CHAPTER 6 – OTHER DECISIONS

6.1 INTRODUCTION

This researcher has classified his area of study in four broad types. Also denoted as decisions. They are viz. The Financing Decisions- which largely deal with the fund raising decisions.

The Next sequential decisions is apportionment of the funds raised, this has been studied in The Investment Decisions. Generally capital budgeting related decisions are considered in this Section.

Thirdly, the Dividend related theoretical aspects are studied in The Dividend Decisions.

And finally, theoretical aspects which, per say, cannot be classified in these, above mentioned three types are Considered in The Other Decisions. Typically Theories / Concepts in the domain of Behavioral Finance, Corporate Social Responsibility (CSR), Corporate Governance, Mergers and Acquisitions, Portfolio Theory, Private Equity, Prospect Theory, Profit Maximization, Tunneling Effect, Wealth Maximization are considered in the Other Decisions.

The theories / concepts in this study are classified but essentially these theories and concepts are interrelated. Even in Other Decisions certain aspects which are having bearing on the theories/ concepts, discussed in earlier sections, are also classified under the theories, discussed in earlier Sections of this study.
6.2 Theories / Concepts / Approaches Encompassing Other Finance Related Issues

The following theories / concepts are studied in the Other Decisions

Agency Cost Theory: The personal aspirations are prioritized over objectives of the company and expectations of shareholders. In professional organizations, the distinct categorization between ownership and Control is followed. The shareholder’s are the owners of the firm and the professional managers are (which may include the executive directors of the firm) appointed to run the organization in accordance with, the objectives of the firm. Ideally the objectives of the firm like, wealth maximization or value of the firm should also be the objective of the said employee hired by the owner. Typically, owners are called as principals and the employees are called as the Agents. As ownership and Control differs, the conflict between the agents and principals may take place. The individual goals of the agent, when differs that from the principal , which is explained by the agency cost theory. The short term objectives of the managers may be prioritized against the long term goals of the organization. This may have implication on the composition of the capital of the Firm.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-1. Consistent with agency cost explanations, over-investment is concentrated in firms with the highest levels of free cash flow.

OD-2. Manager of the firm is the Agent of the Shareholders

OD-3. Agency Theory has provided useful tool for detailed analysis of determinants of complex Contractual arrangements called the modern Corporation.

OD-4. Agency Costs are not significantly different of Family managed Businesses than other firms.

OD-5. Managers Behave solely for the interest of Stakeholders
Average Rate of Return (A R R): Accounting rate of return is a method of estimating the profit
Potential of a project. It divides the average profit by the initial investment to get the expected return. This method lacks sophistication because this method does not consider the time value of money aspect.
Particularly the following normative statement/s is / are being considered by the researcher during this study.
OD-6.Accounting rate of Return ,ARR as a technique of Capital Budgeting is used by lesser companies w.r.t. DCF

Behavioral Finance: This is a field of finance that, proposes psychology based theories to explain
Market anomalies. Behavioral finance believes information structure and characteristics of market participants influences the investment decisions.
Particularly the following normative statement/s is / are being considered by the researcher during this study.
OD-7.Behavioural Corporate Finance Literature has matured enough and addresses to almost all major Issues in Corporate Finance.

Corporate Social Responsibility (C S R ): This is firm’s initiative and effort to assess and take the responsibility for companies effects on environment and impact on social welfare. This is also termed as corporate citizenship and involves short term recurring costs to the company Which does not provide financial benefit to the company but promotes positive social and Environmental change .Lot of corporates are actively involved in the CSR activities.
Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-8. In CSR the Concept of Triple Bottom Line is sensible.

Cash Flow: A revenue or expense stream which causes change in cash account over a period of time. The source of cash flow is in three activities viz, Financing, Investing and operations. Generally cash out flow denoted an expense. Every firm prepares a cash flow statement where in the non cash expenses are added back to net income and business generated by business is calculated. The cash flow is a major indicator of company’s health, more specifically the financial health. At personal level as well as at firm’s level adequate cash level maintains the solvency. All the stake holders as well as business analysts of a firm are in gauge the financial performance of the firm on basis of Cash flow.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-9. Flow-based insolvency occurs when operating cash flow is insufficient to meet current obligations.

