1 Introduction

In an era of mounting of capital mobility and globalization, Corporate Governance has attracted the attention of both commercial organizations and academicians. The reason behind which is that it has increased the competitiveness among the large scale public owned companies as well as the economies of member countries. It is considered as an important element of economies related to transition, where an approach towards corporate governance will affect the performance of an economy on the whole.

The efficiency of outsized shareholders in the corporate governance endeavours has been the area under discussion of many academic and experimental researches. The subject has expanded importance in vision of a number of current substantiation that determined possession of firms is greatly widespread athwart countries than is usually thought.

“Corporate governance” is considered as a private and public organization, counting laws, policies and conventional business practices, which jointly govern the association in an economy, among commercial managers and industrialist as well as for those investors who invest resources in an organization.

Corporate Governance is related to methods for conveying the premiums of financial specialists and supervisors into line and ensuring that organizations are scuttling for the profit of shareholders. Corporate Governance incorporates the structures, procedures, societies and frameworks that cause the effective operation of associations. As per the principles of “OECD (1999), Corporate Governance have two-fold meaning”. The first-fold meaning of corporate
governance states that it includes the association as well as ensures the sample of behaviour among different negotiators in a partial liability organization. In a supplementary way it is considered as a method of interaction among directors and shareholders, additionally representatives, banks, key clients and groups for forming a strategy for the corporations. On the other hand, the second-fold meaning of corporate governance states that it additionally desires the public policy support, as corporate approach development is made inside a structure given by an arrangement of standards. These guidelines might incorporate private regulation towards oneself, yet comprise open laws and regulations, for example, organization law, securities regulation, posting necessities and bankruptcy enactment. High-quality corporate governance practices may not develop without a suitable administrative policy as well as a satisfactory legal and authoritarian framework. This is basically why governments over the world wide pay due concentration towards the corporate governance. Modern proceedings in theories related to economics have suggested that the boards of directors are playing a significant role in governance of large scale organizations.

In the corporate governance literature a vast attention is paid towards the role of various measures for example, unfriendly takeovers, vast shareholders, directorate, and official remuneration contracts as methods for controlling managerial prudence for the protection of interest of shareholders and for value promotion of shareholders. This posting is in no way, shape or form a far reaching portrayal of every last one of perspectives and instruments dissected in the corporate governance literature.
Over the precedent two decades corporate governance have been fiercely
discussed in Europe and USA. Private division organizations had immensely
expanded their part as basic motors of economic improvement and occupation
creation everywhere throughout the world. As growth of an economy depends
more on the advancement of an aggressive corporate area, the foundation and
development of corporate governance is a matter of developing sympathy
towards all nations. This is especially valid for move nations that need to
assemble their private corporate division lacking preparation in the connection
of troublesome financial changes.

It would be reasonable to articulate that, this discussion has appeared in India
since last six years i.e. after Satyam Scandal. Across the world it is accepted
that amplification of the Board of Directors of a corporation is the finest
barricade beside inadequate governance. As per the opinion of the specialists’,
cautious way of balancing of different factors like satisfactory information to
Board of Directors, responsibility, proficiency from supporters may assist in
executing effectual corporate governance in India. In India corporate
governance laws are encouraged by the expanding nature of “Indian
Economy”.

1.1 Need of Corporate Governance:

Corporate governance is generally associated with the existence of agency
problem and its roots can be traced back to separation of ownership and
control of the firm. Agency problems arise as a result of the relationships
between shareholders and managers and are based on conflicts of interest
within the firm. Similarly conflict of interests between controlling shareholders
and minority shareholders is also at the heart of the corporate governance literature. According to modern corporate finance theories, agency cost is one of the determinants of capital structure. However, empirical literature on corporate governance does not provide any conclusive evidence on the existence of relationship between corporate governance, ownership structure and capital structure of firm.

A striking investment objective is provided to many investors by the emerging markets owing to the attached high growth with elevated risks. Such risks stipulate a large amount of liable and clear framework for building portfolio investment decisions. As per the recent finality of reports of the World or the Lokpal movement for greater governance and responsibility indicate the actuality that corporate governance is the need of the hour.

