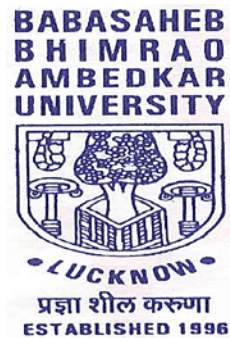


**IMPACT OF CORPORATE GOVERNANCE PRACTICES
ON FIRM'S CAPITAL STRUCTURE DECISIONS: AN
EXPLORATORY STUDY IN INDIAN CONTEXT**



**ABSTRACT OF THE THESIS SUBMITTED TO
DEPARTMENT OF RURAL MANAGEMENT, SCHOOL OF MANAGEMENT
STUDIES, BABASAHEB BHIMRAO AMBEDKAR UNIVERSITY, LUCKNOW**

**FOR AWARD OF THE DEGREE OF
DOCTOR OF PHILOSOPHY IN MANAGEMENT**

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JULY, 2017

ABSTRACT

Corporations play a crucial role in ensuring fast-paced socio-economic growth and development of any country. India opened up its economy in 1991 which brought up the growth initiators viz. liberalization, privatization and globalization. With the advent of these events, Indian market became more reachable for domestic as well as foreign corporates which was vitally imperative for the growth and survival of the economy. On one hand, these events facilitated firms to have access of funds from the capital market but on the other hand, it also brought certain issues. Corporate scams were certainly one of those issues. Indian economy saw a number of scams since then, which brought about the issue of corporate governance into a realm for everyone to discuss. Some of the major scams 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 case (2014), Kingfisher money laundering case (2015), & Ricoh India accounting fraud (2016). Such scams forced the regulatory body to pay more focus on the impending requirements and efficacy for an appropriate analysis of companies' financial statements and to provide guidance to the investors in their financial decisions.

Although corporate governance reduces agency costs, it may also have an impact on a company's capital structure decisions and the quantum of debt it issues. A company's capital structure constitutes its relative proportion of debt and equity and influences managers' incentives and investment decisions. The knowledge of how to raise finance has always been thrived in attracting research interest as it is a tool for social and economic development. It helps the corporates' management in adopting the efficient practice which led to minimize the incidence of corporate failures and poor corporate structure. Poor corporate governance may not only pose a risk to the business entity but also indeed adversely impact the capital market and the whole economy.

This is well accepted that companies with superior corporate governance system create trust and goodwill amongst the investors that enables them to procure funds at most reasonable costs. Investors always inclined to invest in a firm which is safe and transparent in all its transactions. Corporate governance practices relating to financing decisions provide a trade-off between shareholders and stakeholders by selecting an optimal capital structure. There is no one right answer of what exact amount of debt and equity should be employed to form an optimal capital structure. But it is always recommended not to include high debt as it decreases the tax advantage and increases the overall cost of capital. Therefore, selecting the wrong combination of capital structure could lead to financial distress and scams/frauds.

Even the best standards cannot prevent instances of major corporate misconducts. In India, the major characteristics of corporate governance norms and standards are imported from the jurisdiction of other developed countries. It is obvious that every country is different in terms of social, economic, cultural and legal environment and therefore there is a need to understand what norms work in Indian Scenario. Effective implementation can only be made possible when these international best standards and norms are developed and customized according to the unique issues of Indian system. There is a need to comprehend what makes the Indian scenario separate so as to build some practical suggestions on how to strengthen the Indian corporate governance within its own legal framework.

The concept of corporate governance is growing day by day and is not restricted to just protecting the interest of the shareholders but extended to attain the overall sustainability. The top management that is comprised of board of directors has the responsibility of the governance and is accountable overall. This research adds to the literature by highlighting the significant link between some corporate governance measures and capital structure choices of listed firms in India. Therefore, this study theoretically and practically attempt to provide evidence for the existence of relationship between corporate governance and capital structure in India. The present research intends to explore whether a relationship between corporate governance and capital structure of listed companies exists or not. It also analyses the impacts of different variables (factors) of corporate governance on capital structure.

CONCEPT OF CORPORATE GOVERNANCE AND CAPITAL STRCUTURE

Corporate governance enables to govern a company by providing rules and norms which are required for the survival of firm and protection of the interests 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.”

Keasey and Wright (1993) defined corporate governance as a framework for effective monitoring, regulation and control of companies which allows alternative internal and external mechanisms for achieving the laid down objectives. The internal mechanisms include the board composition, managerial ownership, and non-managerial shareholding including the institutional shareholding while external mechanisms includes; the statutory audit, the market for corporate control and stock market evaluation of corporate performance.

According to Shleifer & Vishny (1997) “Corporate Governance deals with the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investment.”

Craig (2005) stated that corporate governance depends upon the relative power of owners, managers and provider of capital. It entails the procedures, customs, laws and policies of different economies around the world. An important objective of corporate governance is to ensure accountability and transparency of those who are involved in the policy implementation of organizations through mechanisms that will reduce principal agent conflict.