OD-10. A decrease in cash / collateral decreases investments, holding fixed the profitability of investments.

OD-11. The free cash flow hypothesis dominates the corporate governance hypothesis in terms of the net effect of stock market liberalization on a firm’s stock returns.

OD-12. Free Cash flow Theory predicts, Mergers and Takeovers would create value.

OD-13. Firms having greater access to Capital Markets, tend to hold lower cash.

OD-14. Cashflow has a Positive effect, on investment, irrespective of Size of the firm.
Corporate Governance: This is a process of balancing the interests of the many stakeholders in the firm. This is the system of Rules, Practices and Processes by which the firm is directed and Controlled. This is all encompassing process which covers virtually every sphere of Management. This started in US when Sarbanes-Oxley Act was introduced. It is essential that Firm should strive hard to be a good corporate citizen and not merely a profit generating business. Corporate Governance gives lot of importance to fair business practices and Transparency in its operations.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-15.Better governed firms are likely to have smaller cash holdings and higher stock returns.
OD-16.Corporate Governance protects the interests of minority Shareholders.
OD-17.The relationship between Corporate Governance and Firms Earnings are Positive, Globally.
OD-18.Weak Governance Systems have failed widely.
OD-19.Existing Theories are sufficiently complete to include all major determinants of good Corporate Governance.

Debt Equity Ratio: As the name indicates the ratio is a measure of companies’ indebtedness to the lenders. This ratio can be further classified into long term debt and short term debt with the equity. The nature of business / type of industry does matter, while analyzing the D/E ratio. D/E ratio of 10 can be considered as normal in case of a firm which is in banking / financial services business, however the same ratio is not desirable for a manufacturing
company. It is but natural, that the companies having high D/E ratio, are stressed because of the burden of high interest payment and repayment of the capital.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-20. International Diversification of the Firm has no relation with the Debt Equity ratio as well as Cost of capital.

Financial Performance Management: Performance of the firm is measured and compared with the benchmark, to assess the efficiency. In Financial Performance Management, for assessment and Comparison purpose ratios are extensively used. Four broad types of ratios, viz. Liquidity Ratios, Profitability Ratios, Capital Structure (Leverage) Ratios and Activity/Efficiency/Turnover Ratios. While assessing the financial performance, the relevant benchmark Standards are considered. For different Industries the parameters would differ. While evaluating the Financial Performance Of a firm, the comparison of Historical data is important.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-21. EVA is a better financial performance measure than other traditional measures.

OD-22. The more liquid a firm's assets, the less likely the firm is to experience problems meeting Short-term obligations. But liquid assets frequently have lower rates of return than fixed assets.

OD-23. Firms with high Tobin's Q ratios tend to be those firms with attractive investment opportunities or a significant competitive advantage.

OD-24. Stock-based insolvency occurs when a firm has negative net worth, and so the value of assets Is less than the value of its debts.
OD-25. Tobin’s Q exceeds one, even without any adjustment costs, for a firm that earns rents as a result of monopoly power or of decreasing returns to scale in production.

OD-26. Valuations derived from industry multiples based on reported earnings are closer to traded prices than those based on reported operating cash flows.

OD-27. Ratio Analysis is limited to the world of "Nuts and Bolts".

OD-28. Corporate value is a function of the structure of Equity Ownership.

OD-29. Increase in Leverage has led to decrease in interest Coverage ratio.

OD-30. Risk management at firm level represents a means to increase firm value to Shareholders.

OD-31. Valuation of Privately held small firm and a large Publicly held firm uses same methodology.

OD-32. Value based methods promote maximization of Economic worth of an organization. by allocating its assets to its best use.

OD-33. Perfect Correlation between Value measurement and Stock Price is possible.