1.2 Indian Scenario of Corporate Governance

The developing countries like India are benefited by the globalization of capital markets. Though the current financial crisis in budding economies have tinted the risks concerned in such business transactions, it is still factual that investment in foreign market played an important role in the noteworthy growth of an economy growth prior to the crisis. In addition, the facts recommend that equity investors, either FDI or portfolio, were not the solitaries to scuttle for depart. It was frequently lending of short-term bank finance that formed the jagged setback in flow of capital. Growth in the trends of investment in foreign market is mostly irretrievable, because extreme investments in complex markets look for investment prospects in developing countries that has been deficient in ample of conjugal savings.
Corporate governance is usually connected with the survival of agency crisis and its ancestry can be traced rear to parting of possession and management of the organization. Agency crisis occur as a consequence of the association among shareholders and managers and are also supported by clashes of interest within the organization. Similarly, clash of interests among domineering shareholders and minority shareholders is also at the sensitivity of the corporate governance literature. According to contemporary corporate finance theories, activity cost is one of the determinants of capital structure. However experiential literature on corporate governance does not offer any decisive evidence on the survival of association among corporate governance, ownership structure and capital structure of an organization.

Being the part of rising economies of the world, India is not left untouched by the developments world-over. As India is getting incorporated with the global economy and the archetype shift in the global commercial environment, the investor district, both domestic and international, is challenging greater revelation and lucidity on commercial decisions and amplified shareholder worth from companies in India. Companies can no longer afford to disregard good corporate governance performances.

Indian corporate governance scheme have both sustained and detained India’s gradient to the pinnacle rank of the world’s economy. Whereas on documents the legal scheme of a country provides several number of finest schemes for the protection of the investors across the world. Official organizations of corporate governance in India have been in position for a great amount of years, although corporate governance concerns came to the front position only subsequent the acceptance of the structural alteration and globalization agenda.
by the administration in period of July’ 1991. As India is fetching extra incorporated among the world market and additional companies drumming exterior basis of finance as of the debt and capital markets, community concerns on track flattering more alert on efficient depositor protection, on intelligibility of functions in business. Primarily India has three ways from beginning to end i.e. ‘egress and ‘influence decisions of debt holders and impartiality holders are proposed to be associational guaranteed in order to make corporation supervision accountable. An imperative expansion in the pasture of corporate governance and protection of investor was the founding of the “Securities and Exchange Board of India (SEBI) in 1992.”

A National Foundation for corporate governance was set up by the government of India. A plan was drawn by the foundation for training for trainers’ course. Participants are choosing from the selected group of trainers i.e. through the prominent organizations of the country. Training will also be organized for the directors as well as the initiate researchers on both the corporate governance as well as on corporate governance advocacy.

1.3 Significance of corporate governance in transition perspective

In an economy private companies raise finances from the investors by merging these finances with additional contributions. The main objective behind it is to look for earnings. The gratitude of the imperative part and greater presentation of private sector organizations in economic growth was an influential motivator for extensive privatization in numerous developed and developing economies in the last two decades. In evolution countries, a reassign of commercial possession on an unparalleled scale was undertaken in the framework of
economic alteration over the last decade. In order to develop a competent and viable corporate sector, privatization is correctly considered an essential step. It has been undertaken by all such countries, but its accomplishment has been jagged. Devoid of high-quality corporate governance the corporate organization cannot trail its elementary profit-seeking goal with utmost competence, both in stipulations of confidential and social welfare. Corporate governance was understood to come into view involuntarily, as a straight consequence of ownership conversion.

1.3.1 Foreign Investment Promotion

The capital market globalization provides benefits for the developing countries. Though the current situation of financial crises in emerging economies have tinted the hazard involved in foreign investment transactions, it is at a halt true that foreign investment played a vital role in the growth of the economy of the developing economies before the financial crisis. In addition, the substantiation proposes that equity investors, whether the portfolio or FDI, were not the ones to flash for the way out. It was more often than not short-term bank lending that formed the jagged turnaround in flow of the capital. Trend in the growth of the foreign investment is mainly irreparable as an extreme investment in superior market countries seeks speculation opportunities in developing countries that are deficient in adequate domestic savings.