Corporate boards are one of the most important governance mechanisms that protect shareholders’ interests by monitoring managerial activities. Board of directors are occupied in taking company’s strategic decisions, therefore they obey with

corporate governance code of best practices and provide good decisions to the company. Indian corporate governance norms are imported from the developed countries jurisdictions that follow 'Outsider Model' of corporate governance in which shareholders have less involvement in the decision making and management of the company. Contrary to that, Indian corporates follow 'Insider Model' of corporate governance in which the board decisions are influenced by the majority shareholders, promoters and the promoter group. Also, in shareholder meetings they are in a position to take decisions that are favourable to them. There is no doubt that adopting the world's best norms Indian companies would become effective in its functioning but transplanting the norms without considering the home country issues would not be wise. Good corporate governance practices possibly had significant impact on company's planned decisions such as outside financing, which are taken at board level and therefore, board of directors is the important element of the corporate governance. Board of directors is the topmost body of a company that is accountable for running the firm and its operations. It plays fundamental role in planned decisions concerning capital structure decisions. When there is good corporate governance and capital structure, there will be appropriate and efficient practice in the management of business entities. This will ultimately lead to decrease in the incidences of corporate failures, poor internal control system, poor corporate structure, disorderliness both on the part of management and workers.

Capital structure management helps to reduce the cost of capital and maximize the shareholders' wealth. In last two decade's studies relevant to capital structure decisions and factors that influence it gained attention. Based on the novel theories of capital structure, to some researchers, corporate governance is one of the factors that influence capital structure of a company. They have recommended that corporate governance is a useful factor that could influence the debt proportion in a company. Agency theory relative to corporate governance assumes that there is a non-alignment of interests between agent (managers or directors) and principal (shareholders).

Agents (Managers) want to reduce agency costs by taking decisions that is beneficial for them (like job security, incentives etc.) and that compel them to raise the debt in the capital structure of the firm. The inclusion of debt may influence the overall performance and market value of the company. In other words, the managers

of a firm may be tempted by the advantages offered by leverage (debt). They may exploit this opportunity by increasing debt capital proportion in capital structure at the expense of shareholders as it is the shareholders who actually bear the risk. Due to asymmetric information, managers have more information about the company than shareholders which makes it possible for managers to take advantage of shareholders' lack of knowledge. It is evident from the studies that firms that obtain large portion of funds through debt in their capital structure generally have inefficient corporate governance system. This ultimately leads to the genesis of agency problem and corporate governance is the only mechanism to mitigate it. Therefore, board of director's features such as board size, presence of independent directors and CEO duality may have direct control on the firm's capital structure decisions.

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 misconducts and failures. Therefore, reforms related to various corporate governance always stressed on making appropriate changes in terms of board composition, board size and its structure.

A review of the related literature showed identifiable corporate governance variables may have an impact on determining leverage. In this study, corporate governance practices are measured by using three different variables related to board characteristics while capital structure decisions are measured by using leverage ratio i.e. debt to equity ratio and/or debt ratio. These characteristics are mainly selected as corporate governance variables because the agency and stewardship perspectives suggested the relationship.

Ample of studies conducted in developed countries that have investigated the role of corporate governance on capital structure decisions but there are very scarce researches in India with only a few empirical studies paying attention to this issue. In addition, most of the studies that have investigated this issue in India have used a sample period prior to the introduction of these major corporate governance reforms i.e. Companies Act 2013

and Revised clause 49 of listing agreement and have only covered a very few corporate governance aspects.

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. Capital structure also has different impacts on the value of the firm i.e. it varies from country to country because of the different regulations. 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 capital structure decisions.

SIGNIFICANCE OF THE STUDY

The study is relevant from the academic, managers, regulators and policymakers' perspective. This study contributes to the existing body of literature on the relationship between corporate governance and capital structure in Indian context. To the best knowledge and information of the researcher, 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 practicing 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 have brought any significant change in the decision making. Just as any change takes time, so too good corporate governance implementation will bring change in the system with time. India has adopted the best and most robust corporate governance norms from the other countries jurisdiction. But mere having best norms or regulations of the world could not bring the change in the corporate functioning and corporate misconduct. Listed companies are trying to comply with corporate governance norm which is 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 conglomerates that follow the corporate governance long before it became mandatory like Tata, Birla and Infosys.

However, 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. Therefore empirical studies are required to understand what works in Indian system so that proper and effective norms are implemented otherwise it would remain a box ticking exercise.

RATIONALE OF THE STUDY

Corporate governance is closely related to the agency problem and can serve as a tool to reduce agency costs. Corporate governance takes into account the relationship between shareholders, managers and other stakeholders and is significant in controlling and managing a firm. The issue of corporate governance is even more important in transitional economies like India. Even the best standards cannot prevent instances of major corporate misconduct. In India, the major characteristics of corporate governance norms and standards are imported from the jurisdiction of other developed countries. It is obvious that every country is different in terms of social, economic, cultural and legal environment and therefore there is a need to understand what norms work in Indian Scenario. Effective implementation can only be made possible when these international best standards and norms are developed and customized according to the unique issues of Indian system. There is a need to comprehend what makes the Indian scenario separate so as to build some practical suggestions on how to strengthen the Indian corporate governance within the its own legal framework.

