreases for the debt ratio and earnings, safety and power index proxies but not for the signal from negative earnings.
Billings (1999)	Changes in EPS, scaled by price at the end of the year t-1 [(EPS _t – EPS _{t-1})/P _{t-1}]	The Standard & Poor's Senior Bond Rating	Negative relation between ERC and default risk is due to bond ratings which reflects the expected earnings growth. With the inclusion of growth, the effect of the debt/equity ratio weakens while the bond rating effect disappears.
Dhaliwal and Reynolds (1994)	Use Integrated Moving Average (IMA 1, 1) and random walk model where changes in earnings deflated by price. Found similar result for both methods.	Bond rating and debt to equity ratio	The coefficient relating unexpected changes in earnings to abnormal returns is negatively related to the default risk of debt after controlling for earnings persistence and equity beta.
Dhaliwal, Lee and Fargher (1991)	Subtracted previous year earnings from actual earnings and deflated by alternative deflators; price and percentage unexpected earnings. However, the deflator results contradict each other. When price deflator is used, the estimated coefficient is positive and statistically significant.	Levered firms were matched with all equity firms by firm size and industry (two digits SIC). By using bond rating, they find that default risk is significantly different across the pairs of sample firms	ERC is larger for all equity and low leverage firms.

3.3. SUMMARY OF THE CHAPTER

The preceding review of the literature began by recognizing the major ERC determinants: beta, growth, earnings persistence, and size. It then proceeded on to considering the economic context of former work. Most of the studies observed have been commenced on developed markets. Emerging markets nevertheless, have their own unique physiognomies and it is believed that they might also offer important insights into the association between abnormal return and unexpected earnings. The review then moved on to consider the evidence on default risk accounting for the gap left by beta in elucidating variation in ERC.

Lastly, the review measured the probable mitigating effect of corporate governance on the association between default risk and ERC. To this end it observed that the benefits of corporate governance monitoring tools in the prevention of unnecessary risk taking, the provision of superior quality financial reporting, and superior firm performance.

CHAPTER – 4

RESEARCH METHODOLOGY

4.0. INTRODUCTION

The previous chapters of introduction review of literature & corporate governance overview assisted to describe and understand the concepts of corporate governance, default risk and earnings response coefficient. However, this chapter aims at unfolding the approaches used to achieve the research objectives. It presents the study variables, research problem, the research design, model specification and the complete methodology utilized to obtain and analyse the data related to the relationship between corporate governance, default risk and earnings response coefficient.

4.1. STATEMENT OF THE RESEARCH PROBLEM

The incidents of corporate misconducts highlight the importance of decision making taken by board of directors. Many of the researches argued that effective decisions pertinent to capital structure and investment which are taken by the board of directors, help in fulfilling the shareholders' wealth maximization objective while failing in that often led to the corporate misconduct and failure. Therefore, reforms related to various corporate governance always stressed on making appropriate changes in terms of board shareholding, board size and its structure also on working of audit committees their independence and expertise.

A review of the related literature showed identifiable corporate governance variables may have an impact on determining leverage and identifying the factors that influence default risk rate. Ample of studies conducted in developed countries that have investigated the role of corporate governance in mitigating default risk but there are very scarce searches in India with only a few empirical studies paying attention to this issue. Corporate Governance is an important factor in improving the value and performance of the firm and the impact differs from country to country due to the dissimilar social, economic, and regulatory conditions. Despite the importance of the link between corporate governance and firms financing structure, existing empirical evidences are not really convincing on how corporate governance variables

affect the financing structure of the listed firms. It is in the light of the above problems; this research work studied the effects of corporate governance practices on the default risk and earning response coefficient. In more general terms, India offers an interesting and important case study of relationship-based capitalism that is under pressure to evolve as it attempts to liberalize its capital market for further economic development and growth. India thus provides a setting for robust examination of the role of corporate governance in shaping the relationships between default risk & ERC.

4.2. Quantitative Method Design

Quantitative and qualitative research methods are the two approaches that have been employed by researchers around the world. In 1959, the concept of mixed method originated and thereafter researchers started combining the two methods in order to obtain better results and explanations. Qualitative method presents descriptive and non-quantitative approach to collect the information in order to present understanding of the phenomenon. To look at the associations among ERC, default risk and corporate Governance, a quantitative illustrative framework is applied that unites the capital market and corporate Governance qualities. The research is chronicled whereby quantitative recorded information is assembled and dismembered to test the formal theories. Specifically, firms' budgetary data and other disseminated corporate data were gathered from databases and yearly reports. The model and variable detail, and data gathering techniques are inspected in the territories that take after.

Quantitative approach uses different types of statistical analysis and therefore, provides stronger forms of measurement, reliability and ability to generalize the findings. This study applied the deductive positivism approach. Under this approach, the pre-existing theoretical basis is identified, studied and relied upon in hypotheses development and the empirical findings demonstrate whether the tested hypotheses are proven or rejected. In order to achieve the objectives, this study used the multiple regressions as the main tool of analysis. Hair et al. (2009) stated that regression is the appropriate method of analysis when the research problem involves a single metric variable presumed to be related to two or more independent variables. Therefore, multiple regression analysis is chosen as the main tool of analysis in this study.

This research is exploratory and explanatory in context and design. Exploratory research strategy provides an advantage of having a flexible research design while explanatory study emphasises on studying a situation or a problem in order to explain the relationship between variables. This study followed quantitative approach in the sense that it aims to draw out conclusions from the financial data gathered, summarized, and processed. The quantitative research instrument is developed from the materials that other researchers had developed and used in their study. In line with the prior studies, this study made use of the corporate annual reports of the listed companies in India to find out the relationship that exist between corporate governance variables, default risk & ERC.

This study adopted the panel data regression model for analysing the impact of the corporate governance variables on the DR & ER variables of the listed companies. To evaluate this research topic, different methods of MS Excel, Statistical Package for Social Science (SPSS) were used for analysing the data. Here, correlation and multiple-regression are used to analyse the data.

4.3. STUDY VARIABLES

This study examines the impact and relationship of two groups of variables (independent variables and control variables) on default risk & ERC. The first group of variables includes corporate governance variables. The second group consists of control variables which includes default risk & ER also its various other determinants.

The dependent variable is unexpected earnings scaled by price and the independent variables entering the regression are: (i) unexpected returns; (ii) the key variable of interest, default risk, (iii) the control variables: beta, growth, earnings persistence and size; and (iv) corporate governance moderating variables — audit quality, AC expertise, ac independence, board independence and board shareholding.

4.3.1. OPERATIONAL DEFINITIONS:

A) Board Size (BS)= Logarithm of total number of Board of Directors(BODs).

Adopting the measure used by Berger and al.(1997); Anderson and al. (2004); Marra et al.(2011); Samaha et al. (2012); Ajanthan (2013),Velnampy and Nimalthasan (2013); Gowsika(2015); Somathilake and Udaya Kumara, (2015) to test the model.

B) Board Independence (BI)= Number of Independent Directors (IDs) / Total number of Board of Directors (BODs).

Adopting the measure used by Kee et al. (2003); Lin, Chen (2008); Heng et al., (2012) to test the model.

C) Return on Assets (ROA) = Company's net earnings/ Total Assets X 100

Adopting the measure used by Berger et al. (1997); Bolbolet al. (2004); Khatab (2011); Nireesh and Velnampy (2014); Tayeh (2015).

D) Size of the firm (SZ) = Natural Logarithm of firm's Total Assets.

Adopting the measure used by Comment and Schwert (1995); Harford (1999); Fatma & Chichti (2011); Lim (2012); Dang et al. (2013). Ajanthan (2013), Velnampy and Nimalthasan (2013), Agyei and Owusu (2014); Quang and Xin (2015).

E) Debt-to-Equity (D/E) = Debt Capital / Equity Capital X 100

Adopting the measure used by Wiwattanakantang (1999); Udomsirikul et al. (2011); Sheikh & Wang, (2013).

F) Debt Ratio (DR) = Debt Capital/Total Assets X 100

Adopting the measure used by Rajan & Zingalas (1995); Arbabiyan and Safari Gerayeli (2009).

4.4 OBJECTIVES OF THE STUDY

- To identify the key determinants of ERC.
- To examine the effect of Default Risk on the determinants of Earnings Response Coefficient.
- To examine the role of Corporate Governance in mitigating default risk.
- To examine the impact of Corporate Governance on Corporate Frauds (if any).

4.5 PROCEDURE/RESEARCH APPROACH

4.5.1. Sample Selection Rules:

This research is exploratory in nature and using the secondary data for the analysis. The relevant data was extracted from the comprehensive income statements and financial position of the Nifty 50 listed companies over the period of 2012 to

2017. From the population of 50 firms listed on Nifty 50 Sensex a sample was purposively selected for analysis on the availability of corporate governance data and other selection criteria.

4.5.2. Sample Size

Total data consisted of 300 observations. Panel data increases the sample size. The determination of sample size is the result of a compromise between the need for a large sample to obtain statistically significant results and the need for detailed information on Earnings return and risk which implies work on a relatively small sample. Thus, the final sample was constituted was of 300 observations.

TABLE 4.1: Sampling Technique

No. Of Annual Representation per Company	06
No. of Companies	50
Total No. of Observations	300

4.5.3. Sample Selection

This study is exploratory in nature and its findings will be treated as preliminary (Malhotra, N. K. & Dash, S., 2006). Purposive sampling was done to select firms on the basis of conditions that were laid down for selecting sample. The analysis used a data of 50 companies of NIFTY 50 during 2012 to 2017 after following sample selection rules. This research is based on the secondary data from the firms' annual reports. These data were manually collected from the annual reports for the sample firms. Final Sample consisted of 300 observations for 50 firms over 6 years. Sample selection criteria helped to economize on the time and cost for data collection. This research is exploratory in nature. Finish count is there. Add up to information will comprise of 300 perceptions (50 listed organizations (CNX NIFTY) for a long time). The study period will comprise of 2012-2017.

4.6. Model Specification

$$UR = ERC * (UX/P)$$

Thus, if ERC is determined by the n variables $X_1, X_2 \dots X_n$, then

$$UR = (X_1, X_2 \dots X_n) * (UX/P)$$

In this manner the coefficient of $X_i * (UX/P)$ in a regression of UR on $\{X_i * (UX/P)\}$ can show the effect of X_i on ERC. Be that as it may, UX is probably going to be liable to huge estimation mistakes and along these lines, rather than an immediate regression, switch regression ought to be used as the technique for estimation (Collins and Kothari (1989) and the later research, e.g., That is, the impact of $\{X_i\}$ is tried by a regression in light of:

$$UX/P = [1/ (X_1, X_2, \dots ,X_n)]/UR$$

That is, the regression equation

$$UX/P = a_0 + a_1UR + a_2UR*X_1 + a_3UR*X_2 + \dots + a_{n+1}UR*X_n + \varepsilon$$

It is critical to take note of that in this shape, the test on the coefficients truly relates to the retrogressive of the ERC, the Return Response Coefficient (RRC). Appropriately, if the coefficient on $UR * X_i$ is seen to be gigantic and negative, that ought to show that X_i is decidedly identified with ERC.

To test the piece of beta, improvement, salary consistency and size, the regression has been run with just those components as the $\{X_i\}$. These factors at that point turn into the controls in the preliminary of the theories. Theory 1, the impact of default chance, is finished by including an extent of default risk to the set $\{X_i\}$ and assessing the accompanying regression condition:

$$UX/P = a_0 + a_1UR + a_2UR*DER + a_3UR*BETA + a_4UR*GROWTH + a_5UR*EPERS \\ + a_6UR*SIZE + \varepsilon$$

Accordingly $(a_2)^{>0}$ also, would exhibit that default risk contrarily influences ERC while controlling for beta, improvement, wage productivity and size. Theories 2 to 6 are attempted by additionally including, therefore, the correspondence of $UR*DER$ with the extent of the relevant corporate governance framework. Along these lines a backslide in the edge

$$UX/P = a_0 + a_1UR + a_2UR*DER + a_3UR*DER*CORPORATEGOVERNANCE + a_4UR*BETA + a_5UR*GROWTH + a_6UR*EPERS + a_7UR*SIZE + \varepsilon$$

Is assessed and $a^3 < 0$ and basic would show that the corporate governance variable mitigates the effect of risk on ERC.

This research relies upon firm-specific accounting and market data for a period from 2012 to 2017. Given the for the most part short time span for which sensible data is available, time arrangement research (which takes after an organization's change after some time) isn't doable for this research. Also, Collins and Kothari (1989) suggest that cross-sectional research is more suitable for an ERC think about in light of the fact that the ERC differs cross-sectionally withholding period return interims. Likewise, Easton and Harris (1991) propose that because of the variety of the ERC crosswise over eras, cross-sectional, as opposed to time arrangement investigation is more legitimate. The data for the individual associations are thus joined to lead tests both on a pooled explanation behind the whole multiyear time length (2002-2007) and on a well ordered introduce.

4.7. Hypotheses Development

With the purpose of giving specific direction to investigation and based on the understanding of the subject from the available literature and research objectives this study formulated the hypothesis and later tested with the data collected using appropriate statistical tools. Justification of these testable hypotheses is derived from previous studies discussed in details in the literature review sections. The formulated hypotheses were used as a basis for analysis and conclusion on the relationship among corporate governance practices, default risk and earnings response coefficient. To offer useful answers to the research questions and realize the study objectives, the following hypotheses were framed. The present research investigates the piece of corporate Governance in the default chance ERC relationship in the Indian corporate

portion. As depicted in part, before scientists have dependably found that beta, development, income perseverance, and firm size are the vital determinants of ERC. In any case, Fama and French (1992) suggest that only beta may be a partial measure of risk as beta does not appear to get all of the estimations of the risk of significant worth. Their revelations exhibit that the association among beta and ordinary return in NYSE stocks is feeble in the period 1941-1990 and vanished in the period 1963-1990. Subsequently, enduring that beta does insufficient catch all parts of significant worth risk, default chance ascends as a strong contender to get the bit of significant worth possibility not gotten by beta.

The capital structure hypothesis given by Modigliani and Miller (1958) is vital in this kind of condition. Associations stand up to two sorts of threats business shot and money related risk. Business danger, which essentially rises out of financial elements, for example, request flexibility of firms' items, input expenses, and competition inside industry, is independent of an organization's capital structure while cash related danger is a component of an affiliation's obligation esteem mix. The level of UN diversifiable business peril chooses the required benefit for unlevered esteem.

The expense of altering an obligation is a settled duty. In this manner, the pay per share (EPS) of a turned firm is touchier to changes in earnings before interest and tax (EBIT) contrasted with that of an unlevered one. Budgetary risk coming about because of obligation in the capital structure of the firm in like manner constructs the required benefit for esteem. Modigliani and Miller (1958) exhibit that without charges, the impact of the higher required benefit for esteem is absolutely adjusted by the lower cost of obligation capital and hence the weighted average cost of Capital (WACC) is invariant to utilize. Be that as it may, under an established expense structure, the still lower after obligation cost of obligation results in WACC being a straight reducing limit of utilization. Profoundly levered firms pull in more noteworthy checking by obligation holders and distinctive performing craftsmen in the organization's corporate Governance structure. Obligation holders and others screen the activities of the firm to grapple portion of the premium and chief and to avoid the risk of liquidation that may result from default. Banks and different loan bosses have a critical part to play in cultivating proficiency in medium and extensive private or state-claimed firms. As indicated by Gray (1997), banks (like value holders) can screen firms either viably or inactively. The dynamic model incorporates a hands-on

evaluation of an affiliation's exercises, adventure decisions, and utmost and excitement to meet obligation responsibilities. The disengaged mode depends upon property protection for security. In spite of the fact that the level of obligation is an internal decision, the higher obligation is depended upon to be connected with higher checking from obligation holders.

Firms with higher obligation will most likely partake in benefit organization to sidestep obligation understanding encroachment. Regardless, the obligation could in like manner have a positive checking sway. Grossman and Hart certify that obligation powers administrators to direct tasks all the more proficiently keeping in mind the end goal to diminish the probability of section, loss of control and loss of reputation. The level of checking by obligation holders will depend, between alia, on the proportion of the obligation holders' stake in the business.

Moneylenders require data on the financial soundness of potential borrowers. Regardless of whether such information is available from potential borrowers, bank agents are every now and again not set up in systems of market research and advance research and thusly experience inconvenience using that information. This issue prompts information peril, the risk of having private information that would inimically impact the default threat of obligation. Strong corporate Governance can decrease information peril by impelling firms to uncover data in an opportune way. Auspicious and point by point divulgence lessens loan specialists' impression of default risk. In this manner, moneylenders will confide in potential borrowers progressively if the firm concerned has sound corporate governance.

This research stretches out earlier investigations by investigating whether corporate governance sharpens in creating markets can direct the effect of default peril on ERC. In this research, the accentuation is on the characteristics of firms in one such market, India.

4.8. General Structure of the Research

This section outlines the general structure of the research. The ordinary associations between default danger, ERC and corporate governance, as showed in hypothesis, set the framework used to develop the theories of this research. Hypothesis 1 looks at whether default risk has any impact on ERC in the wake of controlling for esteem beta, improvement, pay consistency and size. Hypothesis 2 to 6 test the effects of various corporate governance instruments on the associations between default risk and ERC especially those of audit committee expertise audit committee independence, board independence & board sharholding. The progression of the hypotheses is discussed in going with the following sections given below.

4.8.1 Default risk and ERC

Total risk can be decomposed into systemic risk and unsystematic risk. Systematic risk arises from factors common to all securities where unsystematic risk reflects variation in factors unique to a given security. According to the CAPM of Sharpe and beta is the sole determinant of systematic risk it reflects sensitivity to variations in return on the market portfolios of all risky assets. In mathematical terms, the systematic risk, SR_j , in portfolio j is given by

$$SR_j = \beta_j^2 \sigma^2_m,$$

Where β_j is the beta of the portfolio and σ^2_m is the variance of return on market portfolio.

Regardless of these theoretical connections, exact investigations have discovered either no connection or feeble connections among beta and return. Specifically, as detailed above, Fama and French find frail connections. In any case, the eventual outcomes of the test research are obligated to the inconvenience of coordinating tests with delegates for the market game plan of unsafe assets rather than the honest to goodness advertise portfolios and, in this way, uncertain. By and by, Dhaliwal et al. (1991) find that default chance appears to enhance beta in elucidating return. Firms heavier underwater are believed to have the more genuine danger of default. Fargher, Wilkins and Webb find that obligation agreement infringement is related with noteworthy increments in both orderly and unsystematic dangers. They moreover exhibit that the change in unsystematic risk related with specific default is

an essential marker of future exchange delisting, even in the wake of controlling for various factors normally associated with extending budgetary hopelessness. Market-saw esteem danger of firm augmentations as the default danger of its obligation assembles Systematic and unsystematic dangers impact shrewd influence ERC. Dichev offer evidence that firms with higher bankruptcy probability & firms that have experienced exchange delisting (an elective extent of default chance) get lower than average future stock returns. In addition, Chambers, Independentman and Koch recommend that ERCs increase with both orderly and specific dangers since risk is determinedly associated with the affectability of benefit wants to firm-specific news. On the other hand, Easton finds that ERCs diminish with methodical risk on the grounds that the profit rebates rate increases with efficient risk. Dhaliwal and Reynolds present confirmation that associations with cut down obligation research (higher obligation esteem extents) have a lower ERC in the wake of counting middle people for esteem beta and benefit assurance. Additional obligation decreases ERC by displaying higher esteem and default dangers. With the presumption that higher default chance is connected with the higher expected future return, money related experts recognize information on default chance as it may shield them from awkward endeavour decisions. Franke and Krahen find that in a collateralized loan obligation (CLO) trade, the bank trades default danger of the key advances to other market individuals, i.e., the money related experts. Since the bank generally has inside information about its borrowers, it conveys to the table some credit upgrades in a CLO-trade to guarantee budgetary experts against potential effects of strayed information.

The main Hypothesis is;

- **H1:** Holding other things sustained, default risk has a significant negative association with ERC.