1.3.2 Minority Shareholder’s Right

Corporate governance is relevant for reinforcement of the effectual defense of minority shareholders’ rights. The mechanism of the corporate governance is implemented in such a way that it may help in protecting the minority investors
to invest their amount in a deficit way. It significantly avoids the increase in the agency cost as it will help in reducing the exploitation of minority shareholders.

1.3.3 In Case of Social Responsibility
Effectual corporate governance emphasizes a significant relevance in case of social responsibility. If corporate governance is used by the board of directors of a corporation than they have been able to protect the rights of the customers, investors etc. other concerned parties.

1.3.4 Growth in quantity of scams:
From past few years, many frauds, scams etc. have increased in number. The main reason behind it is the misuse and embezzlement of public money across the globe. The places in which the number of such scams are increasing are financial institutions, stock markets etc. For the avoidance of such scams many corporations have already adopted the corporate governance.

1.3.5 Minimization of Risk
A significant characteristic of corporate governance is extenuating or dropping the quantity of risk that is implicated. Throughout corporate governance outrages, scam, and illegal liability of the corporation can be prohibited or evaded on the whole. As the citizens anxious in the association are acquainted with what they are answerable for, the proceedings of one doesn’t mean the collapse of the whole corporation. Properly recognizing what the responsibilities in an organization allows decisions to be prepared that won’t have an unconstructive effect on the whole organization, and it means that the lawbreaker can be much more rapidly recognized and punished as an alternative. Corporate governance is of great importance as it is concerned as
a form of self-policing. It helps the organizations to handle their matters by themselves; the involvement of third party is avoided with the help of corporate governance.

1.3.6 Acceptance through public
In requisites of production, a corporation with corporate governance is extensively accepted by the community. This is frequently owing to the scheme of revelation and intelligibility that arises through corporate governance. By means of full revelation and the aptitude of people who is employed in an organization to get information, as well as the universal public, there is a superior level of faith and also the actuality that owing to the technique that corporate governance is associated, there is an inferior chance of deception and corporation-wide criminal commotion, which helps in gaining the faith of the public.

1.4 CONCLUSION

Corporate governance is a group of policies that describes the association among stakeholders, management, and board of directors of an organization and persuades how that organization is operating. In simple words, corporate governance covenants with issues that consequence from the division of possession and management. The occurrence of well-built governance principles provides enhanced contact to capital and aids to the economic growth. Appropriately intended policies of governance should provide focus on implementing the principles of justice, precision, responsibility, and dependability to both the parties i.e. shareholders and stakeholders.
As an aspect of business the corporate governance has become an extremely important element in current years. For running a successful business, for forming a good image in the eye of the public, for minimization of risk a corporation requires significant corporate governance. It helps in rationalizing the procedures and gives populace answerability. The summit of corporate governance is to assist the judgment making progression. As per the principles of corporate governance, one of the major objectives is to evidently give details to the board, the shareholders, and the stakeholders what kind of duties and form of duties they have within the organization.

Responsibility is what assists the inhabitants within the organization to formulate decisions, whether it is augmenting out that if the inhabitant is supposed to be terminated from their position payable to the mistakes that they have committed or who is supposed to be accredited for their high-quality work due to doing incredible performance in their field. With high-quality corporate governance, it is very simple and convenient to know what the key members of the organization are believed to do.

High-quality corporate governance guarantees that the commercial environment is reasonable and crystal clear and that organizations can be detained responsible for their proceedings. On the other hand, frail corporate governance leads to squander, misconduct and corruption. It is also significant to keep in mind that though corporate governance has emerged as a means to administer contemporary joint stock corporations it is evenly important in state-owned ventures, cooperatives, and family businesses. In spite of the type of scheme, only high-quality governance can bring sustainable good quality business performance.
As discussed that Corporate governance (CG) issues have come out stronger in recent years because of corporate scandals and unethical behaviour of executives. Firms, board members and executives have been subject to criminal and civil actions over hidden debt, inflated earnings, insider trading, tax evasion, misuse of funds, and breaches of fiduciary duties (Picard, 2005).