Till date review of literature suggests that the studies on the relationship between corporate governance and capital structure have not been adequately explored. This study examines the relationship between corporate governance practices and firm's capital structure in background of Indian firms. A complete review of related literature reveals that although there are number of related prior empirical studies conducted in developed economies. However, the same cannot be said of developing economies since most of the works are theoretical in nature and practical works in this area of research have mostly focused on the impact of corporate governance on firm's performance or inspected the influence of ownership structure on firm value while limited studies focused on capital structure. There is a

growing interest among researchers in management in the area of corporate governance especially among large and listed firms. Therefore, this study inspects the influence of corporate governance on the capital structure of listed firms in India.

This study emphasizes on board of directors because it is one of the most important mechanisms of corporate governance. Theoretically, based on the board of director's decision, a company decides its capital structure. In compliance to corporate governance norm of best practices, board of director is expected to serve a good financing decision or an optimal capital structure to the company. The existing literature suggested board size, boarding independence, and CEO duality as the main characteristics of corporate governance. However, empirical results on the association between corporate governance and capitals structure appear to be different and inconclusive. Hence, relationship between corporate governance and capital structure has not been fully explored. Conducting a research based on this problem will enable the managers and the shareholders of the firm in tackling some of the issues related to capital structure. This research adds to the literature by highlighting the significant link between some corporate governance measures and capital structure choices of listed firms in India. Therefore, this study theoretically and practically attempts to provide evidences for the existence of relationship between corporate governance and capital structure in India.

OBJECTIVES OF THE STUDY

Generally, this study seeks to explore the relationship between corporate governance and firm's capital structure decisions in the India. However, it is set to achieve the following specific objectives:

1. To investigate the impact of corporate governance practices such as board size, board independence, CEO duality on capital structure choices of Indian firms.
2. To identify the relationship between profitability and capital structure.
3. To identify the relationship between size of the firm and capital structure.
4. To suggest the corporates for good corporate governance practices for their success.

RESEARCH HYPOTHESES

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. From the review of literature, it is evident that capital structure is affected by the corporate governance. Based on that it can be assumed that corporate governance does affect a firm's capital structure and therefore a relation between corporate governance and firm's capital structure is expected. Based on the theories and previous research, this study believes that corporate governance may have an impact but not confident enough to hypothesize a direction therefore not predicting/ specifying a direction and using two-tailed hypotheses. The formulated hypotheses were used as a basis for analysis and conclusion on the relationship among corporate governance practices, capital structure, profitability and size of the firm. To proffer useful answers to the research questions and realize the study objectives, the following hypotheses stated in their null forms:

Hypothesis 1:

H₀₁: There is no significant impact of corporate governance practices on capital structure.

This hypothesis is further broken into three sub hypothesis.

H_{01a}: There is no significant impact of board size on capital structure.

H_{01b}: There is no significant impact of board independence on capital structure.

H_{01c}: There is no significant impact of CEO-duality on capital structure.

Hypothesis 2:

H₀₂: There is no significant correlation between profitability and capital structure.

Hypothesis 3:

H₀₃: There is no significant correlation between size of the firm and capital structure.

Hypothesis 1 was evaluated on the basis of the regression analysis while hypothesis 2 and 3 were evaluated by the correlation analysis.

In case of regression, rejection of null hypothesis implies that corporate governance impacts capital structure. If the null hypothesis is rejected, the sign of the estimated coefficient could be either positive, suggesting corporate governance variable (s) has/have positive impact on capital structure variable or negative, implying that the corporate governance variable(s) has/have inverse/ negative impact on capital structure variable. Failure to reject the null hypothesis suggests that corporate governance does not impact capital structure decisions. Similarly, in case of correlation, rejection of null hypothesis implies that both the variables are correlated while the sign i.e. positive or negative represents the direction of their relationship.

RESEARCH DESIGN

This research involves quantitative research techniques using panel data 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 models that other researchers had developed. This research is exploratory and explanatory in context and design.

Sources of Data: This study collected data from secondary sources. The required data related to financial statement and corporate governance variables were extracted from Prowess database published by CMIE (Centre for Monitoring Indian Economy), annual reports of the companies from their official websites and BSE (Bombay Stock Exchange) website. Other sources were journals; newspapers articles; books; reports provided by SEBI, RBI, MCA, and OECD etc.

Population / Universe: Firms listed on BSE Sensex during 2012-2015.

Sampling Technique: Non-probability sampling (purposive sampling)

Sample Size: Total data was consisted of 84 observations (21 listed companies for four years). 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 directors which implies work on a relatively small sample. Thus, the final sample was constituted of 84 observations.

$$21 \text{ companies} * 4 \text{ years} = 84 \text{ observations}$$

Sample Selection

Population of BSE Sensex Listed Firms	30
Firms in the Financial Sector	04
Actual Workable Population	25
Firms with Data irregularities	05
Total Sample selected	21 (70%)

Structure of the Sample used in the study

Number of annual observation per company	04
Number of companies	21
Number of observations	84

Statistical tools and techniques used: Panel data regression model & correlation

Software used for data analysis: MS-Excel, SPSS version 20 and EViews7.