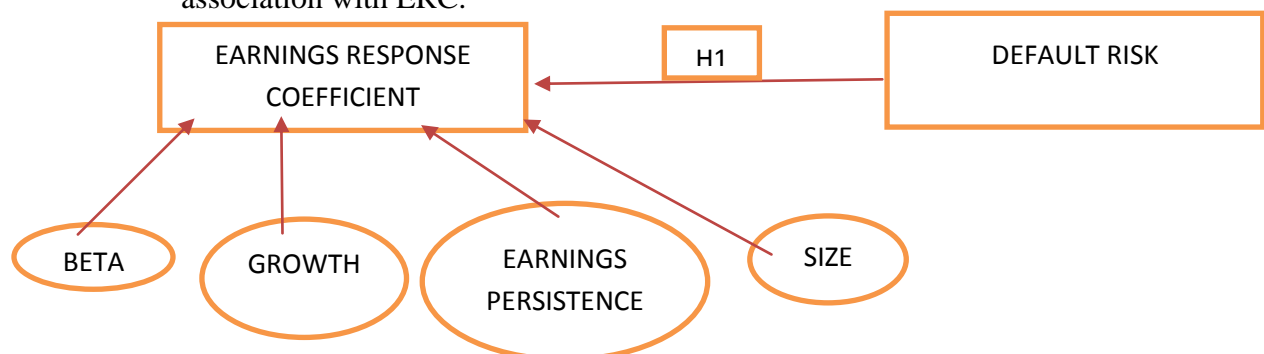


FIGURE 4.1. Study Model for Hypothesis one

4.8.2. The influence of audit quality on the relationship between default risk and ERC

Corporate governance properties can go about as non-budgetary pointers to loan bosses. In the event that corporate governance hones are sound, there is probably going to be more trust in a Strong's pledge to meeting its commitments as for obligation. This is especially so in creating markets where the authentic system is weaker. It is typical that sound corporate governance could mitigate default chance by giving all the more intense observing apparatuses. Suppliers of debt capital are probably going to focus on the general quality of the checking gadgets and apparatuses set up inside borrower firms, and in addition to the nature of their budgetary specifying, for evaluation of working and fiscal dangers. A firm is viewed as a nexus of lawfully restricting associations between different charmed get-togethers. The most indispensable among these office associations are those between overseers (pros) and speculators (principals) and between advance supervisors (principals) and financial specialists (administrators). In these associations, the authorities are depended upon to act to the best favourable position of the principals. Regardless, extraordinary frameworks must be set up to ensure that authorities secure the interests of various social events included. One such framework is examining of the monetary proclamations. The estimation of this pivotal part depends to a great extent on review quality.

Review quality can be portrayed as the probability that a slip-up or irregularity will be distinguished and that whenever perceived, such a break, i.e., a blunder or anomaly, will be accounted for. As such, high audit quality is related to a non-appearance of material oversights or errors in monetary explanations. Chang finds that debt to value proportions of organizations diminish in light of good economic situations at the point when review quality is high. Firms that were examined by Big 6 will probably issue value instead of obligation than those reviewed by little review firms. A reviewer is required to make a going concern capacity if the inspector trusts an organization may not survive a year from its benefit report date. In the repercussions of the Enron liquidation in 2001 and the subsequent fall of Arthur Andersen in 2002, exchange developed on the nature of reviews performed by accounting firms, especially those by the huge Big 4 accounting firms. In any case, it could be fought that examiners are definitely not in charge of foreseeing chapter,

what's more, it is useful for associations to miss the mark for reasons other than those that inspectors could sensibly have foreseen a year ahead of time. The model of review quality delineates review quality as the blend of two estimations: competency to perceive any misrepresent and opportunity to report such mistake. Accounting review firms are required to probably find and uncover any interior control insufficiencies because of notoriety concerns, interest in innovation and preparing, and case concerns. Respectable evaluating firms get a brand name esteem premium in centred markets, which recommends that quality partition exists. Pittman and Fortin break down the impact of examiner choice on obligation assessing in firms' underlying open years when they are lesser-known. Their evidence suggests that holding a Big 6 examiner, can satisfy past responsibilities watching costs by redesigning the trustworthiness of budgetary decrees, and in like manner enable young firms to cut down their getting costs. Craswell, Francis and Taylor clear up that, but all open accounting firms must pursue minimum master standards, the Big 6 firms deliberately put resources into more elevated amounts of aptitude and have impetuses to give higher-quality audits to secure their notoriety. As indicated by Mansi, Maxwell and Mille the security and information part of reviews are fiscally basic to the expense or obligation. They find a negative association between evaluator quality and the landing examiners require on corporate securities. This impact is generally twice as tremendous for non-investment-survey firms contrasted with speculation review ones.

Huge auditing firms are more worried about their notoriety than bring down layered auditors. These notoriety concerns may prompt more exhaustive audits to keep away from incorrect ends. Also proposes that it is broadly seen that bigger, more renowned audit firms have more noteworthy motivators not to perform low-quality audits at superb costs. Higher quality audits ought to decrease the information asymmetry between taught managers and irresponsible suppliers of capital and thus could impact the association's financing decisions. Examiners with high reputation perform a clearer review and are acknowledged to be better at disturbing the probability of cash related woe.

The next hypothesis is:

- **H2:** Holding other things persistent, effect of default risk on ERC diminishes in magnitude as audit quality increases.

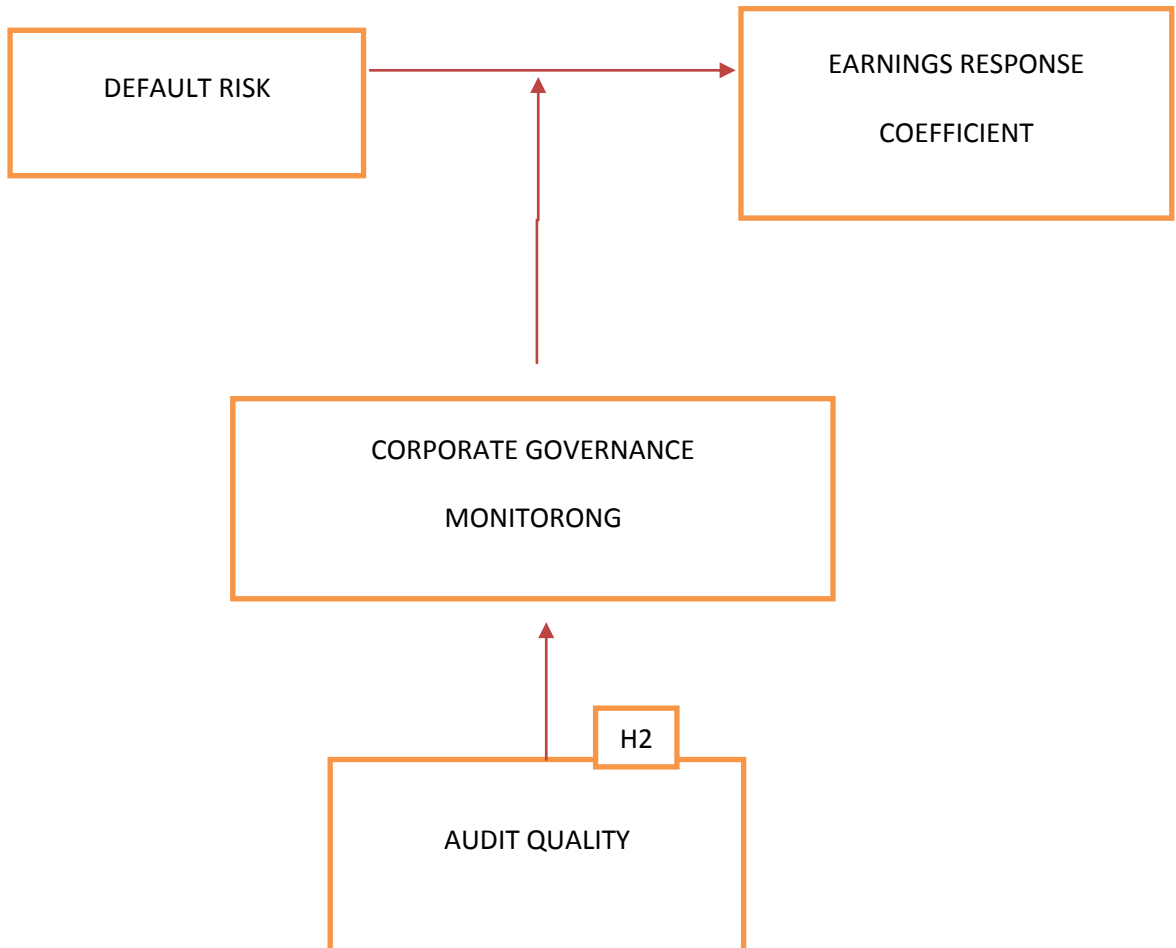


FIGURE 4.2. Study model for Hypothesis two.

4.8.3. The influence of audit committee expertise on the relationship between default risk and ERC

DeZoort, Hermanson, Archambeault and Reed portray a ground-breaking review council as a body that has qualified people with the authority and advantages for guarantee accomplice interests. Panel people are drawn from people from the association's best administrative staff. The AC is normally empowered to anchor the guiding resources and fitness thought about the imperative to play out their obligations. The AC needs to understand and address the dangers that cripple the achievement of the affiliation's goals. In the US, the piece of AC was a point of convergence of the Sarbanes– Oxley Act (SOX) in 2002. SOX instructed every US

association to have an AC. SOX also requires such ACs to involve only independent individuals. SOX additionally necessitates that ACs ought to have somewhere around one monetarily educated part.

Audit committee individuals are relied upon to be watchful in their oversight part and to deal fair-minded with the organization in doing their commitments. Chan and Li find that the proximity of ace Independent administrators on the board and the AC updates firm regard. Collier and Zaman recommend that AC will develop trust in the cash related markets. Audit committee quality may diminish the organization's potential for default in the organization by coordinating internal control measures. The nature of the AC relates to the level of governance mastery and, specifically, monetary aptitude among its individuals. Krishnan looks at the impact of AC quality on the nearness of inward control issues. She finds that associations with a bigger measure of financial bent on the AC are loather to have inside control issues. The uncovered correct affirmation supports the conflict that a properly learned AC is significant to the firm. Unquestionably, Agrawal and Chadha show that the probability of benefit repeating is brought down in firms whose ACs have a self-sufficient boss with an establishment in bookkeeping or back while Abbott, Parker and Peters find that the nonattendance of a financial ace on the AC is on a very basic level associated with an extended probability of budgetary mistake and cash related blackmail. Furthermore, Xie, Davidson exhibit that the closeness of endeavour intermediaries on the AC is connected with cut down discretionary gatherings in the firm. Davidson, Xie and Xu (2004) report a positive market response to the development of a cash related ace to the AC. The two papers report that the reaction is mainly controlled by the game plan of the boss with inspecting or bookkeeping foundation. Book-keeping, evaluating or cash related authority on the AC is basic to ensure that associations are in every case enough observing their debt commitments. It is hypothesized that,

- **H3: Holding other things persistent, the negative effects of DR on ERC diminishes in magnitude as audit committee expertise increases.**

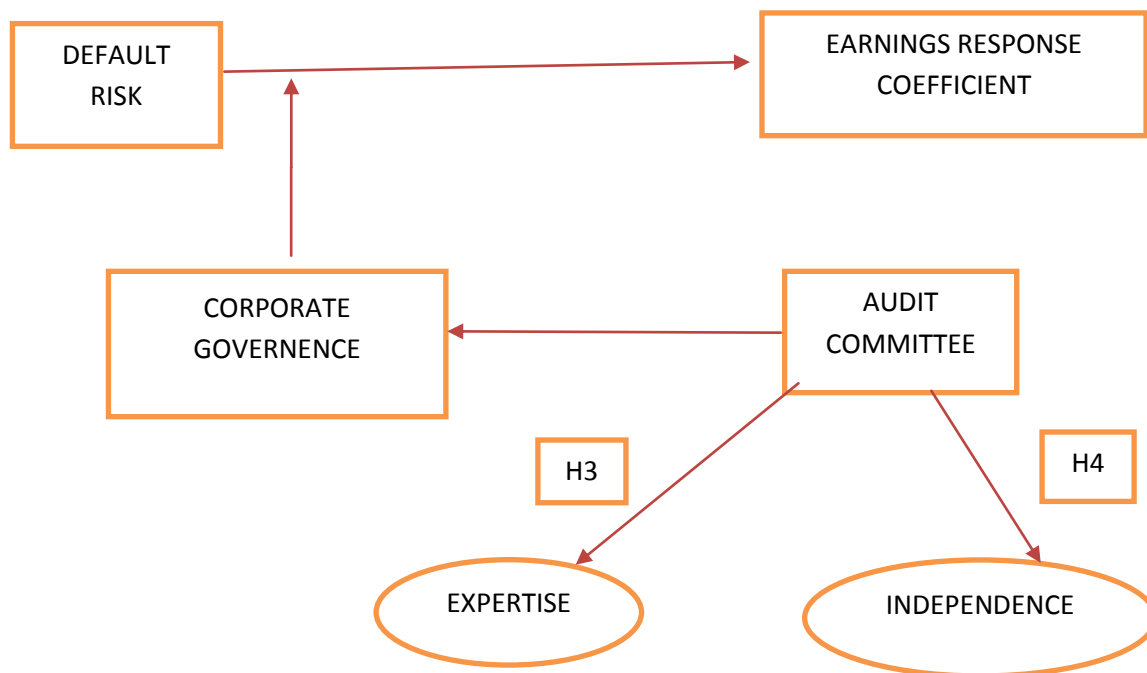


FIGURE 4.3: Study model for Hypothesis three and four

4.8.4. The influence of audit committee independence on the relationship between default risk and ERC

The benefit of having an independent director on the review board of trustees is until now the subject of much debate, with conflicting results point by point in the composition. Hayes, Mehran and Scott exhibit that the affiliation's execution assessed by the market to book extent is insignificant to the division of outside boss serving on the AC and Beasley finds that the proximity of an AC and its union don't impact the likelihood of monetary verbalization deception. On the other hand, Klein exhibits that associations with Independent ACs are more disinclined to manage their benefit (appeared by unusual accumulations) than firms with insider-overpowered ACs. Abbott finds that the proximity of an AC included through and through of Independent director reduces the likelihood of both money related mis-represent and budgetary distortion. Likewise, Carcillo and Neal report a turn around the association between the likelihood of tolerating a going-concern report and the level of auxiliary boss sitting on the AC. Independent directors on ACs furthermore have been found to control benefit forcefully.

Event of fraud and financial distress is very common now and again associated with internal control issues. Higher AC independence results in better financial reporting quality as an independent AC is significantly less inclined to be related to

the rate of internal control problems. The customary way of thinking has it that ACs does their oversight of the financial revealing procedure all the more successfully in the event that they fuse a strong base of the independant outside director. As noted above, Klein (2002) offers an affirmation to encourage this announcement. She finds a negative association between AC independence and abnormal accruals. Wild (1994) believes that the AC facilitates association issues by empowering the advantageous landing of unprejudiced bookkeeping information by managers to investors, loan bosses, and different gatherings, in this manner decreasing the information asymmetry among insiders and outsiders. To the extent that better monitoring of financial reporting process leads to less managerial opportunism and better financial transparency, this will eventually lead to lower default risk for bondholders. The following hypothesis is proposed:

- **H4:** Holding other things constant, the negative effects of DR on ERC diminishes in Magnitude as audit committee interdependence increases.

4.8.5. The influence of board independence on the relationship between default risk and ERC

Independent (non-executive) directors would be required to enhance the effectiveness of boards monitoring function and promote the quality of reported Pincus, Rusbarsky and Wong suggest that the proximity of outside directors on the board could increase the nature of observing on the grounds that they are not partnered with the organization as officers or workers and are in these manner independent agents of the investors' interests. Independent directors going about as delegates of investors have an especially solid motivating force to forestall and distinguish astute revealing conduct by the governance. This impetus possibly is driven by two variables. To begin with, the executives may look to secure their reputation for being specialists in observing, in light of the fact that the market for chiefs rebuffs those related with corporate debacles or poor execution. Second, from a legitimate risk point of view, executives who neglect to practice sensible care in releasing their checking duties are possibly subject to serious approvals. From a creditor's viewpoint, maybe a standout amongst the most basic components influencing the uprightness of the money related bookkeeping process incorporates

the best administrative staff. Standard and Poor's note in their FICO scores appraisal documentation that board oversight of the accounting earning information process is focal stress in studying firm default risk. Henceforth, autonomous list of directors have basic role in checking speculators' and banks' security by ensuring that budgetary information is exact and that money related controls and structures of risk organization are ground-breaking and perfect. The next hypothesis proposed:

- **H5:** Holding other things constant, effects of DR on ERC diminish in Magnitude as board independence increases.

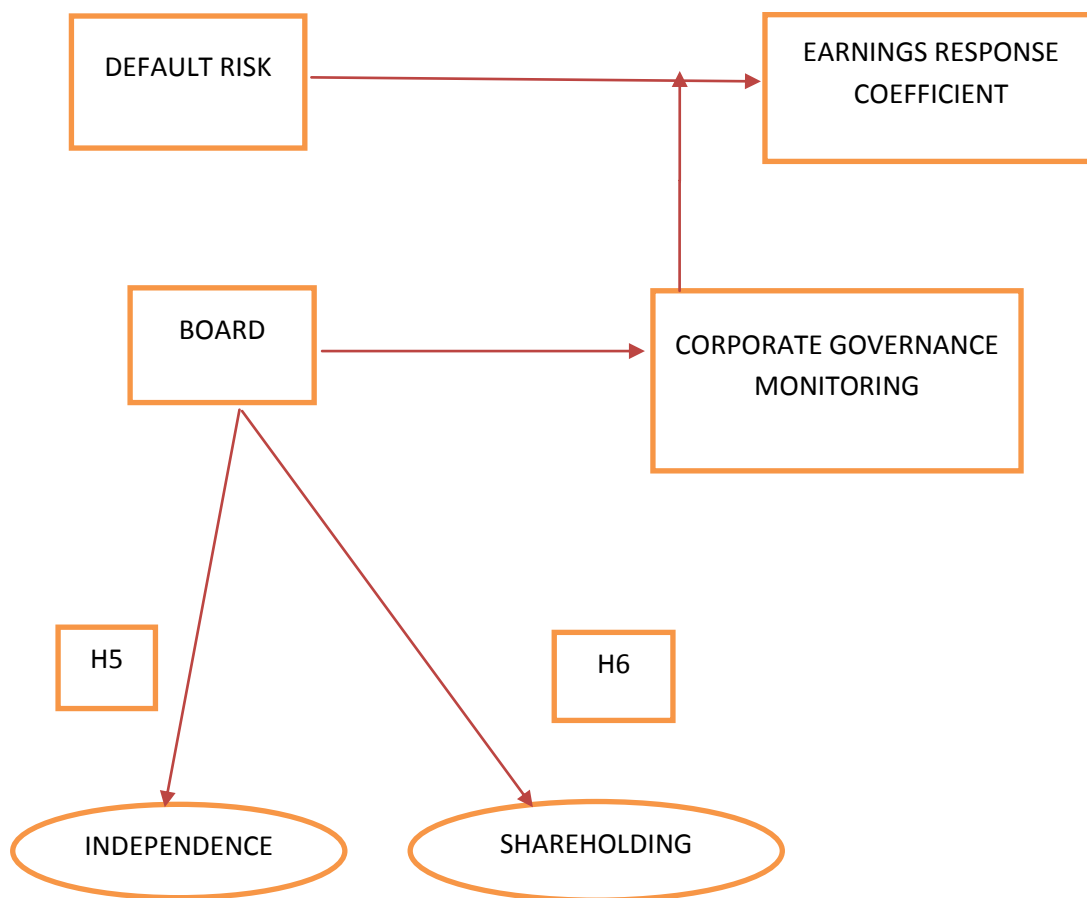


FIGURE 4.4: Study model for hypothesis five and six

4.8.6. The influence of board shareholding on the relationship between default risk and ERC

Division of proprietorship and control has been seen to have a potentially unpleasant effect on firm value. The perks to pursue personal benefits increases when the manager owns a smaller portion of the firm's shares. The motivation to make sub-

optimal investments and mis-appropriate assets declines as managers' share ownership increases because his share of a firm's profit increases with proprietorship while gains from perquisite consumptions are constant.

The significance of top managerial staff from the creditors' points of view they announce that board may affect the trust-worthiness of the monetary book-keeping process. Sheets of administrators are charged, notwithstanding different things, with checking and preparing senior organization and advancing understandings regularly require that sheets supply inspected money related declarations to the affiliation's leaders. The final hypothesis is:

- **H6:** Holding other things constant, the negative effects of DR on ERC diminish in magnitude as board shareholding increases.

4.9. Control Variables

With the end goal to test the assumptions, it is important to control for different factors which additionally decide ERC. These control factors are beta, growth, earnings persistence, and size.