OD-34. Managers are Rational in their perspective on earnings bench mark and earnings management.

Information Asymmetry: When one of the party in transaction, is having, superior information than the other one then it is termed as asymmetric information. With the advancement of technology and increased data communication speed, Asymmetric Information is on decline. This asymmetry leads to adverse selection and moral hazard. While deciding the capital structure, Information Asymmetry may have implication on the capital structure of the firm.

Particularly the following normative statement/s is/ are being considered by the researcher during this study.

OD-35. Disclosure quality improves investors’ welfare by reducing cost of capital in a competitive market.
OD-36. Increased Transparency increases the Firm's Value.

OD-37. Increased Disclosure reduces the estimation of Risk.

Mergers and Acquisitions: When two different corporate entities are consolidated merger takes place. A new company is formed out of merger. In acquisition one company is purchased by other. No new Entity is formed. When two companies having unrelated businesses are merged it is called as Conglomerate merger. Horizontal merger takes place when two companies are from the same business Often competing with each other. When two or more firms from the same industry, but at different level Of supply chain merge, which increases the synergy, is called as vertical merger. Besides there are Product extension mergers, where firms dealing in products related with each other merge. In market extension merger, two companies dealing in same product, but in different market merge. Through mergers and acquisitions companies achieve inorganic growth. In most of the cases Merger is a win-win situation.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-38.Mergers is the most efficient way of Corporate take over

OD-39.Conglomerate merger is equally beneficial to the acquired as well as acquiring enterprise.

OD-40.Receding demand would minimize the chances of Merger, even though the acquired company has free cash flow.

OD-41.Takeover financed by cash and debt would generate larger benefits than those financed by Stock exchange.

OD-42.Premium paid to Target Company, at takeover is an Wealth re-distribution and not Wealth gain.

Other Decisions: The normative statement which cannot be further classified in the relevant theory /concept / approach pertaining to other decisions are considered as other decisions for
the sake of nomenclature.
Particularly the following normative statement/s is / are being considered by the researcher
during this study.

OD-43. Financial Institutions help to satisfy the inter temporal primary lenders & Primary borrowers.
OD-44. Stock Market plays significant role in macroeconomic modeling and policy discussion.
OD-45. The Price level moves cyclically.
OD-46. Financial Fragility is caused because of low net worth and heavy reliance on external Finance.
OD-47. When the recovery phase in economy starts firms are inclined towards Capital Expenditure.
rather than , Restructuring their Balance Sheets.
OD-48. The Stock buying behavior of an investor can be predicted by use of existing Model.
OD-49. Collapse of Asset pieces or an aggregate demand shock , that reduces firms equity
would result in decreased supply of external finance.
OD-50. Family managed business Groups and Domestic Financial Institutions are poor monitors
than Foreign Institutional investors.
OD-51. The Corporate Finance theories are examined universally , i.e. Developing & Developed
Capital Markets.
OD-52. Announcements of Joint Ventures has a Positive effect on the value of the Firm.
OD-53. The Policy Makers did explain the Public and Academicians , the precise nature of
Market failure of 2008.
OD-54. Stock Market Liberalization leads to more efficient allocation of Capital.
OD-55. Special Items receiving income statement presentation are more transitory, than those
Receiving footnotes presentation.

Portfolio Theory: The theory of Corporate Finance, which attempts to maximize portfolio’s expected
Return for a given amount of portfolio risk or minimizes risk for given level of expected return, by
Cautiously selecting the proportions of various assets. Though widely practiced by the investors, in recent past its basic assumptions are challenged. This theory advocates diversification of assets while making investment decisions so that collectively risk can be reduced than investing in one asset. This theory was developed in 50’s to 70’s and is considered as advancement in mathematical modeling in finance.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-56. Average returns of Firms having small Market Capitalization are high , given their Beta estimates ; and average returns of firms having Large Market Capitalization are low.