MODEL SPECIFICATION

This study has used a multivariate regression analysis in a panel data framework to measure the dependence of leverage which is a measure of capital structure on three internal factors of corporate governance. Panel data analysis helps to explore cross-sectional and time series data simultaneously. This model is definitely more reliable than Ordinary Least Squares (OLS) model since it provides ways of dealing with heterogeneity (that is useful in measuring the individual companies' effects) and examines fixed and random effects in the longitudinal data which are the drawbacks of OLS. The following equation is formulated for the study:

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + e$$

Where, Z= Regression Score

β_0 = Regression constant

$\beta_1 - \beta_n$ = Regression Coefficient

$X_1 - X_n$ = Independent variables

e= error term

Adopting the model used by bolbol et al (2004); Ehikioya (2009); Heenitigala and Armstong (2011); Ujunwa (2012) and Illaboya and obaratein (2015), this study formulated the following model to measure the impact of corporate governance on Capital Structure:

Capital Structure (Leverage) = f (BS; BI; and CEOD)

Capital Structure (Leverage) = f (Profitability; and Size of the firm)

$$LEV_{it} = \beta_0 + \beta_1(\text{Log BS})_{it} + \beta_2(\% \text{ BI})_{it} + \beta_3(\text{CEOD})_{it} + \beta_4(\% \text{ ROA})_{it} + \beta_5(\text{Log SZ})_{it} + \varepsilon$$

Where, $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ are the regression co-efficient of variables.

ε = Error Term

The subscripts 'i' and 't' represent firms and years respectively.

β_0 = Intercept of the equation

β_i = Marginal effect of variable on debt to equity ratio i.e. independent and control variable coefficients.

LEV_{it} = Leverage or Debt to Equity Ratio of 'i' company in 't' years

BS_{it} = Board Size of 'i' company in 't' years

BI_{it} = Board Independence of 'i' company in 't' years

$CEOD_{it}$ = CEO/Chair Duality of 'i' company in 't' years

ROA_{it} = Return on Assets of 'i' company in 't' years

SZ_{it} = Size of the firm of 'i' company in 't' year

The following model is used to test the hypotheses formulated in the present research. If corporate governance variables encourage low (high) leverage, it is expected that negative (positive) estimates of the variables would be observed. Proxies for dependent and independent variables are listed in Table 1:

Table 1

Variable Type	Variable Category	Variable Proxy	Notation
Dependent	Capital Structure i.e. Leverage	Debt to Equity ratio	LEV
Independent	Corporate Governance i.e. Board Characteristics	Board Size	BS
		Board Independence	BI
		CEO- duality	CEOD
Control	Profitability	Return on Assets	ROA
	Size of the firm	Total Assets	TA
For correlation analysis debt ratio is used as proxy variable for capital structure along with debt to equity ratio to check the robustness of the result.			

FINDINGS OF THE STUDY

The findings are the research results of an extensive analysis of the data in the research study. All the findings are related and are in the context with the set out research objectives.

Findings from the Descriptive Analysis

- Results depicted that companies have an average debt to equity ratio of 0.199 with standard deviation 0.268 and average debt ratio of 0.099 with standard deviation 0.113. Therefore, the average ratio of the firms' capital mix is 19.9% which denotes the companies on an average are financed by 19.9% debt and 80.1% equity while, debt ratio indicates that only 9.9% of the assets are financed through debt. Maximum debt to equity ratio is 1.35 while maximum debt ratio is 0.40. Minimum of both the capital structure i.e. debt to equity ratio and debt ratio is zero.
- On an average, there are 12 directors that serve on the board with a standard deviation of 2 directors. The minimum size of the board is 6 members and the maximum is 19.

- The independent directors form about 50% of members on the boards with standard deviation of approx. 17%. The noticeable thing regarding independent directors is that the minimum and maximum percentage of independent directors on boards, are 0% and 80% respectively.
- Moreover, about 43% of the study firms have CEO duality with 50% standard deviation.
- The mean for the profitability is 14.45% with standard deviation of about 13%. The mean and standard deviation for the size of the firm are Rs. 263881crores and Rs. 482437crores respectively.
- Around 63% of the observations of the sampled companies for the year 2012-2015 are having 11 to 15 directors on their boards and around 27% of the companies have 5-10 board members. On the other hand, less than one percent of the companies are having more than 15 board members.
- Around 32% of the observations of the sampled companies for the year 2012-2015 are having board independence of equal or less than 50% while around 68% are having more than 50% board independence.
- Around 43% of the observations of the sampled companies for the year 2012-2015 are having CEO duality while around 57% have no CEO duality.

Findings for the Objective 1

- Diagnostic Regression: Before interpreting the results of the multiple-regression, various diagnostic tests were run on data to check the normality, multicollinearity, autocorrelation, heteroscedasticity and unit root test of the data.
- In this study, number of observations are 84, therefore applying thumb rule it can be assumed that the data tends to be normal. Also, for sufficiently large samples, violations of normality in the outcome may not be an issue. The other measures of normality i.e. kurtosis and skewness statistic failed to reject the null hypothesis (the absolute critical value for rejecting Kurtosis is three