4.9.1. Beta and ERC

Higher beta increases the discount rate that the market uses to price the unexpected revision of future earnings therefore, beta is negatively related to ERC. Prior studies have found a significant evidence of negative relation between beta & ERC grounded on a reverse regression of unexpected earnings on return. Some studies show a significant partial correlation between ERC & Beta. Lipe (1990) reported a significant negative correlation between beta & ERC. Kumar & Lim (2008) reported that coefficient on the interaction of earnings & beta reflect the marginal change in ERC for a unit change in beta, keeping other ERC determinants constant. They found a negative coefficient implying that ERC's decline as beta increases.

4.9.2 Growth and ERC

Collins and Kothari recommend that advancement could impact future pay and subsequently, ERC. They use the market to book extent (MTB) as the marker of improvement. The difference between the market regard and book estimation of value speaks to the estimation of theory openings open to the firm. The MTB extent

depends upon how much the landing in the organization's advantages and expected future hypotheses outperform its required rate of profit for value. In this manner, future profit and money streams are influenced by development openings. The higher the MTB proportion, the higher is the normal development in profit and money streams. Ghosh finds that organizations with income bolstered increments in profit have higher ERCs and firms revealing managed increments in the two incomes what's more, wage has higher quality pay and a greater ERC than firms enumerating upheld increases in benefit alone.

Billings investigates the connection between default risk and ERC with the joining of expected benefit improvement in the model. He battles that the association between bond evaluations and ERC isn't immense, while the connection between obligation/esteem extents and ERC is incapacitated. His disclosures prescribe some segment of the reason behind the negative connection between default risk and ERC is that the middle people for default chance in like manner reflect expected pay improvement. Hackenbrack and Horgan prescribe that improvement does not quite clear up ERC; in any case, Shangguan gives demonstrate that salary advancement assessed by the market to book asset extent is a positive and basic determinant of ERC inside seeing illiquid advancement openings.

4.9.3 Earnings persistence and ERC

The association between accounting earnings and security returns can be analysed at the level of earning alone, the alteration in earning alone, or both, scaled by price. Donnelly (2002) considers conditions where profit takes after a blended procedure with both perpetual (take after an irregular walk) and temporary segments (non-repeating). He shows that if profit is either totally lasting or altogether passing, the ERCs evaluated by levels and changes models ought to agree. Notwithstanding, if earning comprise a mixed process of permanent and transitory components, the ERCs assessed by the levels will contrast from that evaluated by the changes model. Earnings persistence is typically seen by money related examiners and theorists as a positive property of firms' benefit quality and in this way are regarded more than transitory wage. Collins fined that salary inventiveness is connected with a greater ERC. Barth, e) exhibits that a salary increase following a past addition is connected with a more grounded stock cost help than a profit increment following a progression

of abatements. Along these lines, profit determination is a key ERC determinant as it gauges how much current period income stuns holds on later on and influences future income desires. Accordingly, ERC is an extending limit of how much the information in a salary revelation results in an alteration in expected benefit vigour.

4.9.4 Size of firm and ERC

The earning return relation varies with firm size, where size is a proxy for differences in the information environment contrasts in the information condition impact how much price changes anticipate earnings changes. At the point when differentiates in the information condition are controlled for by fluctuating the landing holding period, there is a little qualification in how much esteem changes co-shift with benefit changes crosswise over firm size. It is proving that firm size is a basic and positive limit of ERC. Secluding the research test between December year-end firms and non-December year-end firms convey mixed results. The interaction of cumulative abnormal returns & firm size shows a positive and significant result for ERC in the presence of illiquid growth opportunities for December year & sample. Be that as it may, investigations the impact of utilization and advancement openings on book-keeping incidents and ERC and find that the results are not delicate to firm size after the model was parcelled into different classes of the market estimation of significant worth. Likewise, according to Cho and Jung most ERC studies agree that firm size is not an economic determinant of ERC.

4.10 Measurement of Variables

This area depicts the definition and estimation of the components used in the tests. The dependent variable is unexpected earnings scaled by the price and the independent variables entering the regression are: (I) unexpected returns; (ii) the key variable of interest, default risk, (iii) the control factors: beta, growth, earnings persistence and size; and (iv) corporate governance moderating variables- audit quality, AC expertise, AC independence, board independence and board shareholding.

4.10.1. Unexpected earnings

Prior analysts have evaluated unexpected earning either by assuming that profit takes after an irregular walk or by utilizing forecasting models, for example, an

incorporated moving normal (IMA) process. Dhaliwal and Reynolds utilized the two techniques, irregular walk and IMA (1, 1) yet the results for the two methodologies were seen to be fundamentally the equivalent. Under the self-assertive walk approach, startling profit is ascertained as the change in yearly pay. An IMA (1,1) process, considers both unchanging and brief fragments in benefit, and thusly the salary level can act an additional mediator for startling wage where the past period's benefit are not totally never-ending.

The present investigation expects an arbitrary walk and hereafter sudden benefit is registered as the change in yearly EPS (current year EPS short prior year EPS). The astounding benefit is then straightened by the before year stock expense. That is, the poor variable is:

$$EPS_t = EPS_{t-1}/P_{t-1}$$

Where:

EPS_t is firm's earning per share for year t,

EPS_{t-1} is firm's earning per share for year t-1, and

P_{t-1} is the firm's share price at the end of year t-1.

4.10.2 Unexpected Returns

Given yearly data, unexpected return is assessed by yearly Cumulative Abnormal Return (CAR). This is the aggregate rate of restore that an endeavour has gotten or lost in the plenitude of the typical rate of return cumulated over a year. Unpredictable return is the qualification between genuine return and expected return where the expected return is assessed by use of Sharpe's (1963) advertises demonstrate. Month to month share costs and month to month Kuala Lumpur Composite Index (KLCI) information from Thomson Data stream was utilized to ascertain month to month returns using the condition $\ln(\text{month } t/\text{month } t-1)$ and the market show was then assessed for each organization utilizing 60 months to month returns:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \epsilon_{it}$$

Where:

R_{it} = rate of return on firm i for month t , and

R_{mt} = rate of return of KLCI for month t

Subsequently, for instance, for 2002 the market display was assessed utilizing month to month returns figured for January 1997 to December 2001. The resulting appraisals of the backslide coefficients, $\hat{\alpha}_i$ and $\hat{\beta}_i$ are then used to compute month to month anomalous returns (AR_{it})

$$AR_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt})$$

4.10.3 Default Risk

Two factors have been extensively used in the composition as proportions of default risk. They are debt to equity ratio and bond ratings. Dhaliwal and Reynolds (1994) use bond assessments to measure default risk and use the debt to equity ratio to test the robustness of their result. They find emotionally near results between the two proportions of default chance. The debt to equity ratio is the conventional factor for measuring a firm's financial risk. It calculates the ratio of its assets financed by interest-bearing obligations. Nevertheless, if earnings before interest and tax (EBIT) diminish, a firm undertakes the risk of default on bond ratings depend on *inter alia* accounting information and may be a loud measure of default risk its debt obligations. This research employs debt to equity ratio as the standard measure of default risk. Bond assessments were available for only 50 firms traded on the NIFTY 50 over the investigation time frame. Be that as it may, as appeared in Table 4.2 the debt to equity ratio of these 50 firms and their bond ratings were found to be significantly negatively correlated, thusly adding certainty to use of the debt to equity ratio as the measure of default risk for the research.

Table 4.2: Correlation between Bond Rating and Debt to equity

		Bond	DER
Bond Rating (Bond)	Pearson Correlation	1.000	-.615"
	Sig. (2 -tailed)		.000
	N	188	118
Debt To Equity (DER)	Pearson Correlation	-.615"	1.000
	Sig. (2 -tailed)	.000	
	N	118	188

****Correlation is significant at the 0.01 level (2- tailed)**

4.10.4 Corporate Governance Variables

With the objective of finding the impact of corporate governance monitoring on the connection between default risk and ERC, a couple of corporate Governance attributes were selected to represent the monitoring of firms' tendency to default in the debt repayment obligations. The variables which were chosen to examine whether CG mitigates the influence of default risk on ERC were- AC expertise, Audit Quality, AC independence, Board independence and board shareholding. The data on corporate governance was hand collected from individual company annual statements.

A) Audit quality- Audit quality can be measured in various ways. For instance, auditor size, rate of audit qualification, and auditors' industry specialization. Amid these measures, audit firm size has been most frequently used as data on Big versus non-Big audit firms is voluntarily available in most markets. Consistent with this practice, this study calculates audit quality by a dummy with value 1 if the firm is audited by a Big 4 auditor and 0 otherwise.

B) Audit committee expertise and audit committee independence-

The audit committee plays a vital role ensuring the independence of the audit process. Auditing the operations of modern corporations is a complex process requiring understanding of the rules and judgements made by the management in preparing the financial statements. For verification of these financial statements, the auditor requires access to all necessary documents and a truthful explanation of all procedures. There is a concerted move across all countries to require listed companies to have an audit committee of a minimum size, to ensure that members are financially literate and to make them independent of the management. In

India, the constitution of audit committees is now mandatory for listed companies both under the Companies Bill (2009) as well as under Clause 49 of the SEBI Act. Section 158 of the Companies Bill (2009) requires all listed companies to have an audit committee with a minimum of three directors with independent directors forming a majority and at least one director having knowledge of financial management, audit or accounts. The chairman of the audit committee has to be an independent director. The company is required to disclose the composition of the audit committee in its Director's Report. Under Clause 49, all listed companies are required to have an audit committee of at least three directors of which two thirds should be independent. Clause 49 also requires the audit committee to meet at least four times a year with the gap between two successive meeting not exceeding four months. This regulation tries to ensure the quality of audit committee by requiring that all audit committee members to be "financially literate" with at least one member having "accounting or related financial management expertise."

C) Board independence and board shareholdings- While there is no set number of members for a board, most range from 3 to 31 members. Some analysts believe the ideal size is seven. The board of directors should be a representation of both management and shareholder interests and include both internal and external members. As per sub section 4 of Section 149 of the Companies Act 2013, every listed public company is mandatorily required to have at least one-third of the total number of directors as independent directors.

4.10.5 Control Variables

The control factors in this research are the developed determinants of ERC: beta, growth, earnings persistence and size.

A) Equity beta- That beta exhibits the tendency of a security's profits to respond to changes in market returns and is assessed in this research as the slope coefficient in the market model. In this beta estimates were obtained all the while with the estimation of CAR.

B) Growth opportunity- Development is estimated as the market to book ratio. This measure has been comprehensively used in before research and has been seen to be by and large related to ERC. In this research, growth opportunity is estimated by market value of the firm to the book value of its equity.

C) Earnings persistence- Earnings persistence can be created by using an estimating model, for example, autoregressive coordinated moving normal (ARIMA). The model is by and large alluded to as the ARIMA (p, d, q) show where p is the demand of the autoregressive fragment, q is the demand of the moving typical part and d is the level of nonstop differencing. The ARIMA indicate is versatile and is comprehensively used in the time course of action research.

Dhaliwal and Reynolds and Kim use a Internal Models approach (IMA) model to figure profit steadiness in light of the course of action of EPS. An IMA exhibit is an ARIMA approach with zero demand of the autoregressive section, p (0). In this research, firms' EPS for twenty back to back quarters preceding the trial were assembled and used to assess ARIMA (0, 1, and 1) to appraise profit steadiness. For example, with a particular ultimate objective to find out income determination for 2002, quarterly EPS were accumulated from the vital quarter of 1998 up to the last quarter of 2002. These 20 quarterly EPS were used to create the moving ordinary parameter assess (q). Following Dhaliwal and Reynolds and Sundholm 1-q speaks of the earnings persistence. With a specific end goal to guarantee that the dissemination adjusts, as nearly as could be expected under the circumstances, to a commonplace assignment, square root change was done, and this was used as the last measure in assessing income determination. A square root change was used as opposed to trademark logs as the variable included 0 regards.

D) Firm size- Firm size can be estimated in different ways. Ordinary proportions of firm size consolidate showcase capitalization, income volumes, and size of aggregate resources and number of. The present investigation utilized firms' aggregate assets as the measure of size.

Table 4.3: Definition and Measurement of Variables

Variable	Definition	Measurement
UX/P	Unexpected earnings deflated by price	Unexpected earnings are derived by the changes in annual EPS (current year EPS less prior year EPS) deflated by price at the end of the prior year
CAR	Cumulative abnormal return	Abnormal returns were measured by the differences between actual returns and expected returns where expected returns were obtained from the market model. Estimated over a period of 613 months (estimation period) preceding the relevant years over which abnormal returns are cumulated
DER	Default risk	Debt-to-equity ratio, calculated by dividing total long term debt by total equity
BETA	Equity beta	Coefficient of regression from the market model estimated using 60-months estimated period.
GROWTH	Firm Growth opportunity	Growth is measured as the ratio of the market value of firm to the book value of equity
EPERS	Earnings persistence	Twenty quarterly EPS prior to the Ming years were collected to generate the earnings persistence parameter (q) ARIMA (0,1,1) model was used to generate q. 1-q represent the earnings persistence .
SIZE	Firm size	Total assets f(n the millions R.M)
AUDITQ	Audit quality	Dummy I! if the firm is audited by Big 4 Auditors and 0 otherwise

AC-EXPERT	Humber of experts in AC	Number of AC members that recognised by KIA; or gained membership of one of the associations of exmination specified in Part II of the First Schedule of the Malaysia Accountants Act, 1967; (<i>please refer to appendis D for the first Schidife of the Malaysia Accountants Act., 1967</i>)
ACINED	Independent non-executive directors in AC	Percentage of independent non-executive directors in to the total number of directors
BODINED	Independent non-executive directors in board	Percentage of independent non- executive directors in board to the total number of direction
BODSHARE	Board Shareholding	Percentage of shares held by all directors to the total number of shares outstanding

4.11 Source of Data Collection

During the review of the literature, it was observed that very few studies are available in the area of corporate governance and the research into the area of corporate governance relies heavily on secondary data. Therefore, for a better understanding and a clear exploration of the concept, reports of the various corporate institutions have been studied, evaluated and cited in the study. Data available in the form of annual reports, government policies, including both central and state has been a major source of information and theoretical support. Books, articles from leading business journals, magazines, newspapers, social media and researches done by past researchers have also been used as a source of secondary data.

4.12 Statistical Tools Used for Data Analysis

After the collection of primary data, the researcher has used the Statistical Package for Social Science (SPSS) version 20 and Microsoft Excel 2010 for the analysis of data. These are the most recognized tools used in many laboratories for analysing accurate data. During the visit to various institutions of entrepreneurship and participation in workshops, the researcher came to know that SPSS is a widely used statistical package for data analysis and generates accurate results as per the given data. Further, Microsoft Excel has also been used in order to generate clear results and table.

CHAPTER – 5

DATA ANALYSIS AND INTERPRETATION

5.0. Introduction

The previous chapter drew the methodology adopted in this study with particular reference to the approaches used to collect, process, and utilise the data in undertaking the tests of the hypotheses developed in prior chapter. It explicated how the key variables of default risk, ERC and corporate governance monitoring that form the central of this study, are measured and operationalised. This chapter presents the results attained from quantitative analyses of the effect of default risk on ERC and the mitigating effect of corporate governance on the relationship between default risk and the ERC. It provides a descriptive analysis of the characteristics of the sample, findings from univariate and bivariate analyses, findings of the multivariate analyses and the results of robustness tests.

5.1. Descriptive Analysis

The table shows descriptive statistics of the determinants of ERC and the continuous corporate governance variables. As shown in the table, the mean of the ratio of unexpected earnings to price is 0.006. The range is between -0.052 and 0.426 and the standard deviation is 0.014. The median of 0.004 and mean of 0.006 do not differ significantly indicating that this variable is symmetrically distributed. The mean (median) of CAR is 0.007 (-0.002) with a standard deviation of 0.231. The ratio of long-term debt to equity (DER) shows a mean of 1.489, which indicates that for each unit of equity; Indian firms on average have almost 1.5 units of long-term debt. This high value is consistent with the earlier discussion of the high reliance of Indian businesses on debt finance - perhaps due to the attractive and stable BLR.

Turning to the description of ERC determinants, the mean (median) of beta is 1.097 (1.049). This value is close to the market-wide mean of 1.0 and indicates that the firms in the sample are not unusually highly geared. The mean (median) value of growth is 0.900 (0.850). Given that this is measured as the ratio of market to book value of equity, the values suggest that on average the firms are low growth firms.

Earnings persistence has a mean (median) of 0.24 (0.27). The mean (median) size of the firms, as measured by the value of total assets, is RM412.073 million (RM392.042 million) and varies significantly across firms.

Finally, referring to the corporate governance variables, the mean (median) value of ACEXPRT of 1.332 (1.009) shows that on average at least one member of the AC in the sample is an expert. While a high number of experts on the AC might be costly, too few members will leave the firm exposed to internal control questions and other audit issues. The descriptive statistics show that the maximum (minimum) value of AC expertise is 3 (1). This shows that all the sample firms comply with the listing rules which requires that at least one member of the AC must be an expert.

Table 5.1: Descriptive statistics of the ERC determinants and corporate governance continuous variables

	UXP	CAR	DER	BETA	GROWTH	EPERS	SIZE	ACEPERT	ACINED (%)	BODINED (%)	BODSHARE (%)
Mean	.006	.007	1.489	1.097	.900	.024	412.073	1.332	71.2	37.110	19.320
Median	.004	-.002	1.589	1.049	.850	.027	392.042	1.009	66.6	35.313	7.730
Std. Deviation	.014	.231	.722	.595	.389	.016	86.194	.532	11.0	10.680	24.125
Minimum	-.052	-.558	.080	-.870	.190	.000	301.902	1.000	25.0	20.000	.000
Maximum	.426	.564	2.840	2.860	1.840	.061	608.676	3.000	100	67.25	77.570

UXP is ratio of changes in annual EPS (unexpected earnings) to previous year equity price.

CAR is cumulative abnormal return derived from the market model using Kuala Lumpur Composite Index (KLCI)

DER is ratio of book value of long-term debt to market value of equity

BETA is systematic risk from market model using Kuala Lumpur Composite Index (KLCI)

GROWTH is ratio of market to book value of equity **EPERS** is square root of earnings persistence factor **SIZE** is total assets in million(RM)

ACEPERT is the number of experts recognise by MIA in Audit Committee.

ACINED is the percentage of independent non-executive directors in the Audit Committee

BODINED is the percentage of independent non-executive directors in the board.

BODSHARE is the percentage of shares hold by directors over total outstanding shares.

The mean (median) proportion of independent non-executive directors on the AC is 71.2% (66.6%). However, the minimum proportion is 25% which is inconsistent with listing requirement that the majority of the members of the AC must be independent. The mean (median) proportion of independent non-executive directors of the board is 37.11% (35.31%). The mean (median) percentage of the shares held by directors is 19.32% (7.73%). The data shown in Table 5.1 does not suggest significant departures from normality — means and medians are roughly equal. A statistical test for the presence of outliers was carried out and the proportion of outliers was found to be acceptable.

The audit quality of the sample firms is represented by a dichotomous variable. Audit quality takes a value of 1 if a firm is audited by Big 4 and a value of 0 otherwise. Table 5.2 shows that 72.3% of the firms were audited by the Big 4 audit firms.

**Table 5.2: Descriptive statistics of corporate governance dichotomous variables
— Audit Quality**

		Big 4 = 1	Non Big 4 = 0
AUDITQ	(N)	1449	555
	(%)	72.30	27.69

AUDITQ takes the value of 1 if the firm is audited by Big 4 Auditors; 0 otherwise

5.2. Univariate and Bivariate Analyses

The univariate analysis carried out in the study involves an analysis of the means and the bivariate analysis involves a correlation analysis. The results of the analyses are reported in the following sub-sections.

5.2.1. Analysis of mean values between high default risk and low default risk firms

Table 5.3 reports mean values of ERC determinants and those of the corporate governance monitoring variables between high and low default risk firms. As Table 5.1 shows, the sample has a mean (median) debt to equity ratio (DER) of 1.489 (1.589). The mean value of 1.489 is used to partition the high default risk firms from low default risk ones. As such, if the firm's DER is 1.489 and above, the firm is considered a high default risk firm while if its DER is lower than 1.489, it is considered a low default risk firm. This result is 36% of the firms being classified as high default risk firms.