Private Equity: As the name indicates, this is an equity capital which is not quoted on any stock exchange. The investment are pooled by the funds and committed investors, who directly invest in the private companies or buyout public companies. These investment often demand large sums for investments and longer holding period. The investors seek exit at the time of I P O.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-57. In Private Equity, The Operational value Creation is similar irrespective of owners dedication.

Profit Maximization: Earning maximum profit is the basic motive of any business. However Profit maximization is a myopic objective. A holistic objective for any firm would be wealth maximization. Profit as a notion could be confusing , say for instance accounting profit may not increase the wealth of the stakeholder. Besides operating profit, gross or net profit could cause confusion while setting profit maximization as an objective.

Particularly the following normative statement/s is / are being considered by the researcher during this study.
OD-58. The assumptions made by the economists, about, Profit Maximization are in line with the reality.

Prospect Theory: This theory believes that people value losses and gains differently. Their Decisions are based on perceived gains rather than perceived losses. When two equal choices Are given to people, one expressed in terms of possible gains and other expressed in terms of Possible losses then, people would choose the choice expressed in terms of possible gain. Hence This theory is also known as loss-aversion theory.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-59. The Prospect Theory explains the IPO market Behavior.

Ratio Analysis: The financial performance of a firm is measured with the help of ratio analysis. Ratios are nothing but representation of one amount with respect to another. These ratios are Based on the historical data. The performance of the firm can be compared with the help of Comparison of ratios. The bench marks are used for the comparison. Broadly ratios are classified Into four types, viz. Liquidity Ratios, Profitability Ratios, Capital Structure Ratios and Activity or Turnover ratios.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-60. Conventional Ratio Analysis has little academic relevance.

OD-61. Discreminant-Ratio model is extremely effective in predicting bankruptcy.

Signaling Theory: The basis of this theory is in information asymmetry. Information is not available To all the parties at the same time. This may lead to low valuation of the firm. This theory believes that, that corporate finance decisions are the signals sent by the companies managements to the Outsiders (investors). These signals counter attack the information asymmetry. Certain corporate
Finance decisions like declaration of dividend, is perceived as future profitability of the company. Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-62. Current profits can be a poor reflection of true future profitability.

OD-63. Numbers in Financial Results are relevant and can be indicative of Future Performance.

Tax Shield: When the firm or individual is allowed a deduction in tax by virtue of availing Loan. Tax shield reduces the tax liability, which saves cash out flow. This increases the Value of the firm. There are various types of tax shields such as depreciation, amortization Mortgage interest, Donation to charities, Medical Expenses. The tax shields vary from Country to country.

Particularly the following normative statement/s is / are being considered by the researcher during this study.

OD-64. In after tax analysis the differences in accounting rate of return correspond to the differences in economic rate of return.

Tunneling Effect: When dominant or majority shareholders or insiders perform some act Detrimental to the interest of the common stock holders, is called as tunneling effect. Some of the examples of the tunneling effect could be cited as, excessive executive Compensations, asset sales, personal loan guarantees, golden parachutes. The common Thread is loss to the minority shareholders, who are at a receiving end because of Inappropriate actions by the company insiders, leading to erosion in the value of the firm.

Particularly the following normative statement/s is / are being considered by the researcher
Wealth Maximization: The objective of any organization is wealth maximization. By wealth maximization, we mean that the value of the firm is maximized. The wealth of shareholders increases when the net worth of the firm increases, market price of the share rises. This is a relatively recent approach. Before wealth maximization, Profit maximization used to be the objective of the firms. Wealth maximization involves a sound financial investment decision. This is a superior objective because of following points like, Wealth maximization is based on Cash flows and not profits. It considers the time value of money aspect, the factors of risk and uncertainty are taken into account. Profit maximization is considered as a short term objective with respect to wealth maximization objective. One more dimension is added to wealth maximization in the form of EVA (Economic Value Added), which is a superior measure of real wealth added?

Particularly the following normative statement/s is/are being considered by the researcher during this study.

OD-66. Wealth maximization implies maximization of firm’s market value.