and skewness is less than 1). The statistics of the skewness and kurtosis indicated that the only capital structure variable is mildly non-normal as compared to normal distribution while other variables (on same data or after transformation) follow the normality. This is similar to the past researches in which variables were found to be non-normal and the researchers argued that parametric tests can be applied on the data as this amount of non-normality is statistically tolerable and would not affect the multiple regression to estimate the specified structural equations (Cheung and Wei, 2006; Haniffa and Hudaib, 2006; Francoeur et al., 2008). Overall all the outcomes of the correlation are smaller than 0.80, which is considered to be the critical level to determine the multicollinearity problem and hence, data does not suggest multicollinearity problems for this analysis. Tolerance level is less than 1. Also, VIF values of all the variables are perfectly below 10. This implies that all the variables under study are retained. The result supports the absence of multicollinearity in the research model. The model provided the value of Durbin-Watson test as 1.97, which rejected the chance of having any autocorrelation problem. Software package EViews provide White e.s.e.'s cross section method as an option to adjust the standard errors. This test was performed with the regression to control and correct the suspected heteroscedasticity. Variables under study were subjected to Levin-Lin-Chu unit-root test. P-values of all the variables were less than 0.05 i.e. level of significance, which signifies the absence of unit root i.e. data are stationary.

Relationship between Corporate Governance and Capital Structure

The empirical findings suggest that corporate governance attributes in part explicate the financing behavior of Indian firms.

- **Board Size and Capital Structure**

The results acquired from testing the first hypothesis suggest that there is a significant negative impact of board size on capital structure.

- It implies that an increase in number of board size leads to 0.112% decrease in debt to equity ratio while a decrease in the number of board size leads to

0.112% increase in debt to equity ratio and it is significant at a 10% significance level.

- This significant negative impact of board size on capital structure is similar to some previous findings.

Table 2: Previous similar findings related to significant negative impact of board size on capital structure

AUTHOR	COUNTRY
Lipton and Lorsch (1992)	U.S.
Berger et al (1997)	U.S.
Abor and Bikpie (2007)	Ghana (West Africa)
Hassan and Butt (2009)	Pakistan
Bodaghi and Ahmadpour (2010)	Iran
Vakilifard et al. (2011)	Iran
Mahdi et. al. (2011)	Iran
Heng et. al., (2012)	Malaysia
Ganiyu and Abiodun (2012)	Nigeria (West Africa)
Ranti (2013)	Nigeria (West Africa)
Aziz et. al. (2013)	Pakistan
Uwigbe (2013)	Nigeria (West Africa)
Precious Angelo Brenni. (2014)	U.K.

- While it is contradictory to the findings of Jensen (1986); Wen et al. (2002); Coles et al. (U.S., 2008); Hussainey and Al-Nodel (2009); Jiraporn et al. (2009); Saad (2010) and Gill et al. (2012), as they argued a significant positive relationship between board size and capital structure.
- **Board Independence and Capital Structure**
- The results acquired from testing the first hypothesis suggested that there is a no significant impact of board independence on capital structure.
- This insignificant impact of board independence on capital structure is in line of some previous findings.

Table 3: Previous similar findings related to no significant impact of board independence on capital structure

AUTHOR	COUNTRY
Florinița DUCA (2013)	Romania
Bokpin and Arko (2009)	Ghana
Vikilifard et al. (2011)	Iran

- While it is contradictory to the findings of Abor and Biekpe (2007); Wen et al (2002) and Heng (2012).
- **CEO duality and Capital Structure**
- The results acquired from testing the first hypothesis suggest that there is a no significant impact of CEO duality on capital structure.
- This insignificant impact of CEO duality on capital structure is in line of some previous findings.

Table 4: Previous similar findings related to no significant impact of CEO duality on capital structure

AUTHOR	COUNTRY
Sheikh et. al (2012)	Pakistan
Saad (2010)	Pakistan
Florinița DUCA (2013)	Romania
Fama & Jensen (1983)	U.S.
Bokpin and Arko (2009)	Ghana
Jaradat, M.S. (2015)	Jordon
Singla, C. (2016)	India

- While, it is contradictory to the findings of Abor and Biekpe (2007); Emamgholipour et al. (2013); and Fosberg (2004).

- **Profitability and Capital Structure**

- Profitability was used as control variable and the results revealed that it has significant negative impact on capital structure.
- This finding is in line with the theory and other studies like Myers and Majluf (1984); Titman and Wessel (1988); Barton et al. (1989); Mendell, (2006); Mohammad and Jaafer (2012); Kebewar (2013) and Anandasayanan & Subramaniam (2013). It signifies that increase in profitability decreases the debt while decrease in the profitability increases the debt.

- **Size of the firm and Capital Structure**

- Size of the firm was used as control variable and the results revealed that it has no significant impact on capital structure.
- This finding is in line with the studies of Kim and Sorensen (1986); Karadeniz et al. (2009) and Suhendra (2014).

➤ R^2 of 0.1315 indicates that independent variables (Board Size, Board Independence, and CEO duality) and control variables (Profitability and Size of the firm) explain 13.15 % of the systematic variation in the dependent variable (Capital Structure or Debt to Equity ratio). Therefore, the given model revealed that 11.27% of the impact is explained by board size only. This in a nutshell means that the value of the dependent variable can be explained by 11.27% of the independent variables. This value can be considered sufficient because the capital structure of a firm can also be influenced by other factors beside. Adjusted R-squared of this model is 0.075 which means that the independent variables and control variables jointly explain approximately 7.5% of the systematic variation in the dependent variable (Debt to Equity ratio).