Table 5.3 compares high default risk firms with low default risk firms with respect to DER. The differences in mean values of the two sub-sets of firms are tested for significance using the *t*-test. Table 5.3 indicates that low default risk firms in India comprise almost two-thirds of the whole population (64%). The results show that the differences in mean values are statistically significant for CAR, growth, earnings persistence, size, and AC expertise. Higher default risk firms appear to have higher CAR, growth, earnings persistence, total assets and have more AC experts.

Table 5.3: Analysis of mean differences in ERC determinants and corporate governance between high default risk and low default risk firms

Mean											
	N ¹	CAR	BETA	GROWTH	EPERS	SIZE	AUDITQ	ACEXPRT	ACINED	BODINED	BODSHARE
DER											
<i>High DER</i>	723	0.009	1.12	0.93	.025	424.54	0.61	2.16	27.60	22.41	14.42
<i>Low DER</i>	1281	0.006	1.08	0.88	.023	405.05	0.62	2.14	27.72	22.23	14.39
<i>Difference</i>	<i>(t-stat)</i>	-1.690*	-.466	4.307**	- 2.123*	-1.659*	-.224	4.292**	.044	-1.449	-.437

¹ 1N = firm-year observations = 300. See Table 5.3 for definition and measurement of variables

** Significant at $p < 0.01$ (1-tailed).

* Significant at $p < 0.05$ (1-tailed).

5.2.2. Correlation Analysis

A correlation analysis was performed for the test variables. Table 5.4 shows the Pearson correlation coefficient among all pairs of continuous as well as dichotomous variables. As Pearson correlation measures the strength of a linear relationship between two variables, it is seen that cumulative abnormal return (CAR), beta (BETA), growth (GROWTH), earnings persistence (EPERS), size, audit quality (AUDITQ), AC independence (ACINED), board independence (BODINED) and board shareholding (BODSHARE) are significantly correlated with the ratio of unexpected earnings to price (UX/P). However, the correlations appear moderate, albeit statistically significant.

Although there are some significant correlations among pairs of several variables, the highest correlation occurs between board independence and AC independence with a correlation coefficient of 0.599. This is to be expected as the AC is a subset of the full board. The correlation coefficient for board independence with board shareholding of 0.515 is also high. The negative relationships between DER and audit quality, AC expertise and board independence suggest that a significant relationship exists between default risk and corporate governance although the relationship is not obviously strong as evidenced by the correlation coefficients of -0.062, -0.111 and -0.055. Multivariate analysis, rather than bivariate correlations, is more appropriate in interpreting relationships between these variables. While correlation analysis shows the degree of association between pairs of variables, it does not control for the effects of other variables on the variables of interest. Multivariate analysis resolves this issue and therefore this tool is used to investigate the impact of each of the corporate governance variables and their interactions with default risk on ERC. The correlations in Table 5.4 suggest that multicollinearity among the independent variables is not a problem as none of the Pearson coefficients exceeds 0.7 (Pallant, 2007).

Table 5.4: Correlation matrix of the market model and ERC determinants variables

	UXP	CAR	BETA	GROWTH	EPERS	SIZE	DER	AUDITQ	ACEXPERT	ACINED	BODINED
CAR	.283**										
BETA	.051*	-.009									
GROWTH	.068**	-.241**	-.036								
EPERS	-.197**	-.055**	-.018	-.122*							
SIZE	.136*	-.028	.224**	-.010	-.018						
DER	-.015	-.049*	-.013	-.048*	-.016	-.005					
AUDITQ	.053**	.018	.020	-.086**	.012	-.025	-.062**				

ACEPERT	-.018	.012	.021	-.004	-.138**	-.013	-.111**	.355**			
ACINED	.103**	.011	.013	-.038*	.044*	-.009	-.033	.411**	.262**		
BODINED	.050*	-.066**	.023	-.042*	.000	-.007	-.055**	.150**	.406**	.599**	
BODSHARE	.058**	-.031	-.005	-.011	.010	-.001	-.022	.465**	.357**	.511**	.515**

The sample consists of 300 firm-year observations from 2012-2017. The correlation coefficients are based on Pearson Correlation. See Table 5.3 for definition and measurement of variables. ** Correlation is significant at the 0.01 level (1-tailed) and * Correlation is significant at the 0.05 level (1-tailed).

5.2.3. Multivariate Analysis

As discussed in earlier chapter, seven regression equations are estimated to test the hypotheses developed earlier in the study. Having a basic functional form for the abnormal returns- unexpected earnings relationship, for which 300 firm-year observations covering a 6-year period (2012-2017) were available for the estimation, it was recognised that other specifications might also hold (Kim, 2005). A linktest² procedure was thus carried out to perform the model specification test. The linktest result shows a non-significant result of $_hat$ ³ evidenced by a p value of 0.311 ($p > 0.05$). This result suggests that the ERC determinants model used in this study is specified correctly. This evidence suggests that the model is Independent from omitted variables or other specification errors⁴. Having panel data, it was also acknowledged that there was a possibility of correlations between unobserved effects and independent variables. By using a Fixed Effects Model (FEM) with dummies for years, these possible correlations are taken into account. Other possible choices were to ignore the problem and use Ordinary Least Square (OLS) or to use a Random Effects Model (REM). The Lagrangian Multiplier (LM) test showed that OLS was unsatisfactory (Chi-Square 561.74, $p < 0.001$) and the Hausman test (Chi-Square 122.11, $p < 0.001$) showed that the FEM was superior to the REM⁵.

The seven regression equations were then estimated as follows.

$$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*BETA_{it} + a_3CAR*GROWTH_{it} + a_4CAR*EPERS_{it} + a_5CAR*SIZE_{it} + year\ fixed\ effect + \varepsilon_{it} \quad (1)$$

$$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + f(\text{control variables}) + year\ fixed\ effect + \varepsilon_{it} \quad (2)$$

² Linktest performs a model specification link test for a single equation model. This is based on the idea that if a regression is properly specified, one should not be able to find any additional independent variables that are significant except by chance.

³ Linktest creates two new variables, the variable of prediction, $_hat$ and the variable of squared prediction, $_hatsq$. The model is then refitted using these two variables as predictors. $_hat$ should be significant since it is the predicted value while $_hatsq$ should not be significant because if the model is specified correctly, the squared prediction should not have much explanatory power.

⁴ The statistics are related to the structural equation (1). A similar result was found for equation (2) whenever default risk appears in the model.

⁵ The results are related to the structural equation (1). The similar LM and Hausman tests were also carried out for the other equations (2-7) and the statistics provided the same indication—the FEM was the most appropriate model.

$$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*AUDITQ_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (3)$$

$$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*ACEXPERT_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (4)$$

$$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*ACINED_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (5)$$

$$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*BODINED_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (6)$$

$$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*DER_{it} + a_3CAR*DER*BODSHARE_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (7)$$

Regressions (1) to (7) were run for the pooled dataset and for each of the years 2002 through 2007. The regressions examined the ERC determinants, and how default risk explains ERC with and without allowance for corporate governance effects. The results from the regressions are reported in the following sub-sections. The predictions outlined in the hypotheses are in terms of the relationship between ERC and equity beta (-), growth (+), earnings persistence (+), and size (+). In reverse regressions, these relations are inverted as it estimates the abnormal return response coefficient (RRC). Predictions for the RRC are thus the converse of ERC.

5.2.4. ERC Determinants

Table 5.5 presents the results of regressing UX/P on CAR, the interactions of CAR⁶ with beta, growth, earnings persistence and size in the estimation of ERC determinants. This is to answer the first research question which focuses on ERC determinants.

⁶ The interaction of CAR with beta, growth, earning persistence and size arises from the use of reverse regression in order to minimise the measurement error associated with unexpected earnings.

TABLE 5.5: Results of the ERC determinants

$$UX_{it}/P_{it} = \alpha_0 + a_1 CAR_{it} + a_2 CAR * BETA_{it} + a_3 CAR * GROWTH_{it} + a_4 CAR * EPERS_{it} + a_5 CAR * SIZE_{it} + \text{year fixed effect} + \varepsilon_{it} \quad (1)$$

Independent Variables	Pooled	2012	2013	2014	2015	2016	2017
	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)
CAR	.032 (7.57)**	.031 (7.33)**	.031 (7.34)**	.032 (7.59)**	.030 (7.09)**	.031 (7.32)**	.030 (7.10)**
CAR*BETA	.007 (3.38)**	.007 (3.37)**	.007 (3.40)**	.007 (3.36)**	.007 (3.40)**	.007 (3.37)**	.007 (3.39)**
CAR*GROWTH	-.010 (-4.14)**	-.010 (-4.08)**	-.011 (-4.55)**	-.011 (-4.61)**	-.011 (-4.58)**	-.010 (-4.16)**	-.011 (-4.56)**
CAR*EPERS	-.389 (-6.67)**	-.386 (-6.62)**	-.375 (-6.43)**	-.387 (-6.64)**	-.385 (-6.60)**	-.379 (-6.50)**	-.381 (-6.53)**
CAR*SIZE	-17.430	-17.370	-17.500	-17.410	-17.470	-17.450	-17.480

	(-2.46)**	(-2.45)**	(-2.47)**	(-2.46)**	(-2.47)**	(-2.46)**	(-2.47)**
Constant	.005	.005	.005	.005	.005	.005	.005
	(16.09)**	(16.10)**	(16.08)**	(16.08)**	(16.07)**	(16.08)**	(16.08)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	included	included	included
Adj.R ²	.151	.149	.151	.150	.149	.148	.150

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

Table 5.5 shows that the coefficient of the interaction of CAR with beta is significant and positive in all the regressions, both pooled and year wise indicates that beta has a significant negative relationship with ERC. This result is consistent with prior research (e.g., Dhaliwal et al., 1991; Dhaliwal and Reynolds, 1994; Billings, 1999; Shangguan, 2007). These prior studies suggest that systematic risk is negatively related to ERC.

Similarly, in Table 5.5 the coefficient of the interaction of CAR with growth shows that growth has a significant positive relationship with ERC. This is consistent with the results found in the earlier studies (see Collins and Kothari, 1989; Martikainen, 1997; Billings, 1999; Park and Pincus, 2000; Kim, 2005; Ghosh et al., 2005; Shangguan, 2007). The coefficient of the interaction of CAR with earnings persistence shows that earnings persistence is also positive and significant in explaining ERC. This also confirms the findings of previous researchers (Kormendi and Lipe, 1987, Collins and Kothari, 1989; and Dhaliwal and Reynolds, 1994). Similarly, the coefficient of CAR and size shows that size is positive and significant in explaining ERC. This result is consistent with Billings (1999) and Vafeas (2000). However, the result contradicts Martikainen (1997), who found that firm size is not a significant determinant of ERC; similarly, for the UK study by Donnelly and Walker (1995). Shangguan (2007) finds a significant result for the interaction of CAR with size but its significance decreased from 1% to 10% when fiscal year-end observations are used compared to those of December year-end⁷.

⁷ This study uses a fiscal year-end sample due to data limitations. Use of December year ends could result in a much smaller sample.

TABLE 5.6: Results of the ERC determinants with default risk (DER)

$$UX_{it}/P_{it} = \alpha_0 + a_1 CAR_{it} + a_2 CAR * DER_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (2)$$

Independent Variables	Pooled Estimate (t-stat)	2012 Estimate (t-stat)	2013 Estimate (t-stat)	2014 Estimate (t-stat)	2015 Estimate (t-stat)	2016 Estimate (t-stat)	2017 Estimate (t-stat)
CAR	.023 (5.44)**	.022 (5.20)**	.020 (4.73)**	.021 (4.96)**	.020 (4.71)**	.019 (4.49)**	.019 (4.51)**
CAR*DER	.011 (7.09)**	.011 (7.06)**	.011 (7.11)**	.011 (7.07)**	.011 (7.10)**	.011 (7.07)**	.011 (7.06)**
CAR*BETA	.006 (3.09)**	.006 (3.12)**	.006 (3.12)**	.006 (3.09)**	.006 (3.10)**	.006 (3.07)**	.006 (3.13)*
CAR*GROWTH	-.014 (-5.60)**	-.014 (-5.53)**	-.013 (-5.20)**	-.014 (-5.57)**	-.015 (-5.99)**	-.013 (-5.22)**	-.014 (-5.61)**
CAR*EPERS	-.474	-.376	-.362	-.372	-.486	-.469	-.375

	(-8.06)**	(-6.39)**	(-6.15)**	(-6.33)**	(-8.26)**	(-7.97)**	(-6.37)**
CAR*SIZE	-19.220	-19.110	-19.180	-19.230	-19.140	-19.120	-19.200
	(-2.75)**	(-2.73)**	(-2.74)**	(-2.75)**	(-2.74)**	(-2.74)**	(-2.74)**
Constant	.005	.005	.005	.005	.005	.005	.005
	(16.80)**	(16.78)**	(16.75)**	(16.76)**	(16.83)**	(16.89)**	(16.75)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	included	included	included
Adj.R ²	.172	.169	.167	.169	.172	.166	.167

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

5.2.5. The effect of default risk on ERC

Table 5.6 shows the effect of default risk, as measured by DER, on ERC. The coefficient of the interaction between CAR and DER is significant and positive in both the pooled and year by year regressions and thus DER has a significant negative relationship with ERC. The results for beta, growth, earnings persistence and size remain as in the base model. This applies to both the pooled and year by year regressions. The result for DER is consistent with the previous studies (for example, Dhaliwal et al., 1991; Dhaliwal and Reynolds, 1994; Shangguan, 2007; and Cheng and Nasir, 2010). The significant negative relationship between DER and ERC is consistent with the expectation that default risk adds to the explanation for the risk relevant to ERC. A plausible interpretation of this finding is that the market-perceived equity risk of a firm increases as the default risk goes up in an emerging market⁸. Thus, this result supports hypothesis 1: default risk has a significant negative relationship with ERC.

5.2.6. The mitigating effect of audit quality on the relationship between default risk and ERC

Table 5.7 gives the results of the regressions with default risk and audit quality. The coefficient on the interaction of CAR with DER and AUDITQ is significant and negative and therefore the interaction of DER and AUDITQ has a significant positive relationship with ERC.

⁸ Alternatively, Dhaliwal and Reynolds (1994) also interpret this as a decrease in expected future dividends when default risk rises.

Table 5.7: Results of the mitigating effect of audit quality on the relationship between ERC and default risk

$$UX_{it}/P_{it} = \alpha_0 + \alpha_1 CAR_{it} + \alpha_2 CAR * DER_{it} + \alpha_3 CAR * DER * AUDITQ_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (3)$$

Independent Variables	Pooled Estimate (t-stat)	2012 Estimate (t-stat)	2013 Estimate (t-stat)	2014 Estimate (t-stat)	2015 Estimate (t-stat)	2016 Estimate (t-stat)	2017 Estimate (t-stat)
CAR	.022 (5.24)**	.021 (5.00)**	.021 (5.02)**	.022 (5.21)**	.021 (5.23)**	.022 (5.25)**	.022 (5.22)**
CAR*DER	.012 (7.76)**	.012 (7.81)**	.012 (7.73)**	.012 (7.74)**	.012 (7.73)**	.012 (7.77)**	.012 (7.76)**
CAR*DER*AUDITQ	-.008 (-6.39)**	-.008 (-6.33)**	-.008 (-6.42)**	-.008 (-6.40)**	-.008 (-6.44)**	-.008 (-6.43)**	-.008 (-6.44)**
CAR*BETA	.006 (2.99)**	.006 (2.92)**	.006 (2.95)**	.006 (2.97)**	.006 (2.91)**	.006 (2.98)*	.006 (2.95)**
CAR*GROWTH	-.013 (-5.47)**	-.013 (-5.49)**	-.013 (-5.46)**	-.014 (-5.89)**	-.014 (-5.87)**	-.013 (-5.52)**	-.013 (-5.54)**

CAR*EPERS	-.378	-.377	-.372	-.376	-.375	-.377	-.373
	(-6.29)**	(-6.27)**	(-6.19)**	(-6.26)**	(-6.24)**	(-6.27)**	(-6.21)**
CAR*SIZE	-17.510	-17.390	-18.970	-17.350	-17.360	-17.570	-17.450
	(-2.53)**	(-2.51)**	(-2.74)**	(-2.51)**	(-2.51)**	(-2.54)**	(-2.52)**
Constant	.006	.006	.006	.006	.006	.006	.006
	(17.27)**	(17.21)**	(17.33)**	(17.22)**	(17.24)**	(17.25)**	(17.27)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	included	included	Included
Adj.R ²	.189	.186	.190	.188	.186	.188	.189

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

The results for the other variables remain as in regression (2). This result supports hypothesis 2: the negative effects of default risk on the ERC decreases in magnitude as audit quality increases. That is, higher audit quality mitigates the effect of default risk on ERC.

The result is perhaps surprising as audit firms in India are subject to only limited scrutiny by regulators and the audit environment has very low litigation risk (Johl, Jubb and Houghton, 2007). Although Big 4 audit firms hold nearly 75% of the market, there are reservations as to their quality. For example, the World Bank (2002) has raised concerns on the audit quality of the Big 4 firms in Asian countries, including India, especially in the aftermath of the Asian financial crisis.

5.2.7. The mitigating effect of AC expertise on the relationship between default risk and ERC

Table 5.8 shows the results of the regressions with default risk AC expertise. The coefficient of the interaction between CAR, DER and ACEXPERT is significant and negative and thus the interaction of DER and ACEXPERT has a significant positive relationship with ERC. This finding for AC expertise thus supports hypothesis 3: the negative effects of default risk on the ERC decrease in magnitude as AC expertise increases. This implies that default risk decreases in magnitude as AC expertise goes up. It supports the argument that the experience and expertise of the AC enables it to better monitor and issue timely warnings regarding debt obligations.

Table 5.8: Results of the mitigating effect of AC expert on the relationship between ERC and default risk

$$UX_{it}/P_{it} = \alpha_0 + \alpha_1 CAR_{it} + \alpha_2 CAR * DER_{it} + \alpha_3 CAR * DER * AC EXPERT_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (4)$$

Independent Variables	Pooled	2012	2013	2014	2015	2016	2017
	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)
CAR	.025 (5.74)**	.024 (5.51)**	.024 (5.53)**	.025 (5.73)**	.026 (5.96)**	.024 (5.47)**	.025 (5.78)*
CAR*DER	.010 (6.34)**	.010 (6.31)**	.010 (6.29)**	.010 (6.32)**	.010 (6.33)**	.010 (6.34)**	.010 (6.32)**
CAR*DER*AC EXPERT	-.002 (-3.36)**	-.002 (-3.34)**	-.002 (-3.28)**	-.001 (-3.19)**	-.001 (-3.16)**	-.001 (-3.14)**	-.002 (-3.31)**
CAR*BETA	.006 (2.92)**	.006 (2.97)**	.007 (3.09)**	.006 (2.98)**	.007 (3.08)**	.006 (2.98)**	.006 (2.95)**
CAR*GROWTH	-.013	-.013	-.013	-.013	-.014	-.013	-.012

	(-5.45)**	(-5.39)**	(-5.41)**	(-5.38)**	(-5.87)**	(-5.39)**	(-5.03)**
CAR*EPERS	-.443	-.445	-.439	-.441	-.448	-.431	-.436
	(-7.37)**	(-7.40)**	(-7.30)**	(-7.34)**	(-7.45)**	(-7.17)**	(-7.23)**
CAR*SIZE	-19.030	-19.210	-19.330	-18.010	-19.420	-17.950	-17.910
	(-2.72)**	(-2.74)**	(-2.76)**	(-2.57)**	(-2.77)**	(-2.57)**	(-2.56)**
Constant	.005	.005	.005	.005	.005	.005	.005
	(16.37)**	(16.38)**	(16.41)**	(16.43)**	(16.44)**	(16.41)**	(16.42)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	included	included	included
Adj.R ²	.176	.177	.176	.173	.178	.171	.173

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

5.2.8. The mitigating effect of AC independence on the relationship between default risk and ERC

Table 5.9 shows the results of regressions with default risk and AC independence. The coefficient on the interaction between CAR, DER and ACINED is significant and negative and thus the interaction of DER and ACINED has a significant positive relationship with ERC. The results are thus similar to those obtained for the regression with audit quality and AC expertise. That is, the results support hypothesis 4: the negative effects of default risk on ERC decrease in magnitude as AC independence increases.