6.3 CHRONOLOGICAL REVIEW OF RESEARCH PAPERS STUDIED

Effect of agency cost has been studied, in depth, along with managerial behavior by Jensen and Meckling (Michael C. Jensen and William H. Meckling, 1976) they claim that their study could explain various aspects related with the agency cost. Their study explains, why a manager of a firm having mixed financial structure, would choose the capital structure of the
company in such a way that, total value of the firm would be less than it would be, if he were the Sole owner of the firm. The level of free cash flow and extension of investment has been studied. It was found that because presence of agency cost, over-investment is concentrated in firms with The highest Levels of free cash flow, does not have any evidence.

Role of manager as an agent of the shareholder has been studied by many researchers. When Agency Costs are studied the role of manager is critically assessed. Theoretically it is perceived that managers should act as the agents of the shareholders, and manager’s decision making should Be contributing to increase the value of the firm, which would ultimately benefit the shareholder. Rhee (Ghon Rhee, 2002). The researcher studied the post IPO prices of shares. The researcher has Studied the I P O’s in U S market, from 1990-2001 and observed that, issuers were under pricing the shares. In quite a few cases the first day listing gains are as high as 100 %. Whereas it was noted that The long term performance of the firms issued IPO has declined. The study did not find any Consistency in the managers performance, providing the evidence that managers are agents Of the shareholders.

Are managers agents of the shareholders? Do managers protect shareholders interests? Is Managers Decision making is in line with the shareholders expectations? These and similar questions were Studied by Tsuji (Chikasi Tsuji, 2011). This study is in the form of survey of all the available Literature. This researcher cites that, Myers(2003) has documented that, in practice, the interests of Corporate Finance Managers and share holders are not aligned, so corporate finance decisions can Not always be in the interest of shareholders. Though managers are agents of the shareholders they Act in their own private benefit, such has higher salaries, perquisites, bonuses etc. further it is noted That monitoring managers is not only costly it is at times impossible. This study acknowledges this Fact. Tsuji has said that his survey has highlighted that empirical study on agency cost is insufficient.
And managers behave solely in the interest of shareholders has no evidence.

The research papers and review of studies considered above is not confirming the observations of Empirical literature. The differences in interests of shareholders and managers are underlined. Some Basis assumptions such as managers are agents (i.e. representatives) of the shareholders are challenged. So there is no conclusive proof of managers’ behavior as agent of shareholders. If Agency cost is to Be believed then, the Pecking Order and trade-off theories become less significant, because these Theories believe that, managers act solely in the interest of the shareholders.

With the advancement of the time, is there any change or progress in the capital budgeting Appraisal techniques? Has been studied by Sangster (Alan Sangster, 1993). He noted that, with the advent of technology firms are using, theoretically sound techniques such as DCF and reliance on theoretically less sound techniques like ARR. Hence this study shows firm evidence for ARR as a technique of capital budgeting is used lesser by the companies as compared to DCF.

The behavioral approach has been the topic of interest of researchers since recent past. The behavior Of Investor and behavior of the manager has been studied. It makes potentially realistic assumptions. Baker et al., (Malcolm Baker, Richard S. Ruback and Jeffrey Wurgler, 2004). Is there any place for Intuitive behavior? Can rational decisions based on intuition be taken by managers? Has been studied By these researchers. They comment that, behavioral corporate finance has matured to the point that, One can sketch out handful of conical theoretical frameworks and use them to organize the Accumulated evidence of empirical studies. Behavioral approach complements other paradigms in the Field. While advocating the behavioral approach these researchers said, this approach provided quite Compelling explanations for financing and investing patterns when existing theory was unable to Reconcile the same. So we can believe in Behavioral Corporate Finance Literature has matured enough
And addresses to almost all major Issues in Corporate Finance.