➤ In addition, the Durbin-Watson statistic is 1.97 which is close to two which means sampled data do not present the problem of autocorrelation.

➤ A general evaluation from this analysis is that F statistics and its p-values are

2.36 and 0.047 respectively. As p-value is smaller than the critical point of 5% level of significance, hence, it can be interpreted that simultaneously all the corporate governance variables used in the study are, significantly related with capital structure (debt to equity ratio).

- The model has no problem with multicollinearity and unit root. Altogether, the result of the regression analysis forms the following regression equation:

Regression equation for the model

$$LEV_{it} = \beta_0 + \beta_1(\text{Log BS})_{it} + \beta_2(\% \text{ BI})_{it} + \beta_3(\text{CEOD})_{it} + \beta_4(\% \text{ ROA})_{it} + \beta_5(\text{Log SZ})_{it} + \varepsilon$$

$$LEV_{it} = 57.83 - 11.27 (\text{Log BS})_{it} - 0.66 (\text{ROA})_{it} + \varepsilon$$

- In order to check the robustness of the regression result the proxy for capital structure (dependent variable) i.e. debt to equity ratio was replaced by debt ratio (DR). Similar results are obtained by using debt ratio and therefore it is evident from the results that corporate governance has an impact on capital structure as the overall model is significant with F-statistic 52.99 at 5% level of significance.

Findings for the Objective 2

Correlation between Profitability and Capital Structure

The results show that profitability has a significant and negative correlation with capital structure decisions i.e. both debt to equity ratio and debt ratio which are consistent with pecking order theory. According to pecking order theory firms use internally generated funds as first option to finance projects before raising funds through debt.

- Profitability (Return on Assets) and Capital Structure (Debt to Equity ratio) are negatively correlated at 1%, 5% and 10% level of significance. The Pearson correlation coefficient is -0.538 which indicates that 1% change in one variable leads to 0.538% change in another variable in opposite direction.
- Profitability (Return on Assets) and Capital Structure (Debt to Equity ratio)

are negatively correlated at 1%, 5% and 10% level of significance. The spearman's correlation coefficient is -0.718 which indicates that 1% change in one variable leads to 0.71% change in another variable in opposite direction.

- Profitability (Return on Assets) and Capital Structure (Debt Ratio) are negatively correlated at 1%, 5% and 10% level of significance. The Pearson correlation coefficient is -0.566 which indicates that 1% change in one variable leads to 0.566% change in another variable in opposite direction.
- Profitability (Return on Assets) and Capital Structure (Debt Ratio) are negatively correlated at 1%, 5% and 10% level of significance. The spearman's correlation coefficient is -0.698 which indicates that 1% change in one variable leads to 0.698% change in another variable in opposite direction.

Findings for the Objective 3

Correlation between Size of the firm and Capital Structure

There is a significant positive correlation between Size of the firm and Capital Structure. This appears rational as larger firms have more assets for collateral and it is easier for them to negotiate better terms with creditors of funds. It may also be pointed out here that due to prudential banking norms regarding lending in India, most banks are conservative in taking risk. Hence, presence of a large assets base is necessary for raising funds through debt.

- Size of the firm (Total Assets) and Capital Structure (Debt to Equity ratio) are positively correlated at 10% level of significance. The Pearson correlation coefficient is 0.197 which indicates that 1% change in one variable leads to 0.197% change in another variable in same direction.
- Size of the firm (Total Assets) and Capital Structure (Debt to Equity ratio) are positively correlated at 1%, 5% and 10% level of significance. The spearman's correlation coefficient is 0.368 which indicates that 1% change in one variable leads to 0.368% change in another variable in same direction.
- Size of the firm (Total Assets) and Capital Structure (Debt ratio) are positively

correlated at 5% and 10% level of significance. Pearson's correlation coefficient is 0.268 which indicates that 1% change in one variable leads to 0.268% change in another variable in same direction.

- Size of the firm (Total Assets) and Capital Structure (Debt ratio) are positively correlated at 1%, 5% and 10% level of significance. The spearman's correlation coefficient is 0.378 which indicates that 1% change in one variable leads to 0.378% change in another variable in same direction.

CONCLUSIONS FROM THE STUDY

Based on the data analysis and findings, conclusions are presented as under:

- This study depicts that there are listed companies that have not raised their funds through debt and used only equity to finance their assets which is a very interesting set of result. Also, the average shows that companies use less debt in proportion to their equity. It can be concluded from the analysis that on an average, companies are using less debt in proportion to equity in financing their assets. This suggests that for listed firms in India on an average, total debt appears to constitute less than half of the capital of the sample firms.
- Board size has a mean of 12. The minimum size of the board is 6 members and the maximum is 19. In listed firms, the number of directors should be within a range as stated in Companies Act'2013 i.e. minimum board size of 3 and maximum of 15. Therefore, the results show that the maximum limit has been crossed by few companies. Jensen (1983) and Lipton & Lorsh (1992) suggested the optimum, minimum and maximum number of board for making the board effective. They recommended:

Optimal number of board size : 8-9 members
Minimum number of board size: 07
Maximum number of board size: 10

However, the mean and maximum of sampled companies for the current study seem to be much higher than their findings.