Table 5.9: Results of the mitigating effect of AC independence on the relationship between ERC and default risk

$$UX_{it}/P_{it} = \alpha_0 + \alpha_1 CAR_{it} + \alpha_2 CAR * DER_{it} + \alpha_3 CAR * DER * ACINED_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (5)$$

Independent Variables	Pooled	2012	2013	2014	2015	2016	2017
	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)
CAR	.022 (5.33)**	.021 (5.08)**	.022 (5.36)**	.021 (5.10)**	.022 (5.41)**	.022 (5.38)**	.021 (5.12)**
CAR*DER	.012 (7.72)**	.012 (7.68)**	.012 (6.74)**	.012 (7.63)**	.012 (7.79)**	.012 (7.71)**	.012 (7.75)**
CAR*DER*ACINED	-.012 (-8.96)**	-.012 (-8.88)**	-.013 (-9.64)**	-.012 (-8.93)**	-.014 (-10.39)**	-.014 (-10.22)**	-.012 (-8.89)**
CAR*BETA	.005 (2.48)**	.005 (2.53)**	.005 (2.43)**	.005 (2.51)**	.005 (2.53)**	.005 (2.51)**	.005 (2.48)**
CAR*GROWTH	-.012 (-4.97)**	-.012 (-4.91)**	-.013 (-5.38)**	-.014 (-5.79)**	-.013 (-5.40)**	-.014 (-5.81)**	-.012 (-4.93)**

CAR*EPERS	-.410	-.407	-.421	-.406	-.418	-.406	-.412
	(-7.05)**	(-6.99)**	(-8.04)**	(-6.98)**	(-7.18)**	(-6.99)**	(-7.08)**
CAR*SIZE	-14.240	-14.520	-13.640	-14.120	-14.360	-14.210	-14.260
	(-2.07)*	(-2.11)*	(-1.98)*	(-2.05)*	(-2.08)*	(-2.07)*	(-2.07)*
Constant	.006	.006	.006	.006	.006	.006	.006
	(17.59)**	(17.55)**	(17.52)**	(17.49)**	(17.55)**	(17.49)**	(17.42)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	included	included	included
Adj.R ²	.193	.194	.192	.191	.195	.194	.193

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

5.2.9. The mitigating effect of board independence on the relationship between default risk and ERC

Table 5.10 shows the results of regressions with default risk and board independence. The coefficient on the interaction between CAR, DER and BODINED is significant and negative and thus the interaction of DER and BODINED has a significant positive relationship with ERC. This finding for board independence supports hypothesis 5: the negative effects of default risk on the ERC decrease in magnitude as board independence increases. This finding is consistent with Bhojraj and Sengupta (2003). The result implies that with greater independence among board members, the board is better able to monitor the higher risk of default arising from increasing debt obligations.

Table 5.10: Results of the mitigating effect of board independence on the relationship between ERC and default risk

$$UX_{it}/P_{it} = \alpha_0 + \alpha_1 CAR_{it} + \alpha_2 CAR * DER_{it} + \alpha_3 CAR * DER * BODINED_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (6)$$

Independent Variables	Pooled	2012	2013	2014	2015	2016	2017
	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)
CAR	.026 (6.02)**	.027 (6.25)**	.026 (6.04)**	.028 (6.48)**	.027 (6.25)**	.028 (6.48)**	.027 (6.25)**
CAR*DER	.010 (6.27)**	.010 (6.24)**	.010 (6.20)**	.010 (6.19)**	.010 (6.17)**	.010 (6.19)**	.010 (6.22)**
CAR*DER*BODINED	-.004 (-3.88)**	-.004 (-3.79)**	-.003 (-2.91)**	-.004 (-3.72)**	-.003 (-3.03)**	-.004 (-3.83)**	-.004 (-3.70)**
CAR*BETA	.006 (2.95)**	.006 (2.90)**	.006 (2.97)**	.006 (3.00)**	.006 (2.94)**	.006 (3.01)**	.006 (3.96)**
CAR*GROWTH	-.015 (-6.01)**	-.014 (-5.61)**	-.013 (-5.21)**	-.015 (-6.05)**	-.013 (-5.26)**	-.014 (-5.66)**	-.015 (-6.08)**
CAR*EPERS	-.415	-.413	-.412	-.416	-.410	-.419	-.414

	(-6.89)**	(-6.86)**	(-6.84)**	(-6.91)**	(-6.80)**	(-6.96)**	(-6.87)**
CAR*SIZE	-17.730	-17.820	-17.870	-17.780	-17.970	-17.880	-17.510
	(-2.54)**	(-2.56)**	(-2.57)**	(-2.55)**	(-2.57)**	(-2.56)**	(-2.51)**
Constant	.005	.005	.005	.005	.005	.005	.005
	(16.79)**	(16.75)**	(16.76)**	(16.81)**	(16.79)**	(16.71)**	(16.68)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	included	included	included
Adj.R ²	.177	.178	.177	.180	.178	.180	.176

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

5.2.10. The mitigating effect of board shareholding on the relationship between default risk and ERC

Table 5.11 shows the results of regressions with default risk and board shareholding. The coefficient on the interaction between CAR, DER and BODSHARE is significant and negative and thus the interaction of DER with BODSHARE has a positive relationship with ERC. This finding supports hypothesis 6: the negative effects of default risk on ERC decrease in magnitude as board shareholding increases. This result implies that increases board ownership increases the quality of monitoring of debt obligations. A possible explanation for this finding could be a high ownership concentration. Large shareholders who exercise control rights would be particularly concerned to protect their interests in the firm from being at risk due to excessive debt obligations.

Table 5.11: Results of the mitigating effect of board shareholding on the relationship between ERC and default risk

$$UX_{it}/P_{it} = \alpha_0 + \alpha_1 CAR_{it} + \alpha_2 CAR * DER_{it} + \alpha_3 CAR * DER * BODSHARE_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (7)$$

Independent Variables	Pooled	2012	2013	2014	2015	2016	2017
	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)	Estimate (t-stat)
CAR	.021 (4.87)**	.022 (5.10)**	.021 (4.88)**	.022 (5.09)**	.022 (5.12)**	.021 (4.85)**	.021 (4.88)**
CAR*DER	.012 (7.59)**	.012 (7.49)**	.012 (7.53)**	.012 (7.51)**	.012 (7.49)**	.012 (7.53)**	.012 (7.52)**
CAR*DER*BODSHARE	-9.167E (-3.33)**	-9.138E (-3.32)**	-9.163E (-3.33)**	-9.189E (-3.34)**	-9.171E (-3.33)**	-9.141E (-3.32)**	-9.144E (-3.32)
CAR*BETA	.007 (3.30)**	.007 (3.22)**	.007 (3.40)**	.007 (3.415)**	.007 (3.39)**	.007 (3.37)**	.007 (3.39)**
CAR*GROWTH	-.012	-.012	-.013	-.013	-.013	-.013	-.012

	(-4.83)**	(-4.89)**	(-5.23)**	(-5.29)**	(-5.21)**	(-5.26)**	(-4.87)**
CAR*EPERS	-462	-460	-456	-466	-445	-474	-459
	(-7.49)**	(-7.45)**	(-7.39)**	(-7.55)**	(-7.23)**	(-7.68)**	(-7.44)**
CAR*SIZE	-15.610	-15.320	-15.140	-15.120	-15.580	-16.060	-15.510
	(-2.22)*	(-2.17)*	(-2.15)*	(2-15)*	(-2.21)*	(-2.28)*	(-2.20)*
Constant	.006	.006	.006	.006	.006	.006	.006
	(17.00)**	(17.02)**	(17.09)**	(17.06)**	(17.07)**	(17.08)**	(17.03)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	included	included	included
Adj.R ²	.183	.181	.179	.185	.185	.184	.182

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

5.3. Robustness of Results

A number of tests were carried out to ensure that the results obtained were robust. This involved tests on the statistical assumptions, multicollinearity, heteroscedasticity, and also sensitivity analyses.

5.3.1. Statistical assumptions

The assumptions of normality, linearity, and independence of residuals were checked by inspecting respective histograms and normal probability plots (P-P) of the standardised residuals of each regression. The histogram of standardised residuals of each regression appeared to be normally distributed. The normal P-Ps for all the regressions indicate that the points lie in reasonably straight diagonal lines, suggesting no major deviations from normality.

5.3.2. Multicollinearity

Problems arise in the estimation of the regression coefficients if the independent variables are highly correlated. Such multicollinearity often results in inflated standard errors of the fitted coefficients. As noted earlier, the correlation table (Table 5.4) shows that there are significant correlations between pairs of some of the individual independent variables. Although all the coefficients are less than 0.7, thus suggesting the absence of serious multicollinearity, nevertheless a check for multicollinearity was conducted by checking the variance inflation factor (VIF) for each variable entering the regressions. The VIF measures the degree to which each variable is explained by other explanatory variables (Chau and Gray, 2002; and Owusu- Ansah, 1998). Table 5.12 shows the values of the VIF of each of the variables in the regressions. The results, as reported in Table 5.12, indicate that the VIF values are all below 10, with a maximum value of 4.77. This suggests that the multicollinearity among the explanatory variables is unlikely to have had an impact on the estimation results for the regression equations.

Table 5.12: Multicollinearity tests

Variable	Regr (1) VIF	Regr (2) VIF	Regr (3) VIF	Regr (4) VIF	Regr (5) VIF	Regr (6) VIF	Regr (7) VIF
CAR	4.31	4.30	4.62	4.49	4.73	4.69	4.77
CAR*DER	3.83	3.91	3.87	3.93	4.08	3.81	3.81
CAR*DER*AUDITQ			1.46				
CAR*DER*ACEXPERT				2.10			
CAR*DER*ACINED					1.69		
CAR*DER*BODINED						3.83	
CAR*DER*BODSHARE							1.33
CAR*BETA	2.82	3.16	3.12	3.17	3.13	3.14	3.05
CAR*GROWTH	3.13	3.26	3.41	3.40	3.40	3.54	3.32
CAR*EPERS	2.81	2.16	2.59	2.25	2.23	2.45	2.24
CAR*SIZE	3.53	3.51	3.51	3.53	3.58	3.63	3.70

5.3.3. Heteroscedasticity test

Heteroscedasticity exists if the residuals of a regression model are unequal (Kennedy, 2006). In order to test for heteroscedasticity, the Breusch-Pagan test was performed (Baum, Schaffer and Stillman, 2003). Table 5.13 shows the results of the Breusch-Pagan test for all seven regressions. All of the regressions show small values of chi-square (between 0.12 to 0.14) indicating the absence of serious heteroscedasticity⁹.

Table 5.13: Heteroscedasticity (Breusch Pagan) test and Serial Correlation (Durbin Watson)

	Breusch Pagan Chi-square	Durbin Watson DW
Regression 1	0.11	2.031
Regression 2	.011	2.024
Regression 3	.013	2.016
Regression 4	.014	2.020
Regression 5	.014	1.999
Regression 6	.013	2.019
Regression 7	.012	2.014

⁹ The results for VIF, Breusch-Pagan test, and Durbin-Watson test are based on pooled data. However, similar results were obtained for the year by year regressions.

5.3.4. Auto correlation

The Durbin-Watson test was used to detect the presence of auto-correlation in the residuals from all seven regression analyses. Table 5.13 shows that the Durbin-Watson (DW) auto-correlation coefficients were between 1.999 and 2.031 and thus at an acceptable level (Koksal and Kettaneh, 2011). Similarly, the DW statistics for each of the regression shows there is no serious auto-correlation problem.

5.3.5. Sensitivity Analysis

5.3.5.1. Alternative measures for default risk

Two alternative measures of default risk were used to re-estimate equation (2). The first one, following Gilson (1990) and Christie and Zimmerman (1994), was to use the change in financial leverage (FINLEV). It was measured as the ranked deciles of the change in the ratio of total long-term debt to total assets from the previous year to the current year. The value ranges from deciles 1 to 10 (from the lowest to the highest ranking).

Table 5.14 shows the results of the estimation of equation (2) using FINLEV as the measure of default risk. The overall results are the same as in Table 5.6 which uses DER as the measure of default risk. However, the level of significance for FINLEV is lower than that for DER and the adjusted R^2 is slightly lower.

TABLE 5.14: Results of the ERC determinants with alternative default risk measures (change in financial leverage)

$$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*FINLEV_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it}$$

Independent Variables	Pooled Estimate (t-stat)	2012 Estimate (t-stat)	2013 Estimate (t-stat)	2014 Estimate (t-stat)	2015 Estimate (t-stat)	2016 Estimate (t-stat)	2017 Estimate (t-stat)
CAR	.031 (7.57)**	.030 (7.33)**	.031 (7.52)**	.031 (7.49)**	.030 (7.32)**	.031 (7.53)**	.031 (7.50)**
CAR*FINLEV	.015 (2.87)**	.015 (2.84)**	.015 (2.82)**	.015 (2.79)**	.015 (2.77)**	.015 (2.74)**	.015 (2.84)**
CAR*BETA	.007 (3.18)**	.007 (3.12)**	.007 (3.15)**	.007 (3.17)**	.007 (3.14)**	.007 (3.13)**	.007 (3.16)**
CAR*GROWTH	-.009 (-3.74)**	-.009 (-3.67)**	-.010 (-4.15)**	-.009 (-3.72)**	-.010 (-4.18)**	-.010 (-4.12)**	-.010 (-4.17)**
CAR*EPERS	-.387 (-6.65)**	-.379 (-6.51)**	-.382 (-6.56)**	-.378 (-6.49)**	-.383 (-6.58)**	-.375 (-6.44)**	-.371 (-6.37)**
CAR*SIZE	-16.320 (-2.31)*	-16.210 (-2.29)*	-16.190 (-2.29)*	-16.320 (-2.31)*	-16.300 (-2.30)*	-16.220 (-2.30)*	-16.240 (-2.30)*

Constant	.006	.006	.006	.006	.006	.006	.006
	(15.26)**	(15.20)**	(15.21)**	(15.19)**	(15.25)**	(15.22)**	(15.21)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	Included	included	included
Adj.R ²	.154	.152	.155	.154	.153	.155	.155

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

The second measure uses Altman's (2002) revised Z score model used for bankruptcy prediction in emerging markets¹⁰. This model is used to measure the default risk of debt for the sample firms as in regression (2). The Z score values are assigned to a dummy as follows: 1: $Z > 2.6$ represents the "Safe" zone; 2: $1.1 < Z < 2.6$ represent the "Grey" zone or 3: $Z < 1.1$ which represents the "Distressed" zone.

Table 5.15 shows that the overall results are similar to the estimations with the other measures of default risk. All significant variables remain significant. However, the level of significance is higher than that for the FINLEV alternative. The results showed in Table 5.14 and 6.15, support hypothesis 1: Ceteris paribus, default risk has a significant negative relationship with ERC.

¹⁰ Altman (2002) developed a Z score bankruptcy prediction model for emerging markets which was based on the Altman Z Score model (1968). This modified version analyses the characteristics and accuracy of default probabilities without the variable sales/total assets. This minimises the potential industry effect that is likely to impact when an industry-sensitive variable such as asset turnover is included.

TABLE 5.15: Results of the ERC determinants with alternative default risk measures (Altman Z Score bankruptcy prediction)

$$UX_{it}/P_{it} = \alpha_0 + a_1CAR_{it} + a_2CAR*ZSCORE_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it}$$

Independent Variables	Pooled Estimate (t-stat)	2012 Estimate (t-stat)	2013 Estimate (t-stat)	2014 Estimate (t-stat)	2015 Estimate (t-stat)	2016 Estimate (t-stat)	2017 Estimate (t-stat)
CAR	.027	.026	.025	.026	.026	.026	.025
	(6.51)**	(6.26)**	(6.02)**	(6.23)**	(6.21)**	(6.28)**	(6.05)**
CAR*ZSCORE	.013	.015	.013	.013	.013	.015	.013
	(4.98)**	(5.74)**	(4.96)**	(4.97)**	(4.95)**	(5.77)**	(4.94)**
CAR*BETA	.007	.007	.007	.007	.007	.007	.007
	(3.18)**	(3.21)**	(3.16)**	(3.14)**	(3.18)**	(3.21)**	(2.20)**
CAR*GROWTH	-.012	-.013	-.014	-.014	-.013	-.014	-.012

	(-4.67)**	(-5.06)**	(-5.48)**	(-5.46)**	(-5.08)**	(-5.51)**	(-4.69)**
CAR*EPERS	-430	-421	-447	-423	-441	-429	-431
	(-7.36)**	(-7.20)**	(-7.65)**	(-7.24)**	(-7.54)**	(-7.34)**	(7.37)*
CAR*SIZE	-17.710	-17.850	-17.680	-17.810	-17.630	-17.440	-17.570
	(-2.53)**	(-2.55)**	(-2.53)**	(-2.54)**	(-2.52)**	(-2.49)**	(-2.51)**
Constant	.006	.006	.006	.006	.006	.006	.006
	(16.08)**	(16.12)**	(16.10)**	(16.15)**	(16.08)**	(16.10)**	(16.11)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	Included	included	included
Adj.R ²	.163	.159	.166	.158	.167	.165	.163

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

5.3.5.2. Alternative measures of corporate governance

The mitigating impact of corporate governance on default risk was retested by using (i) alternative measures for AC independence and (ii) a corporate governance score based on all the individual corporate governance variables. Two alternative measures of AC independence were tested. The first measure was a dummy with a value of 1 whenever the proportion of independent non-executive directors in the AC was more than 50% (ACINED50). Table 5.16B shows the results of regressions with default risk and ACINED50. The overall results, as shown in Table 5.16A, are closely similar in almost all respects to the results obtained with ACINED. All significant variables remain significant. The second measure was a dummy assigned the value of 1 whenever the proportion of independent non-executive directors in the AC reaches 100% (ACINED100). The results in Table 5.16C show the results of regressions with default risk and ACINED 100. The overall results, as shown in Table 5.16C are closely similar to the results obtained with ACINED. The results for the alternative measures of AC independence thus support the result that AC independence has a mitigating effect on default risk.

Table 5.16: Results of the mitigating effect of AC independence on the relationship between ERC and default risk

Table 5.16A Table 5.16B Table 5.16C

Independent	Estimates	Estimates	Estimates
Variable	(t-stat)	(t-stat)	(t-stat)
CAR	0.022	0.021	0.022
	(5.33)**	(5.08)**	(5.42)**
CAR*DER	0.012	0.011	0.010
	(7.72)**	(7.07)**	(6.47)**
CAR*DER*ACINED	-0.012		
	(-8.96)**		
CAR*DER*ACINED50		-0.011	
		(-8.21)**	
CAR*DER*ACINED100			-0.009
			(-6.72)**
CAR*BETA	0.005	0.005	0.005
	(2.48)**	(2.47)**	(2.50)**
CAR*GROWTH	-0.012	-0.013	-0.013
	(-4.97)**	(5.38)**	(-5.41)**

CAR*EPERS	-0.410	-0.424	-0.413
	(-7.05)**	(-7.29)**	(-7.10)**
CAR*SIZE	-14.240	-14.190	-14.220
	(-2.07)*	(-2.07*)	(-2.06)*
Constant	0.006	0.006	0.006
	(17.59)**	(17.53)**	(7.07)**
Year fixed effect	included	included	Included
Adj. R ²	0.193	0.192	0.194

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

Principal component factor analysis was applied to the five individual measures of corporate governance — audit quality, AC expertise, AC independence, board independence and board shareholding to derive an overall factor score for the corporate governance variable. The five corporate governance measures were found to load on two factors with an eigenvalue greater than one. The first factor with an eigenvalue of 1.96 accounted for 31.74% of the variance of the individual measures. The second factor with an eigenvalue of 1.27 accounted for 21.53% of the variance of the individual measures. The first factor, with higher eigenvalue, was chosen to represent the corporate governance factor (CGfactor).

Table 5.17 shows the results of regressions with default risk and the CGfactor. The results obtained are overall similar to those obtained for the regressions with the individual corporate governance variables. The coefficient on CAR, DER and CG factor interaction is positive and significant to ERC. This outcome further supports the premise that corporate governance has a mitigating effect on the relationship between default risk and ERC.