The sanctity of profit earned by the firm is valued when it is beneficial to the society at large. When the profit is earned with the myopic intention of making the firm financially richer, then Such profit is of very little relevance to the society. With the ever growing importance of CSR A holistic approach has been considered. It is called as TBL. This is triple bottom line, in the Accounting frame work Social, Environmental and Financial aspect is also considered. John Elkington(1994) coined this term. The main emphasis of TBL is on sustainability. Prima facie This approach appears to be encouraging but is it really so? This has been tested by Norman and MacDonald (Wayne Norman and Chris MacDonald, 2003). They have strongly argued that, The very term of TBL is misleading and promises something which cannot be delivered. The idea of TBL is fanciful but according to these researchers it not a sensible idea in CSR.

The problems of reforming CSR, in post crisis period has been studied with specific Reference to Asian region by Haider Khan (Corporate Governance of Family-Based Businessed in Asia: Which Road to Take ?, 2002) This researcher compared the FBS (Family based Corporate governance System) with Bank Led System (BLS) and Equity market based System (EMS). Categorically he noted that, Even when the firm grows, neither the banks nor the equity markets ultimately control the Family business groups, which leads to serious agency problems, requiring the reforms. Hence, Certainly agency costs are different for family managed businesses than other firms.

Whether good corporate governance practices lead to higher returns to the common stock Holder’s? what would be the scenario in European countries ? was studied by Bauer et al., (Rob Bauer , Nadja Gunster and Roger Otten, 2003). These researchers used Deminor
Corporate Governance ratings throughout their study. Their data was comprising of Eurotop 300 of FTSE. They observed the country specificity in their study. Surprisingly they observed a negative relationship between Corporate Governance and company earnings. Their study did not support the global, positive relationship between the Corporate Governance and firm’s earnings.

Cash flow determines the operational ease of the firm. Having state of the art technology, having great demand for the company’s products or services, would not yield any tangible results unless the firm has free cash flow at its disposal. The perceived notion is, free cash flow would be positively instrumental in creating value to the firm. This notion has been tested by Jensen (Michael C. Jensen, 1986). Jensen studied free cash flow and its usefulness in takeovers. He made his observations of oil industry. It was revealed that, free cash flows used for mergers and acquisitions are more likely to destroy the value rather than creating the same. The managers of the firm having unused borrowing capacity, and free cash flow are more likely to undertake low-benefit mergers at times value-destroying mergers and diversifications. These findings are absolutely in line with the free cash flow theory. So, Free Cash flow Theory predicts, Mergers and Takeovers would create value, does not find evidence.

What are the reasons behind holding the cash balances? Are there any determinants of cash holding? What would be the implications of the same? Such questions were studied by Opler et al., (Tim Opler, Lee Pinkowit, ReneH Stulz, and Rohan Williamson, 1999). These researchers used time series and cross section tests on the data of publically held U.S companies for the period of 1971-1994. They observed that firms with risky cash flows and high growth opportunity hold high percentage of cash, or marketable securities. Their ratios of cash to non cash assets are high. They also observed that the firms doing well tend to accumulate more cash than predicted by static trade-off
Model. Their study confirmed that, Firms having greater access to Capital Markets, tend to hold Lower cash.

The effect on cash flow and the size of the firm has been studied by Abel and Eberly. (Andrew B Abel and Jenice C Eberly, 2004). These researchers developed a mathematical Model with no capital adjustment frictions and perfect capital markets. They have shown that These features alone, generate a positive correlation between Tobin’s Q and investment and Between cash flow and investment. They stated that the cash flow effect is larger for smaller Faster growing and more volatile firms. So there is no evidence supporting, cash flow has a Positive effect on investment, irrespective of size of the firm.

The cash flow theory has been reviewed by many researchers. General notion of holding the large Cash flow either in form of cash balance or marketable securities, would help the firms to for Availing opportunities, which in turn would add value, is not finding evidence. On the contrary Firms having large cash balances tend to utilize cash, in such a way, which reduces the value Has been noted by the researchers.