1.5 Statement of the problem

The corporate governance has been a growing area of management research. A comprehensive review of literature reveals that empirical work is mostly focused on the impact of corporate governance on firm’s performance or examines the influence of ownership structure on firm value (Claessens, 2002; Singh and Gaur, 2009; Chiang and Lin, 2007; Pant and Pattanayak, 2007; Douma, George and Kabir, 2006; Patibandala, 2006; Selarka, 2005; Miguel, Pindado and Torre, 2003; Mohanty, 2002; Sarkar and Sarkar, 2000; Khanna and Palepul, 2000; Sundaramurthy, 1996; Zattoni and Cuomo, 2010; Jackling and Johl, 2009; Sarkar and Sarkar, 2009; Adjaond, Zeghal and Andleeb, 2007; Nicholson and Kiel, 2007; Choi, Park and Yoo, 2007; Zang, 2007; Garca and Anson, 2007; Barako, Hancock and Izan, 2006; Arora, 2010; Arora and Sharma, 2015). However, relationship between corporate governance and corporate finance variables like capital structure, cost of capital and dividend policy/payout has not been fully explored. Only few studies discuss the said relationship. Berger (1997), Friend and Lang (1988), Wen (2002) and Abor (2007) discuss the influence of corporate governance on the capital structure decisions of firms for developed and emerging markets. But no such study has been conducted to investigate the relationship between corporate governance and corporate
finance variables like capital structure, cost of capital and dividend policy/ pay-out for Indian listed companies. Therefore the aim of this thesis is to analyse the links between corporate governance quality and the capital structure, cost of capital and dividend policy with specific reference to India.

1.6 Aim of the study

The aim of this study is to determine the quality of corporate governance and its effect on companies’ capital structure, cost of capital, dividend pay-out/policy and firm performance.

1.7 Research Objectives

The following are specific research objectives of the study:

i. To examine the present status/ Pattern of corporate governance in the companies

ii. To study the effect of corporate governance on capital structure of companies.

iii. To evaluate the effect of corporate governance on dividend policies of the companies.

iv. To identify and establish link between corporate governance, capital structure and corporate dividend policies individually and collectively.

v. To identify and establish link between corporate governance and firms accounting performance.

vi. To identify and establish link between corporate governance and firms market performance.
1.8 Outline of the Thesis

The thesis consists of seven main chapters. Chapter one gives an overview of the study and explains the concept of corporate governance, importance of corporate governance and current development of the concept of corporate governance in developing countries and India. It then discusses the objectives, motivations for undertaking the study and the contributions it makes to the body of knowledge.

Chapter two provides detailed review of relevant literature. It discusses the different components of measuring corporate governance. Then the chapter discusses relevant literature on different components of governance like independent members on the board, role of different stakeholders etc. Finally, this chapter discusses the literature related to corporate governance and firm characteristics.

Chapter three gives the methodology adopted for this research, along with the research design. It describes the sample, data collection, variables and the trends in Indian Board structure. It also presents the empirical model specification and estimation issues for explaining the relationship between corporate governance and different firm characteristics. It also discusses the variables, statistical tools used for data analyses and the hypotheses development.

Chapter four presents the status/ pattern of corporate governance for the period 2002-2014. It examines the trends of Indian Board structure at two different stages of the sample period for BSE Sensex companies. The status/
pattern of corporate governance is measured in terms of four main criteria’s i.e. board size, number of independent directors in the board, percentage of independent directors, number of board meetings and ownership structure of the selected firms.

Chapter five focuses on corporate governance and capital structure relationship as it establishes relationship between corporate governance variables such as board size of board, independent directors, number of board meetings and ownership structure affecting capital structure decision of the current sample firms.

Chapter six of this thesis tries to put light on corporate governance and firm characteristics puzzle. It first creates an index of corporate governance score and then establishes the linkages with important firm characteristics variables like Dividend, firm performance (both accounting and market based measures) using a panel framework.

Chapter seven concludes the thesis by summarizing the main findings and the contributions for practitioners and academia. This chapter also identifies the limitations of the current study and concludes with a set of recommendations for future research.

Lastly, the references of academic journals, books and reports utilized for conducting literature review are presented in the end of the current thesis.