Table 5.17: Results of the mitigating effect of corporate governance factor variable on the relationship between ERC and default risk

$$UX_{it}/P_{it} = \alpha_0 + a_1 CAR_{it} + a_2 CAR * DER_{it} + a_3 CAR * DER * CGfactor_{it} + f(\text{control variables}) + \text{year fixed effect} + \varepsilon_{it} \quad (11)$$

Independent Variables	Pooled Estimate (t-stat)	2012 Estimate (t-stat)	2013 Estimate (t-stat)	2014 Estimate (t-stat)	2015 Estimate (t-stat)	2016 Estimate (t-stat)	2017 Estimate (t-stat)
CAR	.020 (4.35)**	.020 (4.48)**	.021 (4.57)**	.020 (4.41)**	.021 (4.62)**	.020 (4.51)**	.020 (4.43)**
CAR*DER	.009 (5.67)**	.009 (5.64)**	.009 (5.72)**	.009 (5.65)**	.009 (5.74)**	.009 (5.69)**	.009 (5.72)**
CAR*DER*CGfactor	-.002 (-2.86)**	-.002 (-2.88)**	-.002 (-2.74)**	-.002 (-2.76)**	-.002 (-2.83)**	-.002 (-2.79)**	-.002 (-2.82)**
CAR*BETA	.007 (3.43)**	.007 (3.44)**	.007 (3.40)**	.007 (3.41)**	.007 (3.44)**	.007 (3.41)**	.007 (3.45)**

CAR*GROWTH	-.012	-.012	-.013	-.013	-.013	-.012	-.012
	(-4.67)**	(-4.65)**	(-5.07)**	(-5.10)**	(5.06)**	(-4.63)**	(-4.71)**
CAR*EPERS	-.443	-.461	-.451	-.448	-.454	-.449	-.455
	(-7.05)**	(-7.34)**	(-7.17)**	(-7.13)**	(-7.23)**	(-7.15)**	(-7.24)**
CAR*SIZE	-19.290	-18.970	-19.380	-19.760	-19.770	-19.680	-18.970
	(-2.56)**	(-2.52)**	(-2.58)**	(-2.62)**	(-2.62)**	(-2.61)**	(-2.52)**
Constant	.006	.006	.005	.005	.005	.005	.005
	(15.59)**	(15.61)**	(15.63)**	(15.67)**	(15.57)**	(15.62)**	(15.59)**
Observations	300	50	50	50	50	50	50
Year fixed effect	included	included	included	included	included	included	included
Adj.R ²	.186	.185	.188	.187	.187	.186	.186

Note: ** Significant at $p < 0.01$ (1-tailed) and * Significant at $p < 0.05$ (1-tailed).

5.4. Discussion and Conclusion

This study examines the effect of corporate governance on the effect of default risk on ERC while controlling for the established determinants of ERC — beta, growth, earnings persistence and size. As mentioned in previous chapter, Indian firms prefer bank loans as the main source of new financing. This may due to the supporting factors of stable BLR between 5.5 to 6.75 (2000- 2010); role of SEBI in mediating conflicts between companies and lenders;and the Indian Central Bank’s effective monitoring. However, this higher reliance on debt financing among Indian firms exposes them to greater default risk and thus, effective monitoring of the firm’s debt repayment obligations is important.

The results of the study confirm the expected significant negative relationship between beta and ERC and a significant positive relationship between each of earnings persistence, growth and size with ERC. These results are similar to those found in prior studies (Kormendi and Lipe, 1987; Collins and Kothari, 1989; Dhaliwal and Reynolds, 1994; Billings, 1999; Kim, 2005; and Shangguan, 2007).The results also provide evidence that default risk in emerging markets has a significant negative impact on ERC. Thus, the results support Hypothesis 1. These findings are consistent with those of previous studies in developed markets (see Dhaliwal et al. 1991; Dhaliwal and Reynolds, 1994; Shangguan, 2007) and emerging markets (see Kai, 2002; and Cheng and Nasir, 2010).

The results from this study show that corporate governance mechanism mitigates the negative effect of default risk on ERC; the effect on ERC decreases in magnitude with higher audit quality, the greater number of experts in AC, higher levels of AC independence, higher proportions of independent members in corporate boards, and board shareholding. In general, these findings are consistent with those of prior studies that recognise the influence of corporate governance on default risk (for example, Gilson 1990; Ashbaugh-Skaife et al., 2006; and Chan and Li, 2008). Consistent with Liu and Thomas (2000) the results from regressions (1) to (7) indicate a consistent pattern from pooled to year by year analyses. To test the robustness of the results, two alternative measures of default risk— change in financial leverage and Altman’s Z score were tested. Both measures show the same

results as when the debt to equity ratio is used to proxy default risk. Default risk has a negative effect on ERC.

Two additional measures of AC independence were also tested. The results in both cases remained the same as that for AC independence. A measure of corporate governance based on a factor analysis of the corporate governance variables was also tested. The result was the same as for the individual variables. The results indicate that corporate governance has a mitigating effect on the relationship between default risk and ERC. Appendix C summarises the findings of the regression analyses and shows a comparison between the findings of this study and those of prior studies. The findings support the expectations of the study in terms of (i) the effect of default risk on ERC after controlling for beta, growth, earnings persistence, and size; and (ii) the mitigating effect of corporate governance on the relationship between default risk and ERC.

CHAPTER – 6

FINDING AND SUGGESTIONS

6.0. INTRODUCTION

The aim of this study is to offer evidence from an emerging economy, India, on the influence of default risk on ERC and whether this effect is mitigated by the quality of corporate governance. The investigation of this subject controls for beta, growth, earnings persistence and size — factors that have been recognized in the empirical literature on developed economies as determining ERC. Beta was found to have a significant negative impact on ERC while growth, earnings persistence and size had a positive effect. The results of the test of hypotheses were as follows:

- Default risk was found to have a significant negative impact on ERC; hence supporting the finding for same made in developed nations that beta is a partial measure of risk relevant to ERC.
- The corporate governance systems were for each situation found to moderate the negative impact of default risk on ERC.

The findings of the pooled regressions were in all cases reliable with the results of the year by year regressions. The outcomes were robust to econometric tests and to the use of alternative measures of key variables. The results of the research were thus strong and consistent with the findings from similar researches based on developed countries. The research along these lines makes a significant contribution to the empirical literature on ERC.

6.1 Key Empirical Findings

The investigation definitively explored the legal and regulatory framework concerning corporate governance, examined the corporate governance mechanism and its key indicators, as well as empirically broke down its effects on performance and values of the firms. The investigation has been restricted to every one of the organizations that involve the NIFTY 50 Index for six financial years from 2012-2017. From the interpretations emerging out of our empirical analysis in, the corporate governance mechanism, when executed in the exact backbone, would affect

financial performance and values of the firms, independent of their size, proprietorship, location, category of the industry, economy, and so on. Based on the interpreted results and inferences of our research, we are making a few findings and recommendations for the concerned players and stakeholders of the topic in the underneath conversation.

6.1.1 The Legal Regulatory Framework Concerning Corporate Governance in Diverse Countries

A dominant part of the regulatory specialists, government-sponsored bodies and committees, business and investors' associations and other regulators of diverse countries have created and issued governance rehearse guidelines along with the standards, principles and codes in the type of 'minimum standards' or the 'best practice', from the post-1990s onwards. These have been commenced in the created and emerging countries in different structures tight clamp OECD principles, GM board guidelines and SEBI's voluntary guidelines of the corporate governance, SOX Act's provisions, and so forth. The 56 countries in the Common wealth, including the 27 states in the EU and the United Kingdom, have picked a code of principles and practices on a 'go along or explain' basis, in addition to certain governance issues that are legislated. A survey of the legal and regulatory framework concerning corporate governance in diverse countries uncovered that:

- For managing the corporate governance issues and mechanism, the greater part of the economies has framed either Security or Exchange Commission (SEC) or a federal regulatory agency or even federation or regulatory body called commission, board or committee.
- All those commissions and regulatory bodies have prescribed having a minimum number of committees to be formulated in recorded and or enrolled firms.
- The detailed guidelines for the accounting and auditing of the business of the firms have been proposed and framed under codes and principles on corporate governance.
- The recommendations for the board of directors and other matters concerning various categories of the directors on the board have been given by each regulatory and governing assemblage of diverse countries.

- The rights, relationship and responsibilities of the shareholders have been featured in the vast majority of the codes and principles of the corporate governance of the diverse economies of the globe.
- Fair remuneration and responsibilities of the executive individuals from the board as well as the leading management persons of the firms have been correctly depicted by the vast majority of the codes and principles of the corporate governance by diverse economies.
- The parts and responsibilities of the board of directors have been very much defined by each diverse nation's codes and principles of firms' corporate governance.
- Transparency in Financial Reporting and Disclosure of the corporate information has been made mandatory by each economy of the globe under the embraced corporate governance mechanism.
- The principles and guidelines on the relationships and interests of outside and related gatherings are all around depicted in a large portion of the codes of firms' corporate governance mechanism of each economy.
- This way, the corporate governance regulations of the business presence and operation remains for the most part novel in multi economies of the globe.

6.1.2 The Legal Regulatory Framework Concerning Corporate Governance in India

During the period of post-independence from 1947 till the economic changes in the 1990s, the Indian Corporate Sectors have immersed as a mix of Government and Private Firms (Family Business Groups, Individual Companies and Multinationals) as well as PPPs, and had upheld an expert and control approach to the advancements. Post Liberalization in the 1990s has fundamentally speculated the Indian Economy and opened up its entryways for the world economy to associate and contribute to each other. This has progressively loosened up the government's complex standards and controls over licensing, advertising sections and pricing of the items waging to the works, and so forth. This has generated unobtrusive motivations for the Private Firms' Managers and executives to willingly take up the great governance mechanism in their firms. An audit of the legal and regulatory framework concerning corporate governance in India uncovered that:

- Most of the recommendations, guidelines, principles and regulations related to the corporate governance in India are adjusted to those of the other worldwide economies.
- Starting from Companies Act properly shaped in 1956 to the formation of SEBI in 1992 and till Company Bill 2012, each regulation involves the detailed guidelines related to different concerns of corporate governance of Indian firms.
- The corporate governance framework is overall a half breed of the outsider and the insider frameworks to be based on various models of corporate governance.
- The government regulations of the business section, exit and operations remain complex up to a certain degree because of the influence of various theories of the corporate governance won traditionally.
- The Indian legislation and regulatory framework give one of the most elevated amounts of investors' protection with a high divulgence and transparency in reporting.
- In terms of investors' protection and loan bosses' rights, the Indian Corporate governance framework gives huge protection to the capital lenders.
- The quality of the open requirement of securities laws in India seems easy. It creates the impression that accepted the protection of investors' rights in India triumph beyond the protection in some other piece of the world economies.
- The leading committees led by senior business progenitors in India have been instrumental in bringing about far-reaching changes in corporate governance through their detailed investigations and recommendations followed by the formulation of Clause 49 of Listing Agreements and its overhauled version.
- India's corporate governance changes have mainly centred on internal mechanisms and compare positively with whatever is left of the world.

6.1.3 Effects of Corporate Governance on Firms Performance and Values in India

Both Multivariate and pooled regression analyses have been carried out to examine the corporate governance and firm performance relationship between the aggregate independently recorded organizations of NIFTY 50 Index. The research utilizes a board regression model which involves the pooling of observations on a cross-section of units over chose eras of the financial year 2012 to 2017 and gives

results that are just not noticeable in unadulterated cross-sections or unadulterated time-arrangement thinks about. The board regression equation contrasts from a customary time-arrangement or cross-section regression by the two fold subscript attached to every variable. The real findings were as:

- Majority of the Corporate Governance Indicators have a noteworthy positive impact on the firms' performance and values except the indicator of Board Size and control variable of Debts in the case of every one of the three subsets of the chose firms.
- The regression analysis of all ward/performance variables and independent variables of Directors Share and number of Outside Directors on the board deliver essentially positive results individually and along with entering the control variables too under every one of the three subsets of the firms.
- The regression analysis of all ward/performance variables and independent variable of Ownership Concentration likewise deliver positive yet not huge results individually and along with entering the control variables too under each of the three subsets of the firms.
- Board Size as independent variable influence negatively on all performance variables in both the models of individual and along with entering control variables.
- The progress corporate governance indicators of CEO status as a duality with Chairman and Foreign CEO operating the firms have essentially positively influenced on the entirety of firms' performance and values variables under each of the three subsets of the firms.
- Firm Size and the Age of the Firm as control variables create mix impact on the firms' performance variable with a negative impact on P.E. Ratio and TobinsQ and positive on ROA and RONW of the chose benefit area firms.
- However, the Firm Size as control variable impacts negatively on all performance and value variables except RONW of the manufacturing segment firms. In the case of Age of the Firms under this area, it creates again mix impact with negative on P.E. Ratio and Tobins Q and positive however not critical on the other two performance variables of ROA and ROMW.
- While combining every single chosen firm together, the impact of firm size and age of the firm as control variables create comparative impact to those of

manufacturing segment on its performance and value variables. This may be because of a larger portion of all firms fall under the manufacturing segment.

- T-Test analysis demonstrates huge contrasts in the derived values of TobinsQ between Service Sector Firms, Manufacturing Sector Firms and All Firms Together.
- The P-Value of F Test in case of all regression models for all performance/reliance variables demonstrates less than 0.05 that demonstrates that these regression models are critical in nature.
- Simultaneously, the Adjusted R Square statistics for all models explain a noteworthy level of percentages of correlations between entered variables in the regression analysis for all subsets of firms as well.

At last, in the coefficient table of regression analysis, there is no presence of multi-collinearity since Variable Inflation Factor (VIF) value for every single independent variable is discovered less than 10 and the tolerance value is found as more than 0.1.

6.2 Recommendations

6.2.1 Recommendations for Indian Companies

- a) On the basis of these conclusions, we have attempted to make a couple of recommendations for leading Indian organizations – those which are now recorded and those which are intending to get recorded on the Stock Exchanges. These recommendations are more significant for a portion of the well-performing and fast-growing firms in numerous parts for whom another platform has been created by BSE and NSE for raising value from the market. With an increasing number of promoter oversight organizations and transforming from SMEs to constrained organizations turning to the value advertise for raising low cost subsidizes it is imperative for them to be prepared for greater transparency and responsibility, board independence and responsibility towards minority shareholders and numerous other compliances toward the governance of their firms publicly in the wake of opening their wings for people, in general, to invest into them. The implications of these measures of good governance on firm performance and values in these organizations must be weighed against the larger advantages of raising assets from open.

- b) Our research has brought into the spotlight the high and positive relationship between the key corporate governance indicators drilled by the leading Indian firms and their financial performance. Among the mandatory parameters of corporate governance, it is seen that number of observed corporate governance indicators has impacted P.E. Ratio, ROA, RONW and Tobin's Q. Among the control variables of Debt, Firm Size, and Age has displayed a mixed impact on these four noteworthy financial variables.
- c) This significantly emphasizes the debate that organizations that have made generous investments and given the need for improving their governance rehearses have been compensated by higher valuations as well as financial performance. Firms falling in the S&P NIFTY-50 Index, as well as those competing to be a piece of this index, could, therefore, be informed of the long-term advantages of moving in that direction. It is prescribed to these firms that they should continue focusing overall formative initiations aiming towards maximizing the firm values and financial performance through the adoption and compliance of corporate governance in the exact and minimum required way.
- d) Despite the fact that promoters and their relatives in these organizations generally exercise control overall strategic and arrangement related issues, it is vital to welcome the part of workers, especially senior management in the growth and profitability of firms. These will inevitably unfurl far-reaching implications on their financial performance and growth in the long-kept running by increasing the ownership concentration.
- e) We, therefore, suggest that firms having less involved management and for the most part controlled and overseen by the saved gathering of individuals should open up their concentration of the ownership for the best administrative personnel of their firms. These organizations may likewise think about appropriate actions intended at greater value creation for every one of their stakeholders, particularly their workers and senior management as this would raise greater confidence of their own representatives and clients and increase investors' trust so essential to prolong in the capital market and sustain falling in the leading index of the firms in the nation. These organizations would likewise need to tender a bigger part to their independent directors and reward them with performance-related compensations since these would, in the long

run, result in higher returns and better valuations in the market. In this respect, the outside directors and their proportion on the board ought to be perceived with the appropriate rewarding system to be received and making them more involved and concentrated on the practising and safeguarding for the good governance of the firms.

- f) In the post LPG era, an ever-increasing number of Indian firms are expanding their worldwide operations and the assorted categories of the industries and divisions are not far behind to change themselves as worldwide firms. This process has decreased the limit hindrances between two economies and introduced the worldwide advances, talented labour sharing and the flow of capitals from the foreign commercial centre. This has created more difficulties and complexities in the managing, organizing, and governing the business operations of complex corporations in this day and age. Therefore, it is huger notwithstanding for administrators and directors to utilize and apply the modern strategies and discard the traditional systems of applying their attitudes towards complying for corporate governance.

6.2.2 Recommendations for Legislative and Regulatory Authorities

- a) While accumulating and scrutinizing the corporate governance reports and data on its indicators of leading Indian organizations, it was seen that the system of reporting corporate governance initiatives has yet to be made exact and received much easily since 2009 since several corrections were made in SEBI Clause 49 and Voluntary Guidelines of 2009. The proto sort reporting system of the barest minimum has not changed for a large majority of Indian firms falling into the mandatory categories to consent to the corporate governance reporting.
- b) Albeit a considerable lot of the chose organizations to share all their compliance measures with their minority shareholders, a large majority are utilized to report only that which is mandatory. A portion of the measures of corporate governance should be accounted for only to the board of the Audit Committee. Consequently, all such measures are not included in the corporate governance reports of these firms. Minority shareholders are therefore not completely aware of organizations' compliance with even the mandatory

provisions. These information holes had represented a few constraints for our investigation as well.

- c) Compliance to Clause 49 was influenced mandatory since 2006 and the same to have been revised in 2009 along with the release of voluntary guidelines on corporate governance. The reference period for our investigation was 2012-17. It is a bit time currently to propose the approach level recommendations for the compliance-related issues concerning the Indian organizations. This ought to include a few stages toward recognizing the corporate governance compliance in the type of monetary as well non-monetary motivational system to be offered to those firms who consent to all governance mechanism consistently since last 5 to at least 10 financial years. These firms might be given a few relaxations from the compliance-related reporting part for 2 to 3 years in-between to make them more occupied and Independent towards strengthening the corporate governance structure of their firms.
- d) The firms complying regularly and consistently for some duration and going for IPO or secondary market capital rising may be given some rest from fulfilling the additional reporting standards around then and making them in a taxation help category for certain financial years. This would encourage and occupy many more Indian firms toward fulfilling and complying with corporate governance standards and parameters.
- e) The regulatory authorities like MCA, SEBI, and NFCG could contemplate to initiate and sponsor much such kind of research studies on corporate governance practices and financial performance, with larger sample size. Such studies could be undertaken categorically for a larger sample size possibly for various sections of industries and for various sizes of the firms influencing great governance on financial performance. This kind of Studies, seminars, conferences at national and international level could also bring out the measured suggestive and researched information and literature towards changes to be made over the years by the recorded firms, which could help in assessing the effectiveness of the existing regulations in the capital market.

6.2.3 Significance of setting a better Monitoring Mechanism

- a) Since the Indian capital market has been expanded and attained maturity regulations, corporate governance will undoubtedly increase in keeping with global standards. This should be monitored by a stronger and more flattened

assortment of corporate governance mechanism. This monitoring mechanism needs to centre on a more sophisticated process of auditing the implementation process followed by the reconciliation of the consented governance regime by the Indian firms. Monitoring has to be done both internally and externally by the Stock Exchanges and/or any other indispensable assortment of corporate governance mechanism. Discrepancies in the compliance of corporate governance mechanism have to be conveyed to this body. With the pointlessness of regulations and compliances to be satisfied by the recorded companies and no legitimate monitoring and reconciliation systems even the bigger sized firms have not possessed the capacity to completely agree to those which are really necessary.

- b) With the enactment of the Companies Amendment Bill, 2012 the weight of compliance with another spate of regulations have covered many companies under various categories tight clamp insurance, banking, power generation and distribution, and so forth. Beyond the fundamental guidelines and clauses, various other changes were proposed in this Act in addition to those that have been discussed under the Company Bill 2008. This would increase the compliance weight of the firms falling in the compliance regime. Inline to this incremental force of the compliance, there must be the monitoring mechanism to be reinforced in a stronger way to enable to required implementation and reconciliation of the compliance regime.

6.2.4 Role of Apex Bodies and Industry-particular Associations

- a) These apex bodies and industry associations those are formed for reinforcement and advantages of the part. Companies have all things considered concentrated on issues concerning larger sized public restricted companies till now. These substances could play an advisory and facilitating part while assisting their individuals, particularly the SMEs and private companies entering the capital market. While it is possible for the larger sized recorded companies to appoint consultants and legal advisors, notwithstanding for raising assets from foreign institutional investors and foreign direct investors, the same may not be possible for SMEs and Private companies. Distinctive Governances starting from awareness and training program for corporate governance regulations and mechanism till the financial and

legislative advisory Governances could be given individually to companies as the constraints of each may be diverse depending upon its size and ownership patterns till that point of time.