Corporate Governance and cash balance does have a close connection. The corporate governance Lays lot of emphasis on the transparency and fair valuation of all the aspects of business. The onus of Developing and maintaining good corporate governance practices is primarily on the Board of Directors. Corporate Governance protects the interests of minority share holders or not? Has been Studied by Jensen (Michael C Jensen, 2004). Jensen observed that the weak or ineffective corporate Governance practices are in capable of protecting the minority share holders. The over stretched Equity prices are virtually impossible to control. Ultimately the minority shareholders are at the
Receiving end. Hence it is observed that, Corporate Governance protects the interests of minority Shareholders do not have any support.

The protection of the interests of minority shareholders has been taken seriously by the researchers Pursuing studies in the domain of corporate governance. The governance issues are essentially are Different in different demographies. The Issues in developed regions like USA and UK are Different. One such study has been made by Varma (Jayanth Rama Varma, 1997). While studying The governance issue, he has touched upon related aspects like, PSU’s, MNC’s, Indian Business Groups, Regulatory Dilemma, Company law, Securities law and Disciplining the Capital Markets. He feels in UK and USA the governance issue demands discipline of managements. In Indian Context the disciplining the dominant share holders. He has noted that the Board of Directors is Accountable to the dominant shareholders. So he feels disciplining the dominant Share holders Is necessary to protect the interests of minority shareholders. This study is published in 1997, Since then a lot of positive changes have taken place in Indian Securities’ legislation. However It is baseless to believe even today that, Corporate Governance protects the Interests of minority Shareholders.

The need of strong governance systems have been strongly argued by Jensen (2004). Further It is asserted that irrespective type of the industry, irrespective of demographic location, weak Governance systems have failed.

The existing Corporate Governance literature is sufficient or not, to address the issues of the Governance? Is studied by Fan (Pei Sai Fan, 2004). Fan states that one of the major reason for Corporate Governance issue is distinction between the ownership and control. Which gives Rise to agency costs. It is suggested that this problem can be addressed by alignment of
Interests of Managers with that of Shareholders. The researcher has observed that, existing Literature is not sufficient to include all determinants of Corporate Governance. Further it Has been stated that, perhaps there could not be one optimal governance structure because No two firms could be similar, No two legal regimes, No two Cultures, No two Markets are Similar hence, strong Corporate governance is not a reality as of now. Researcher asserts that, Focus on shareholders and concerns need to be increased. So, it is stated that, existing theories Are not sufficient to include all the determinants of good Corporate Governance. It is said that To find universally acceptable corporate governance principles would be a difficult task.

The purpose of Corporate Governance to in place is enhancement of the value of the firm, which Would ultimately benefit the shareholders. Governance is putting the structures, mechanisms and Processes in place to achieve the desired objective. The research papers reviewed speak of the Need of betterment of Corporate Government practice. None of the researcher has opined that The existing structure of corporate governance is capable of ascertaining the determinants of Governance. Specifically the concern was shown for the minority shareholders. It was strongly Suggested that the dominant shareholders must be disciplined.

Cross border (International ) diversification and its impact on the fund raising, with specific reference To the debt equity proportion and extent of long term debt was studied by Singh and Nejadmalayeri (Manohar Singh and Ali Nejadmalayeri, 2004). They studied the French corporations, it was Found that, non linear inverted U shape relationship between the degree of International Diversification and short term debt financing. Their study revealed that internationally Diversified firms have higher debt financing resulting lowering of cost of capital. So the Is relationship between international diversification, debt equity ratio and cost of capital
Economic Value Added as a tool of firms performance measurement gained a lot of Popularity in recent past. The justification of this popularity and dependence on EVA As a measure of performance management was studied by Abdeen and Haight (Adnan M Abdeen and G Timothy Haight, 2003). In the early phase of introduction of EVA Almost all the research articles were of the view of the superiority of this measure w.r.t. the Traditional methods. In this study the researchers have compared the Fortune-500 firms Making use of EVA and otherwise, for the period of 1997-1998. These researchers noted That calculation of this measure is complex as many adjustments were required to convert G A A P based income to economic income. They observed that, EVA user’s performance means Profits as percentage of revenue, assets and shareholder’s equity were higher than the means Of EVA non user firms. However means of 1998 EPS and EPS growth from 1988-1998 were lower for EVA user firms. So they concluded that EVA is not a better Measure of value creation for the stockholders.