- The independent director forms about 50% of members on the boards which implies that half of the boards comprised of independent directors, which is a fairly good representation. The percentages of minimum and maximum independent directors on boards are 0% and 80% respectively. This is a noticeable thing regarding independent directors as it implies that there are companies that are unable to fulfill the mandatory requirement of independent directors.
- About 43% of the study firms have CEO duality, indicating that the phenomenon of CEO duality is voluntarily adopted by the companies as SEBI and Companies Act 2013 has not mandated it yet.
- Corporate governance acts as a driver in enhancing the economic growth in general and improving the performance of company to achieve the objectives of wealth and value maximization in specific. The empirical findings suggest that corporate governance attributes in part explicate the financing behavior of the Indian firms. This study depicts that board size plays a significant role in monitoring management and determining the level of debt and firms. Negative significant impact of board size on capital structure shows that larger board size reduces the chances of inclusion of higher debt level while smaller board size employs more debt to lessen agency problem that arises due to the separation of ownership and control. There is always a high possibility of facing agency problem by the firms with small board size. Small size of the boards, limits its ability of taking effective decisions pertinent to finance. It also limits its ability to monitor executives and they employ more debt capital to fund their functioning and investment which increases the overall level of debt of firm's capital structure. While large boards emphasize managers to employ more equity capital or reserve capital than debt capital as they tend to reduce information asymmetries, expand board of directors' expertise, enhance financial accounting process and improve the performance of the firm. That is, firms with large board members tend to use lower debt in their capital structure and helps in strengthening the corporate governance. Therefore, increasing the board size may improve the capital structure decisions.

- Evidences from this study suggest insignificant impact of board independence on capital structure and therefore, it can be inferred that it is not a significant corporate governance variable in the determination of capital structure. Few companies especially public sector companies failed to fulfill the mandatory criteria of independent directors.
- Most of the public limited companies were unable to fulfill the independent director norm in case their independent directors leave the board due to end of tenure or for any other reason. Appointment is done by government and as it takes time therefore during that time the seat is left vacant. In such a situation, it is difficult to expect any significant impact of independent directors on capital structure decisions. In Public Sector Enterprise, government is the dominant shareholder who appoints independent directors (IDs) as nominees and indirectly formulates corporate strategies. Government can remove them at its will. In family-managed company, family decision takes priority over the governance of the company. Board independence in India is heavily influenced by the incumbent family owners or private individuals who are actually responsible for the appointment of independent directors. Hence, it may be concluded that independent directors usually go with the management's decision and are not so strong a force, as is desired by the regulators. In case of company belonging to business group, group policy assumes priority in decision-making. In annual general session 2017 of CII, SEBI Chief Ajay Tyagi showed his discontent and concern on independent directors' participation in effective decision making. There are several cases that happened in the past where independent directors have resigned from the board of the company without giving any explanation. Therefore in reality, it is evident that the independent directors are not actually independent. This could be the reason that no significant impact of board independence on capital structure decisions is found in this study.
- This study suggests insignificant impact of CEO duality on capital structure in India, it can be inferred that it is not a significant corporate governance variable in the determination of capital structure. It neither gives full support to agency theory nor to stewardship theory. SEBI made CEO non-duality

desirable but not mandatory as its impact is not globally settled. CEO duality is found to be highly insignificant in all regressions. Making it a desirable condition not mandatory SEBI left it at the discretion of the company to implement it or not. Taking a view of recent tussle in two Indian corporate Tata group and Infosys Ltd. in which CEO duality was absent apparently but not actually. It indicates that in spite of the separation of positions the influence of chairman or founder exists in the decision making. If this is the case of most respected corporates who were also involved in the evolution process and reforms of corporate governance in India then expectation from other listed companies would be a challenge. There is no denial that the interference of founder/chairman/mentor in the decision making would be for the best interest of the companies but, it limits the power, independence and innovative thinking of the CEOs at the same time. Now taking a look from other perspective, it might be possible the CEOs would be taking decisions that empower them and involved in decisions that are not feasible in long term and inclined towards their self-interest only.

- A large board would help in fulfilling the mandatory norm of having maximum number of independent directors and their effective participation in decision making as compared to small board.
- As corporate governance of India emphasizes on board independence, the CEO duality failed to make significant impact on capital structure decisions due to trade-off between large number of independent directors on boards and an empowered CEO who is also holding the position of chairman on the board.
- This study supported the inverse relationship between profitability and debt in capital structure, which is in line with pecking order theory and many empirical studies. The results of the analysis show the significant negative impact of profitability on debt level which implies that as profitability helps the companies in reducing their debt level. Correlation analysis also justifies the significant negative correlation between profitability and capital structure.