- b) The scattered and unorganized form of these firms as individuals from those bodies and associations should be bolstered for availing the advantages of the enhanced governance practices and to go into the open capital and other assets market for transforming themselves into large firms. A decent corporate governance culture could, therefore, advance leading to the strengthening of the whole financial area. These bodies and associations may initiate to get their individuals consented to the corporate governance mechanism altogether and together for all individuals. They may also initiate to organize the conferences and seminars for industry-academia affiliation to help their individuals getting guidance and directions to agree to the corporate governance regime however the leading academicians and educators as well.

CHAPTER – 7

LIMITATIONS AND FUTURE SCOPE

7.0. Introduction

This chapter outlines the limitations and future scope of this study after comprehensive discussion on this in previous chapters.

7.1 Limitation

7.1.1 The investigation is liable to various limitations. In the first place, the outcomes identify with just a single developing economy, India, and though the results are consistent with the findings from study on developed economies it does not offer a sound ground for generalizing. This limitation is accentuated by the comparatively short time period from which the sample for the study was taken.

7.1.2 Second, the operational theories employed as a measure for the pure constructs, the variables of interest in the study, may in reality have a feeble correspondence with the study variables. This applies particularly to constructs such as audit quality for which the adequacy of operational concepts such as audit firm size must be uncertain.

7.1.3 Thirdly there must be worry over the veracity of the information on of the factors, particularly corporate governance factors, for instance, board and audit committee independence. The measures for these factors were acquired from yearly reports yet how a director is portrayed in the reports as independent may not reflect true independence as there may truly be a close relationship with management based on social or family ties.

7.1.4 Fourth, the outcomes may encounter the evil impacts of neglected variable issue or omitted variable problem. Not with standing the way that the econometric test for this issue gives comfort the issue may by and by, exist. Notwithstanding the corporate governance mechanisms included into the research, other factors, for example, government and/or institutional proprietorship, political connections, and against takeover strategies may likewise be profoundly pertinent.

7.1.5 Finally, the results so attained may suffer from the presumption that the inverse of the function relating $\{X_I\}$ to ERC is linear. In reality, the inverse function may depart significantly from linearity.

7.2 Theoretical Contribution of Research

7.2.1 The research contributes to the literature through its experimental discoveries that feature the part the major corporate governance indicators play on corporate performance, in an emerging economy, for example, India. The investigation additionally finds that different economies of the globe correctly recognized their codes and standards of the corporate governance which all around cataract on the comparable governances of the governance of their corporate. The requirement and impact of these codes and standards on corporate governance, business practices and authorization standards are additionally contributed to this discussion. The governance analysts would have a chance to appreciate the applicability and limitations of the current governance structure. It additionally bears understanding to strategy creators intrigued by enhancing corporate governance standards in the context of the exceptional institutional, legitimate and regulatory setting.

7.2.2 It is apparent that the Indian regulatory bodies have transformed the corporate governance and mechanism since the last multi-decade which lay emphasis on the significance of the believability and respectability of recorded organizations, the responsibilities of directors and governance, the protection of minority shareholders, and extensive exposures. This reformation likewise covers the voluntary initiations to be taken by these corporate to gratify the enthusiasm of numerous other stakeholders. Conversely, there are real spaces and drifts in the execution of governance. The governance environment can be attributed to powerless implementation mechanisms. As pointed out before the improvement of a corporate governance framework without anyone else would not convey each change objective until and unless related changes are not brought about at the macro-and micro-levels as far as the monitoring mechanism of the same is concerned.

7.2.3 The exact confirmation is likewise contributed through a detailed survey of literature on the corporate governance indicators impacting on firms' performance and values followed with similar results of formal research analysis of the data gathered in this research as well. The result of this research is consistent with numerous other creators' discoveries and the results of their research investigating the performance of firms affiliated to groups of organizations from a few emerging nations. Aside from this general finding, the investigation gives experimental confirmation on core performance measures to be affected by major corporate governance indicators. The analysis demonstrates the nearness of critical directors' shareholding effect inside chosen firms with higher performance. In this manner, the research likewise encounters a noteworthy decrease in performance because of the increase in the size of the board of these firms. The research sees that firms that have large amounts of proprietorship concentration, as well as an increasing number of outside directors on the board are described by better performed Indian firms.

7.2.4 Further, the investigation advances inconclusive effect of debts component as well as the size and age of the firms as control variables on corporate performance and values. It is therefore imperative to enhance the effectiveness of leverage of the firms in the capital structure to strengthen their acquiring power. Secondly, with respect to the board size, the investigation prescribes littler boards to create more positive impacts on firm performance and value. Rather than having countless individuals, it is proposed to get a couple with the required expertise and learning to effectively run the organization. At last, the research toss in the indication having the sectorial sham of assembling division as more authoritative on the performance and value creation in contrast to that of the Governance area.

7.3 Future Prospect

The important suggestions identify with the extension of the present research, as follows:

7.3.1 Similar extensive research should be done for other emerging economies.

7.3.2 Where conceivable the research on different countries should cover a more longer time frame and a bigger number of firms;

7.3.3 Future researchers should consider a more wide-ranging scope of measures for the key variables to give extra comfort to the quality and robustness of the outcomes obtained.

In spite of the limitations of the investigation as enrolled in the above chapter, the research is applicable and convenient given the expanding significance of corporate governance over the globe as a rule and India in particular. The discoveries give specialists, understudies, academicians, corporate, and others with numerous significant understanding of contrasts in the governance practices and performance of the Indian firms. Indicated with certain contradictory results realistic in the present research and positive prior investigations utilizing Indian firms' data, it is apparent that there are numerous issues identifying with the relationship among corporate governance and firm performance, which remain yet to be understood. Future research may further investigate into other governance-particular variables (for instance, board advisory groups, remuneration designs, board ability, and so on.) and their relationship with the firm performance.

The updated clause 49 of the posting understanding involves numerous wilful rules of corporate governance, and beyond consistency, and numerous more under the corporate governance standards. Therefore, contemplating the effects of deliberate rules and beyond consistency standards of corporate governance on firms' performance can give intriguing and solid information empowering better understanding of governance issues to be settled in India. These sorts of studies would be then doable for the field to contribute thoughts to enhance the confidence and prosperity of everywhere as well as for the other stakeholders like providers, consumers, workers, other concern human beings and numerous unfading parts of the general public on the loose.

CHAPTER – 8

CONCLUSION

This research looks at the effect of corporate governance on the default risk and ERC while controlling for the setup determinants of ERC — beta, growth, earnings persistence and size. Aim of undertaking this research was to test whether CG mitigates the effect of DR on ERC while controlling for established determinants of ERC.

- Using regression this study confirms that Beta is negatively related to ERC whereas, its other determinants such as growth, earnings persistence & size are positively related to ERC.
- Default risk was found to be negatively related to ERC hence confirming that beta is only a partial measure of risk pertinent to ERC.
- CG as indicated by audit quality, audit committee expertise, audit committee independence and board independence, board shareholding mitigates the negative effect of DR on ERC.
- Significant correlation was found among some pairs of several variables. Highest correlation occurs between board independence and audit committee independence. This is to be expected as AC is a subset of the full board.
- The correlation coefficient for board independence with board shareholding was also found to be significantly high.
- Negative relationship between DER (debt-equity-ratio) and Audit Quality, AC expertise and board independence suggest that a significant relationship exists between DR and CG.

The outcomes likewise give confirm that default risk in emerging economies has a significant negative effect on ERC. Along these lines, the results support Hypothesis 1. These finding are consistent with those of prior studies conducted in developed economies and developing markets.

The outcomes from this research exhibit at corporate governance measures mitigate the negative impact of default risk on ERC; the impact on ERC diminishes in

size with higher audit quality, significant number industry experts in AC, high amount of independence to audit committees, higher extents of independent board directors and board shareholding. When all this was done and put into equation, results so obtained were consistent with those of earlier investigations that study the impact of corporate governance on default risk (for Consistent with Liu and Thomas (2000) the outcomes from regressions (1) to (7) show a reliable example from pooled to well-ordered breakdown.

To test the power of the outcomes, two elective proportions of default risk change in money related use and Altman's Z score were attempted. The two measures show indistinguishable outcomes from when the obligation to esteem proportion is used to go-between default chance. Default risk negatively affects ERC.

Two extra proportions of AC Independence were likewise attempted. The outcomes in the two cases continued as before as that for AC Independence. A proportion of corporate governance dependent on factor research of the corporate governance factors was additionally attempted. The outcome was the equivalent with respect to the individual factors. The outcomes show that corporate governance has a relieving impact on the connection between default risk and ERC.

The expression "Corporate Governance" is gaining recognition in today's business and corporate world. The changes in the corporate structure were because of lack of management's responsibility not only towards shareholders, yet additionally towards society at large. As of late a corporation is considered a social institution, interacting with the general public in many ways and affecting its individuals. The major concern of all conscious citizens i.e. shareholders, workers, lenders, clients and government ought to be to govern this institution in a rational manner. Additionally, corporate governance is for the most part related to the systems and processes that undertake to enhance shareholder's investment and help the preservation of all public recorded companies. It is clearly apparent that inefficient management practices prompted several financial emergency and business collapses around the world. These business failures forced the business world to think and stress upon the significance of the sound concept of corporate management practices. The issue located genuine consideration among the various professional bodies and makers of laws and regulations at the international level and they considered the quality of corporate

governance practices equally significant for decision making. As of late, it was noticed that global investors have realized the significance of corporate governance practices on the financial performance of companies and also realized that the issue of corporate governance bears more importance while adopting investment decisions. It is also evident that the investors are ready to pay higher premiums for companies having sound corporate governance practices. There are various advantages which can be reaped by companies of any nation through sound corporate governance framework. An effective and sound corporate governance arrangement in practice causes the companies to raise cheaper reserve at a low cost of capital, enhances financial soundness and liquidity position, gives capabilities to overcome and keep any financial collapses and also enhances the standing in the capital market. It also helps in improving the nation's image and reputation by prevention of outflow of assets and an increase in foreign capital flow. It also leads to effective allocation of assets, increases the aggressive power and strengthens the capital market and finally increases the chances of higher flourishing by preventing and reducing the event of any financial emergency. Various significant studies of corporate governance have been undertaken and as yet being conducted to realize the importance and part of corporate governance in the current changing business scenario. The studies to a large degree have stated that there does not exist any single model of corporate governance which can be adopted uniformly in all the countries due to the political, economic, legal and cultural and custom contrasts. Subsequently, there is a most extreme need of a model to be created which can be compatible to each nation based on the principles of transparency, equality, accountability and responsibility which may be broadly accepted for international corporate governance. The term equality can be defined as equal treatment of stakeholders by the management to keep any possible conflict as regard to their interest. Transparency can be expressed as providing all material financial and non-financial information within a reasonable time at low cost which ought to be accurate, reliable and valid for their decision-making process. On the other hand, accountability may be defined as laying down forces to the board with the goal that the board of directors may be made answerable towards the company as a corporate substance and the stakeholders. Responsibility can be associated with compliance to all rules and regulations drafted under articles and in the operation and audit process. In this manner to establish the corporate governance framework, various organizations viz; World Bank, Organization for Economic Cooperation and

Development and Global Corporate Governance Forum was assigned the task to discuss the issue. Subsequently, countless in the created and developing economy were in the process for reviewing and restructuring their legislation and some of them even came out with new laws and regulations. With the sophistication of fraud, companies need to take a long-term perspective of fraud risk management and adopt complete frameworks to mitigate fraud. As organizations endeavour to create an elite culture, they should back these efforts by creating strong controls, genius active supervision through the utilization of innovation and independent monitoring of key performance parameters to create discouragement for misbehaviour. While one cannot deny the challenges in fraud prevention and detection from external factors, for example, regulation/law enforcement, one ought to realize that change originates from within. A few companies have demonstrated this by showing that business can be done in India ethically. India's position on legislation to curb corporate fraud is as yet evolving. The Companies Act 2013 is a significant improvement in the evolution of India's regulatory environment. This law is the first in the nation to centre exhaustively around fraud risk management and recommends stringent discipline upon the violation of its provisions. The Act includes particular provisions to address the risk of fraud, alongside prescribing greater responsibility and increased accountability for independent directors and auditors. It goes beyond professional liability for fraud and reaches out to personal liability, prescribing penalties for directors, key management personnel, auditors and representatives. The Companies Act 2013 calls for the establishment of a vigil mechanism for directors and representatives to report concerns about unethical behaviour, associated fraud or violations with the company's set of accepted rules or morals approach. Be that as it may, the effectiveness of a vigil mechanism isn't guaranteed by its insignificant presence, yet by the confidence that stakeholders place in its functioning. According to the Deloitte India's Whistleblowing Survey 2014, it was felt that a shriek blower program, ought to necessarily have Anonymity and confidentiality, Adequate shriek blower protection, Transparency and Independence, as required by the legislation, and to accommodate a target see a dedicated team to handle whistle-blower complaints (outsider or internal) and an all-around recorded process of addressing complaints, feedback and communication. Late corporate scandals have prompted public pressure to reform business practices and increase regulation. Obviously, dishonesty, avarice, and cover-ups are not new societal concerns. The public objection over the ongoing

scandals have made it clear that the status quo is not any more acceptable; the public is demanding accountability and responsibility in corporate behaviour. It is generally trusted that it will take something beyond leadership by the corporate division to re-establish public confidence in our capital markets and guarantee their ongoing vitality. It will also take effective government action, in the form of reformed regulatory systems, enhanced auditing, and ventured up law enforcement.

These responses make clear that the governance of corporations has turned into a central thing on the public strategy agenda. The ongoing scandals themselves demonstrate that negligent regulatory institutions, standards, and enforcement can have immense implications for the economy and for the public. Obviously, government responses to scandals ought to be very much considered and effective. Regulatory reforms those overreact or those address symptoms while ignoring underlying causes can be costly and counter productive. Government's task is to restore corporate integrity and market confidence without stifling the dynamism that underlies a strong economy. In India, innumerable initiatives have been taken in the past by the Ministry of Corporate Affairs and Stock Exchange Board of India to ascertain that those endowed with the responsibility of governing shareholder wealth are adequately regulated and made accountable. Over the past years, there have been many reforms in the corporate governance framework starting from the constitution of the Kumar Mangalam Committee (1999), the introduction of Clause 49 in the listing agreement (2000), revision in Clause 49 on recommendations of the Narayana Murthy Committee (2006), issue of voluntary guidelines on corporate governance (2009), issue of guiding principles on corporate governance (2012) based on the recommendation of the Adi Godrej Committee, enactment of the updated Companies Act (2013) and finally the new corporate governance standards by Securities Exchange Board of India (2014). There is a move towards increased transparency on conducting board matters and articulated several changes in the parts and responsibilities of the board, board committees and independent directors. This also indicates the intent of the regulators to align with the global standards on corporate governance. The Stock Exchange Board of India Act leaves open the space for Stock Exchange Board of India to perform such other functions as may be recommended. The Stock Exchange Board of India Act empowers Stock Exchange Board of India to make rules and regulations governing various aspects of the functioning of the

securities market. An extensive variety of powers has also been delegated by the Central Government to Stock Exchange Board of India under the Securities Contract Regulation Act, 1956. Stock Exchange Board of India pronounces regulations proactively and in some cases in response to improvements that potentially challenge the functioning of the market mechanism. Securities Exchange Board of India also draws a portion of its authority from the Companies Act, which empowers Securities Exchange Board of India to administer various provisions of the Companies Act. These sections essentially govern the capital mobilization process (issuance of capital), liquidity creation process (transfer) and the realization of return (profit), the three important aspects of the issuer's relationship with investors.

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- https://www.researchgate.net/profile/Folorunsho_Ajide/publication/335146783_5th_Annual_International_Academic_Conference_Proceedings_2019_FULL_PAPERS/links/5d52d680a6fdcc85f8903870/5th-Annual-International-Academic-Conference-Proceedings-2019-FULL-PAPERS.pdf
- https://www.researchgate.net/publication/288220009_The_impact_of_capital_structure_and_certain_firm_specific_variables_on_the_value_of_the_firm_Empirical_evidence_from_Kuwait
- https://www.researchgate.net/publication/270345446_Voluntary_corporate_governance_structure_and_financial_distress_Evidence_from_Australia
- https://www.researchgate.net/publication/241107106_Corporate_governance_and_operating_performance_of_Chinese_listed_firms

APPENDICES

APPENDIX-A: SCALE ASSIGNED FOR BOND RATINGS (CRISIL RATINGS)

Credit Ratings - Long Term Scale

Rating	Description
CRISIL AAA (Highest Safety)	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.
CRISIL AA (High Safety)	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.
CRISIL A (Adequate Safety)	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.
CRISIL BBB (Moderate Safety)	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.
CRISIL BB (Moderate Risk)	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations.
CRISIL B (High Risk)	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations.
CRISIL C (Very High Risk)	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations.
CRISIL D Default	Instruments with this rating are in default or are expected to be in default soon.

Note

- CRISIL may apply '+' (plus) or '-' (minus) signs for ratings from 'CRISIL AA' to 'CRISIL C' to reflect comparative standing within the category.

- CRISIL may assign rating outlooks for ratings from 'CRISIL AAA' to 'CRISIL B'. Ratings on Rating Watch will not carry outlooks. A rating outlook indicates the direction in which a rating may move over a medium-term horizon of one to two years. A rating outlook can be 'Positive', 'Stable', or 'Negative'. A 'Positive' or 'Negative' rating outlook is not necessarily a precursor of a rating change. CRISIL may place an outstanding rating on Rating Watch if the issuer announces a merger or acquisition, or de-merger of some business that may impact the credit profile of the rated debt instrument. Ratings may also be placed on watch if the issuer's credit profile is impacted on account of an action by regulators, or when the impact of specific events on the credit profile cannot be accurately assessed at the point when they occur, and additional information may be necessary for CRISIL to fully ascertain the creditworthiness of the rated instrument. CRISIL may place a rating on watch, with positive, negative or developing implications. A listing under rating watch does not imply that a rating will necessarily change, nor is it a prerequisite for rating change.
- A suffix of 'r' indicates investments carrying non-credit risk. The 'r' suffix indicates that payments on the rated instrument have significant risks other than credit risk. The terms of the instrument specify that the payments to investors will not be fixed, and could be linked to one or more external variables such as commodity prices, equity indices, or foreign exchange rates. This could result in variability in payments, including possible material loss of principal, because of adverse movement in value of the external variables. The risk of such adverse movement in price/value is not addressed by the rating.

- CRISIL may assign a rating of 'NM' (Not Meaningful) to instruments that have factors present in them, which render the outstanding rating meaningless. These include reorganisation or liquidation of the issuer, the obligation being under dispute in a court of law or before a statutory authority.
- A prefix of 'PP-MLD' indicates that the instrument is a principal-protected market-linked debenture. The terms of such instruments indicate that while the issuer promises to pay back the face value/principal of the instrument, the coupon rates of these instruments will not be fixed, and could be linked to one or more external variables such as commodity prices, equity share prices, indices, or foreign exchange rates
- A prefix of 'Provisional' indicates that the rating centrally factors in the completion of certain critical steps/documentation by the issuer for the instrument, without these the rating would either have been different or not assigned ab initio.

APPENIX-B: NIFTY-50 SENSEX (2012-17)

Reliance Industries Ltd.	Titan Company Ltd.
HDFC Bank Ltd.	Bajaj Auto Limited
Housing Development Fin. Corp. Ltd.	Bajaj FinServ Ltd.
Infosys Limited	Tech Mahindra Ltd.
ICICI Bank Ltd.	Hero MotoCorp Ltd.
Tata Consultancy Services Ltd.	Cipla Ltd.
Kotak Mahindra Bank Limited	Wipro Ltd.
Hindustan Unilever Ltd.	Shree Cement Ltd.
ITC Ltd.	Bharat Petroleum Corporation Ltd.
Bharti Airtel Ltd.	Oil & Natural Gas Corporation Ltd.
Larsen and Toubro Ltd.	IndusInd Bank Ltd.
Axis Bank Ltd.	Coal India Ltd.
Maruti Suzuki India Limited	Adani Ports & Special Economic Zone
Asian Paints Limited	Eicher Motors Ltd.
Bajaj Finance Ltd.	Grasim Industries Ltd.
State Bank of India	Tata Steel Ltd.
Nestle India Ltd.	UPL Ltd.
HCL Technologies Ltd.	Indian Oil Corporation Ltd.
Sun Pharmaceutical Industries Ltd.	Hindalco Industries Ltd.
Mahindra & Mahindra Ltd.	Vedanta Ltd.
Dr Reddys Laboratories Ltd.	GAIL (India) Ltd.
NTPC Limited	JSW Steel Ltd.
UltraTech Cement Limited	Bharti Infratel Ltd.
Power Grid Corporation of India Ltd.	Tata Motors Ltd.
Britannia Industries Ltd.	Zee Entertainment Enterprises Ltd.

- **What is Nifty 50?**
- S&P CNX Nifty popularly known as Nifty is a well-diversified 50 stocks index of companies from 14 sectors of the economy. These stocks are considered to be the barometers of the economy and are market leaders in their own sectors.

- **Who manages the Nifty 50 Index?**

- Nifty 50 is a professionally maintained Index by India Index Services and Products Ltd. (IISL), which is a joint venture between NSE and CRISIL. IISL has a marketing and licensing agreement with Standard & Poor's (S&P), who are world leaders in index services.

- **How nifty 50 stocks are selected?**

- For a company to be listed in Nifty, they are required to satisfy the unique eligibility criteria set by NSE. These criteria include:

1. Liquidity: Liquidity refers to how quickly and easily a stock can be bought or sold without affecting its price. Simply put if you are able to get a large quantity of a stock at the currently quoted price then the stock is liquid.
2. Float adjusted market capitalization: Free-float market capitalization is a measure of the market cap of a particular Company that is available for trading.
3. Trading frequency: The Company should have traded every day in the last six months.
4. Listing history: The Company should have a listing history of at least 6 months. A company that has just been listed through an IPO should fulfil all the Nifty inclusion criteria for a 3-month period.
5. Company should be allowed to trade in futures and Options segment.

- **How is Nifty 50 calculated?**

- Nifty is computed using the free float adjustment methodology

1. Market capitalization = Share Price x Number of shares
2. Free Float Market Capitalization = Share Price x Shares Outstanding * IWF

3. $\text{Index Value} = \text{Current Market Value} / \text{Base Index Value}$
4. $\text{*IWF or Investible Weight factor} = (\text{Shares Outstanding} - \text{Locked-in Shares}) / \text{Shares Outstanding}$
5. $\text{Base Index Value} = \text{Base Market Capital} * 1000$
6. Base Market capital = The average market price of a group of securities at a specific time. Used for the purpose of indexing. The index value is computed on a real-time basis every day.

**APPENDIX-C: SUMMARY OF MAJOR FINDINGS AND A
COMPARISON WITH THE FINDINGS OF PRIOR STUDIES**

Variables	Current Study	Reviewed Prior Studies
Regression (1)		
Independent Variables: BETA	Beta is negative and significant to ERC	Beta is negative and significant to ERC: Collins and Kothari (1989), Dhaliwal et al., (1991), Dhaliwal and Reynolds (1994), Kim (2005), and Shangguan (2007).
Independent Variables: GROWTH	Growth is positive and significant to ERC	Growth is positive and significant to ERC: Collins and Kothari (1989), Martikainen, (1997), Billings (1999), Park and Pincus, (2000), Kim (2005), Ghosh et al. (2005), and Shangguan (2007). Other result: Hackenbrack and Horgan (2002) do not confirm the positive relation between growth and ERC.
EPERS	Earnings persistence is positive and significant to ERC.	Earnings persistence is positive and significant to ERC: Kormendi and Lipe (1987), Collins and Kothari (1989), Dhaliwal and Reynolds (1994), and Park and Pincus (2000)
SIZE	Size is positive and significant to ERC	Size is positive and significant to ERC: Billings (1999) and Vafeas (2000) Size is positive but not significant to ERC: Donnelly and Walker (1995) and Martikainen (1997)
Regression (2)		
Default risk	Default risk is negative and significant to ERC	Default risk is negative and significant to ERC: Dhaliwal et al., (1991), Dhaliwal and Reynolds (1994), Kai (2002), Kim (2005), Shangguan (2007), and Cheng and Nasir (2010). Other result: Billings (1999) finds that with the inclusion of growth, the effect of debt/equity weakens while the bond rating effect disappears.
Regression (3)		
Independent Variable: DER Mitigating Variable: AUDITQ	Audit quality significantly mitigates the relationship between default risk and ERC	Pittman and Fortin (2004) find that Big 6 auditors reduce debt-monitoring costs. Chang et al. (2009) find that debt to equity ratios of Big 6 clients decrease in response to favourable market conditions

Regression (4)		
Independent Variable: DER Mitigating Variable: ACEXPRT	AC expert significantly mitigates the negative effect of default risk to ERC	Anderson et al. (2004) find no relation between AC expertise and cost of debt
Regression (5)		
Independent Variable: DER Mitigating Variable: ACINED	AC independence significantly mitigates the relationship between default risk and ERC	Piot (2005) finds that AC independence has positive impact on leverage if the firm has a high Investment Opportunity Set. Anderson et al. (2004) find that fully independent AC members are associated with a significant lower cost of debt.
Regression (6)		
Independent Variable: DER Mitigating Variable: BODINED	Board independence significantly mitigates the negative effect of default to ERC	Bhojraj and Sengupta (2003) find that institutional ownership and outside directors reduce the impact of default risk. Ashbaugh-Skaife et al. (2006) provide evidence that high credit ratings are positively related to board independence.
Regression (7)		
Independent Variable: Default Risk Mitigating Variable: BODSHARE	Board shareholding significantly mitigates the relationship between default and ERC	Ashbaugh-Skaife et al. (2006) find that credit ratings are positively related to board ownership

Appendix- D: DATA SHEET

Year	ID	Company	D/E	DER	BS	BI	UX/P	CAR	ROA	SZ	BETA	EPERS	GR
2012	1	Reliance Industries Ltd.											
2013	1	Reliance Industries Ltd.											
2014	1	Reliance Industries Ltd.											
2015	1	Reliance Industries Ltd.											
2016	1	Reliance Industries Ltd.											
2017	1	Reliance Industries Ltd.											
2012	2	HDFC Bank Ltd.											
2013	2	HDFC Bank Ltd.											
2014	2	HDFC Bank Ltd.											
2015	2	HDFC Bank Ltd.											
2016	2	HDFC Bank Ltd.											
2017	2	HDFC Bank Ltd.											
2012	3	Housing Development Fin. Corp. Ltd.											
2013	3	Housing Development Fin. Corp. Ltd.											
2014	3	Housing Development Fin. Corp. Ltd.											
2015	3	Housing Development Fin. Corp. Ltd.											
2016	3	Housing Development Fin. Corp. Ltd.											

2017	3	Housing Development Fin. Corp. Ltd.												
2012	4	Infosys Limited												
2013	4	Infosys Limited												
2014	4	Infosys Limited												
2015	4	Infosys Limited												
2016	4	Infosys Limited												
2017	4	Infosys Limited												
2012	5	ICICI Bank Ltd.												
2013	5	ICICI Bank Ltd.												
2014	5	ICICI Bank Ltd.												
2015	5	ICICI Bank Ltd.												
2016	5	ICICI Bank Ltd.												
2017	5	ICICI Bank Ltd.												
2012	6	Tata Consultancy Services Ltd.												
2013	6	Tata Consultancy Services Ltd.												
2014	6	Tata Consultancy Services Ltd.												
2015	6	Tata Consultancy Services Ltd.												
2016	6	Tata Consultancy Services Ltd.												
2017	6	Tata Consultancy Services Ltd.												

2012	7	Kotak Mahindra Bank Limited											
2013	7	Kotak Mahindra Bank Limited											
2014	7	Kotak Mahindra Bank Limited											
2015	7	Kotak Mahindra Bank Limited											
2016	7	Kotak Mahindra Bank Limited											
2017	7	Kotak Mahindra Bank Limited											
2012	8	Hindustan Unilever Ltd.											
2013	8	Hindustan Unilever Ltd.											
2014	8	Hindustan Unilever Ltd.											
2015	8	Hindustan Unilever Ltd.											
2016	8	Hindustan Unilever Ltd.											
2017	8	Hindustan Unilever Ltd.											
2012	9	ITC Ltd.											
2013	9	ITC Ltd.											
2014	9	ITC Ltd.											
2015	9	ITC Ltd.											
2016	9	ITC Ltd.											
2017	9	ITC Ltd.											
2012	10	Bharti Airtel Ltd.											

2013	10	Bharti Airtel Ltd.												
2014	10	Bharti Airtel Ltd.												
2015	10	Bharti Airtel Ltd.												
2016	10	Bharti Airtel Ltd.												
2017	10	Bharti Airtel Ltd.												
2012	11	Larsen and Toubro Ltd.												
2013	11	Larsen and Toubro Ltd.												
2014	11	Larsen and Toubro Ltd.												
2015	11	Larsen and Toubro Ltd.												
2016	11	Larsen and Toubro Ltd.												
2017	11	Larsen and Toubro Ltd.												
2012	12	Axis Bank Ltd.												
2013	12	Axis Bank Ltd.												
2014	12	Axis Bank Ltd.												
2015	12	Axis Bank Ltd.												
2016	12	Axis Bank Ltd.												
2017	12	Axis Bank Ltd.												
2012	13	Maruti Suzuki India Limited												
2013	13	Maruti Suzuki India Limited												

2014	13	Maruti Suzuki India Limited												
2015	13	Maruti Suzuki India Limited												
2016	13	Maruti Suzuki India Limited												
2017	13	Maruti Suzuki India Limited												
2012	14	Asian Paints Limited												
2013	14	Asian Paints Limited												
2014	14	Asian Paints Limited												
2015	14	Asian Paints Limited												
2016	14	Asian Paints Limited												
2017	14	Asian Paints Limited												
2012	15	Bajaj Finance Ltd.												
2013	15	Bajaj Finance Ltd.												
2014	15	Bajaj Finance Ltd.												
2015	15	Bajaj Finance Ltd.												
2016	15	Bajaj Finance Ltd.												
2017	15	Bajaj Finance Ltd.												
2012	16	State Bank of India												
2013	16	State Bank of India												
2014	16	State Bank of India												

2015	16	State Bank of India												
2016	16	State Bank of India												
2017	16	State Bank of India												
2012	17	Nestle India Ltd.												
2013	17	Nestle India Ltd.												
2014	17	Nestle India Ltd.												
2015	17	Nestle India Ltd.												
2016	17	Nestle India Ltd.												
2017	17	Nestle India Ltd.												
2012	18	HCL Technologies Ltd.												
2013	18	HCL Technologies Ltd.												
2014	18	HCL Technologies Ltd.												
2015	18	HCL Technologies Ltd.												
2016	18	HCL Technologies Ltd.												
2017	18	HCL Technologies Ltd.												
2012	19	Sun Pharmaceutical Industries Ltd.												
2013	19	Sun Pharmaceutical Industries Ltd.												
2014	19	Sun Pharmaceutical Industries Ltd.												
2015	19	Sun Pharmaceutical Industries Ltd.												

2016	19	Sun Pharmaceutical Industries Ltd.												
2017	19	Sun Pharmaceutical Industries Ltd.												
2012	20	Mahindra & Mahindra Ltd.												
2013	20	Mahindra & Mahindra Ltd.												
2014	20	Mahindra & Mahindra Ltd.												
2015	20	Mahindra & Mahindra Ltd.												
2016	20	Mahindra & Mahindra Ltd.												
2017	20	Mahindra & Mahindra Ltd.												
2012	21	Dr Reddys Laboratories Ltd.												
2013	21	Dr Reddys Laboratories Ltd.												
2014	21	Dr Reddys Laboratories Ltd.												
2015	21	Dr Reddys Laboratories Ltd.												
2016	21	Dr Reddys Laboratories Ltd.												
2017	21	Dr Reddys Laboratories Ltd.												
2012	22	NTPC Limited												
2013	22	NTPC Limited												
2014	22	NTPC Limited												
2015	22	NTPC Limited												
2016	22	NTPC Limited												

2017	22	NTPC Limited												
2012	23	UltraTech Cement Limited												
2013	23	UltraTech Cement Limited												
2014	23	UltraTech Cement Limited												
2015	23	UltraTech Cement Limited												
2016	23	UltraTech Cement Limited												
2017	23	UltraTech Cement Limited												
2012	24	Power Grid Corporation of India Ltd.												
2013	24	Power Grid Corporation of India Ltd.												
2014	24	Power Grid Corporation of India Ltd.												
2015	24	Power Grid Corporation of India Ltd.												
2016	24	Power Grid Corporation of India Ltd.												
2017	24	Power Grid Corporation of India Ltd.												
2012	25	Britannia Industries Ltd.												
2013	25	Britannia Industries Ltd.												
2014	25	Britannia Industries Ltd.												
2015	25	Britannia Industries Ltd.												
2016	25	Britannia Industries Ltd.												
2017	25	Britannia Industries Ltd.												

2012	26	Titan Company Ltd.												
2013	26	Titan Company Ltd.												
2014	26	Titan Company Ltd.												
2015	26	Titan Company Ltd.												
2016	26	Titan Company Ltd.												
2017	26	Titan Company Ltd.												
2012	27	Bajaj Auto Limited												
2013	27	Bajaj Auto Limited												
2014	27	Bajaj Auto Limited												
2015	27	Bajaj Auto Limited												
2016	27	Bajaj Auto Limited												
2017	27	Bajaj Auto Limited												
2012	28	Bajaj FinServ Ltd.												
2013	28	Bajaj FinServ Ltd.												
2014	28	Bajaj FinServ Ltd.												
2015	28	Bajaj FinServ Ltd.												
2016	28	Bajaj FinServ Ltd.												
2017	28	Bajaj FinServ Ltd.												
2012	29	Tech Mahindra Ltd.												

2013	29	Tech Mahindra Ltd.												
2014	29	Tech Mahindra Ltd.												
2015	29	Tech Mahindra Ltd.												
2016	29	Tech Mahindra Ltd.												
2017	29	Tech Mahindra Ltd.												
2012	30	Hero MotoCorp Ltd.												
2013	30	Hero MotoCorp Ltd.												
2014	30	Hero MotoCorp Ltd.												
2015	30	Hero MotoCorp Ltd.												
2016	30	Hero MotoCorp Ltd.												
2017	30	Hero MotoCorp Ltd.												
2012	31	Cipla Ltd.												
2013	31	Cipla Ltd.												
2014	31	Cipla Ltd.												
2015	31	Cipla Ltd.												
2016	31	Cipla Ltd.												
2017	31	Cipla Ltd.												
2012	32	Wipro Ltd.												
2013	32	Wipro Ltd.												

2014	32	Wipro Ltd.												
2015	32	Wipro Ltd.												
2016	32	Wipro Ltd.												
2017	32	Wipro Ltd.												
2012	33	Shree Cement Ltd.												
2013	33	Shree Cement Ltd.												
2014	33	Shree Cement Ltd.												
2015	33	Shree Cement Ltd.												
2016	33	Shree Cement Ltd.												
2017	33	Shree Cement Ltd.												
2012	34	Bharat Petroleum Corporation Ltd.												
2013	34	Bharat Petroleum Corporation Ltd.												
2014	34	Bharat Petroleum Corporation Ltd.												
2015	34	Bharat Petroleum Corporation Ltd.												
2016	34	Bharat Petroleum Corporation Ltd.												
2017	34	Bharat Petroleum Corporation Ltd.												
2012	35	Oil & Natural Gas Corporation Ltd.												
2013	35	Oil & Natural Gas Corporation Ltd.												
2014	35	Oil & Natural Gas Corporation Ltd.												

2015	35	Oil & Natural Gas Corporation Ltd.											
2016	35	Oil & Natural Gas Corporation Ltd.											
2017	35	Oil & Natural Gas Corporation Ltd.											
2012	36	IndusInd Bank Ltd.											
2013	36	IndusInd Bank Ltd.											
2014	36	IndusInd Bank Ltd.											
2015	36	IndusInd Bank Ltd.											
2016	36	IndusInd Bank Ltd.											
2017	36	IndusInd Bank Ltd.											
2012	37	Coal India Ltd.											
2013	37	Coal India Ltd.											
2014	37	Coal India Ltd.											
2015	37	Coal India Ltd.											
2016	37	Coal India Ltd.											
2017	37	Coal India Ltd.											
2012	38	Adani Ports & Special Economic Zone											
2013	38	Adani Ports & Special Economic Zone											
2014	38	Adani Ports & Special Economic Zone											
2015	38	Adani Ports & Special Economic Zone											

2016	38	Adani Ports & Special Economic Zone												
2017	38	Adani Ports & Special Economic Zone												
2012	39	Eicher Motors Ltd.												
2013	39	Eicher Motors Ltd.												
2014	39	Eicher Motors Ltd.												
2015	39	Eicher Motors Ltd.												
2016	39	Eicher Motors Ltd.												
2017	39	Eicher Motors Ltd.												
2012	40	Grasim Industries Ltd.												
2013	40	Grasim Industries Ltd.												
2014	40	Grasim Industries Ltd.												
2015	40	Grasim Industries Ltd.												
2016	40	Grasim Industries Ltd.												
2017	40	Grasim Industries Ltd.												
2012	41	Tata Steel Ltd.												
2013	41	Tata Steel Ltd.												
2014	41	Tata Steel Ltd.												
2015	41	Tata Steel Ltd.												
2016	41	Tata Steel Ltd.												

2017	41	Tata Steel Ltd.												
2012	42	UPL Ltd.												
2013	42	UPL Ltd.												
2014	42	UPL Ltd.												
2015	42	UPL Ltd.												
2016	42	UPL Ltd.												
2017	42	UPL Ltd.												
2012	43	Indian Oil Corporation Ltd.												
2013	43	Indian Oil Corporation Ltd.												
2014	43	Indian Oil Corporation Ltd.												
2015	43	Indian Oil Corporation Ltd.												
2016	43	Indian Oil Corporation Ltd.												
2017	43	Indian Oil Corporation Ltd.												
2012	44	Hindalco Industries Ltd.												
2013	44	Hindalco Industries Ltd.												
2014	44	Hindalco Industries Ltd.												
2015	44	Hindalco Industries Ltd.												
2016	44	Hindalco Industries Ltd.												
2017	44	Hindalco Industries Ltd.												

2012	45	Vedanta Ltd.												
2013	45	Vedanta Ltd.												
2014	45	Vedanta Ltd.												
2015	45	Vedanta Ltd.												
2016	45	Vedanta Ltd.												
2017	45	Vedanta Ltd.												
2012	46	GAIL (India) Ltd.												
2013	46	GAIL (India) Ltd.												
2014	46	GAIL (India) Ltd.												
2015	46	GAIL (India) Ltd.												
2016	46	GAIL (India) Ltd.												
2017	46	GAIL (India) Ltd.												
2012	47	JSW Steel Ltd.												
2013	47	JSW Steel Ltd.												
2014	47	JSW Steel Ltd.												
2015	47	JSW Steel Ltd.												
2016	47	JSW Steel Ltd.												
2017	47	JSW Steel Ltd.												
2012	48	Bharti Infratel Ltd.												

2013	48	Bharti Infratel Ltd.												
2014	48	Bharti Infratel Ltd.												
2015	48	Bharti Infratel Ltd.												
2016	48	Bharti Infratel Ltd.												
2017	48	Bharti Infratel Ltd.												
2012	49	Tata Motors Ltd.												
2013	49	Tata Motors Ltd.												
2014	49	Tata Motors Ltd.												
2015	49	Tata Motors Ltd.												
2016	49	Tata Motors Ltd.												
2017	49	Tata Motors Ltd.												
2012	50	Zee Entertainment Enterprises Ltd.												
2013	50	Zee Entertainment Enterprises Ltd.												
2014	50	Zee Entertainment Enterprises Ltd.												
2015	50	Zee Entertainment Enterprises Ltd.												
2016	50	Zee Entertainment Enterprises Ltd.												
2017	50	Zee Entertainment Enterprises Ltd.												

D/E= DEBT TO EQUITY RATIO
DER= DEFAULT RISK
BS= BOARD SHAREHOLDING
BI= BOARD INDEPENDENCE
UX/P= UNEXPECTED EARNINGS DEFLATED BY PRICE
ROA= RETURN ON ASSETS
SZ= SIZE OF THE FIRM
EPERS= EARNINGS PERSISTENCE
GR= GROWTH
CAR= CUMULATIVE ABNORMAL RETURNS
BETA= EQUITY BETA
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