- This study unable to find significant impact of size of the firm on capital structure but it found a positive correlation between size of the firm and capital structure which signifies that larger firms tend to take more debt as compared to smaller one.
- Good corporate governance helps the company to become competitive, enhancing the value of the company. It helps in attracting investors for raising funds at low cost of capital and in avoiding wrong selection of capital structure which otherwise lead to financial distress and scams.
- Major scams in India include 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 scams forced the regulatory body to pay more focus on the impending need and utility for an appropriate analysis of financial statements of companies.
- There are some major corporates who adopted the high standard system of corporate governance voluntarily since long and even contributed towards the development of corporate governance. They are considered as benchmark for corporate governance but by the time of completion of this thesis two more cases emerged dealing with the issues of corporate governance and they were the oldest modest conglomerate i.e. Tata group and Infosys Ltd. These two biggest and reputed corporate group i.e. TATA group and Infosys Ltd. were seem to be struggling with their corporate governance. Although the issues were different in both the companies but they were woven around corporate governance. They have highlighted the need for better oversight and tighter regulation related to the board of the company. Although the managers should have their own conscience to act ethically but it would be too optimistic to think about stemming out the self-interest of the managers. Therefore, there is a need to have good corporate governance mechanism that will help in effective monitoring, mitigating agency problem and reducing agency cost.

- Each country should analyze empirically the impact of corporate governance variables on financing or capital structuring decisions to form their best corporate governance practices that helps in selecting optimal capital structure that minimizes the overall cost of capital of the firm and ultimately resulting in value maximization and eventually confiscate any chances of bankruptcy or corporate scams. Therefore, implementing good corporate governance based on relevant empirical study will help companies to avoid excessive debt and enhancing value maximization which ultimately contributes positively towards country's economic growth. Also, it is expected that significance of corporate governance will continue to increase in the following years with its effective implementation.

RECOMMENDATIONS

Based on the analysis and findings of the present study the following recommendations are given:

- Corporate governance norms are becoming stricter day by day in India but there is a need to analyze these norms and rules scientifically before implementing it.
- This study suggests the need for robust research in the field of corporate governance research that would support policy formulation in order to make the corporate governance reforms more effective for the Indian conditions.
- Efforts should be made to make improvement in the quality of corporate governance attributes.
- There is a need to bring clarity in the definition of Independent Director.
- There is a need to determine the size of board as what how many members will make it large or small. Also it should be done empirically according to size, sector and nature of company as one size doesn't fit all.
- There is a need to overcome the shortage of independent directors with relevant expertise and to reduce the supply-demand gap of independent

directors as the same person carries the responsibilities of being independent director on the board of different companies. In such a situation there are possibilities that they are unable to give sufficient time and contribute effectively in decision making of the companies.

- Independent directors are appointed for being independent, fair and unbiased therefore their decision making should be free from any influence. Along with that executive directors are also expected to act in the same way. They should not just attend the board meetings to agree with the Chairman/CEO decisions.
- The effectiveness of board is a critical component in making sound corporate governance so there is a need to understand and focus on the factors that help these boards to be more effective in performing their roles.
- There is a need to inculcate and adopt good corporate governance practices.

CONTRIBUTIONS OF THE STUDY

- This study contributes to the body of knowledge and filling the gap by illuminating the significant link between some corporate governance measures and capital structure choices of firms in India.
- This study contributes to the literature on the factors that improve the debt management and its association with corporate governance.
- The findings may be useful for financial managers, investors, financial management consultants, and other stakeholders in order to ensure soundness in the management system of the firms.
- This study provides good opportunity for academics and practitioners to understand the role of corporate governance principles for economies especially transiting economies like India.
- It focuses on Indian firms while very limited research has been conducted recently. This study validates the findings of previous authors by testing the relationships between corporate governance and financial leverage of the

sample firms. Thus, this study adds substance to the existing theory developed by previous authors. The usefulness of boards in India will therefore have a significant impact on the state of corporate governance at firm level and also in the country. Thereby, alleviating bankruptcy and lessen the financial scams.

- The empirical results of this study provide support to corporate managers in establishing an optimal capital structure, and to top management in enacting laws and developing institutional support to make corporate governance mechanisms work more effectively in the country.
- The study contributes in understanding the board-capital structure relationship by examining both the traditional variables. This approach offers a newer light into the constitution and functioning of top management teams as strategic decision making groups (Forbes & Milliken, 1999).
- In addition to providing support to existing theories, this study has empirically contributed knowledge. From these findings, firms should understand that improving good corporate governance is a significant tool to achieve financial sustainability, good financial performance and market value of the firm.
- The findings of the study would give insights and add on empirical evidence in the areas of corporate governance and capital structure for future academic research. Therefore this study provides a direction for further studies in this and related directions.
- It will help policy makers to design proper strategies regarding how corporate governance could be followed and regulatory authorities for enacting laws by evaluating the current governance practices and to make the appropriate amendments, if required.
- The results of the study indicate that corporate governance impacts the capital structure that will help in enhancing the performance of the company which ultimately contributes to country's economy so government might give more importance to improve the corporate governance by making new regulations or recommendations.

DIRECTIONS FOR FUTURE RESEARCH

No research in any subject is complete in itself. Several extensions to this study are possible. This study might be extended in various aspects:

- The time period was four years from 2012-2015. In order to be more accurate, this time period might be extended more than 4 years. Also, other index consisting of large number of companies can be included to form large sample size which will help in making more generalized conclusions.
- Future research could use primary data along with secondary data to have more reliable results.
- Future studies could explore these effects in small, medium and public sector companies.
- Future studies could include and analyze other corporate governance variables along with more control variables to study their impact on capital structure decisions.
- Studies on financial and banking sector companies could be conducted to propose better norms related to corporate governance making them less susceptible to loan default which may help them in reducing the Non-Performing Assets (NPA).