Performance evaluation of an enterprise has been done with the help of many tools. Economic Value Added (EVA) is the one of them. EVA has received great attention by the researchers Existing literature is analyzed by Worthington (Andrew C. Worthington1, 2001). He noted Bidel et al., said EVA could be a effective tool for internal decision making, performance Measurement and Incentive Compensation, however it did not dominate earnings associated With stock market returns. Further Worthington noted that similar observation made by
Chen and Dodd (1997) said not a single EVA measure like annualized EVA return, EVA per Share, change in standardized EVA was able to account for more than twenty six Percent of variation in stock returns. Worthington states that the research on EVA is based on Cross sectional data or panel data with relatively small number of time series. He suggests Examination of EVA over a longer time frame would allow greater empirical certainty. From this study it is clear that, we cannot say for sure that EVA is a better financial Performance measure.

EVA has been studied in Indian context. The real usefulness of EVA has been tested by Researchers. One such in-depth study has been made by Bhattacharya and Phani (Asish K Bhattacharyya & B.V.Phani, 2002). These researchers said EVA concept is Based on strong theoretical foundation but its calculation involves substantial subjectivity Which reduces its informative value? It fails to provide better signals to market as Compared to conventional accounting measures like ROI. These researchers comment That Indian firm are reporting EVA very casually for external reporting purpose. They Advice to stall this practice. Hence these researchers are not equivocally advocating The superiority of EVA as a better measure of assessing the performance of the firm.

The effect of inflation on EVA has been studied by Warr (Richard S. Warr, 2004). He Considered data for 28 years (from 1975-2002) for his study. The nominal EVA and Real EVA (which is inflation adjusted) were considered. The inflation distorts EVA Through operating profit, cost of capital. The researcher has proposed alternative EVA metric called real EVA which is inflation adjusted EVA. Hence this study also Is not in favor of absolute superiority of EVA as a performance tool.

In line with the earlier findings more researchers have noted that EVA cannot be
Considered as a superior tool for performance measurement. Visaltanachoti et al., (Nuttawat Visaltanachoti, Robin Luo and Yi Yi, 2008) have observed that, when relative content Test is applied to compare information content of four performance measures like operating Cash flows (CFO), Earnings(EBIT),Residual Income (RI) and EVA and they examined whether EVA has a closer relationship with other three. Relative information content test showed that, EBIT is more highly associated with sector returns than CFO, RI and EVA. This study found that Association between traditional accounting performance measures and sector returns is higher than With EVA. So, this study also indicates that traditional indicators of performance measurement Are not inferior.

James Tobin, a Noble Prize winner, professor at Yale University invented Tobin’s Q. This is A measure of firm’s assets in relation to firm’s market value. Tobin’s Q= Total Market value of the Firm / Total Asset Value of the firm. Tobin proposed that companies should be worth, what they cost to replace. When Tobin’s Q is between 0 and 1 means, it costs more to replace firm’s assets than Firm’s worth. If Tobin’s Q is above 1 then, The firm is worth more than costs of its assets. Anything above 1, theoretically means that the firm is overvalued. The Q type of measure was Proposed to analyze questions of corporate control and agency cost of control. The de-composition Of Tobin’s Q was tried by Jacobs (E. Allen Jacobs, 1986). He showed that Tobin’s Q can be decomposed into product of control Q and investment Q. This researcher studied 98 petroleum Firms and identified, $ 200 billion agency cost of control. Higher firm value relative to market value of Assets is found to coincide with larger bonded payout commitments of cash flow with smaller asset Size under one management’s control, with larger management share holding. So Firms with high Tobin's Q ratios tend to be those firms with attractive investment opportunities or a significant Competitive advantage, does not find support.
Performance evaluation of a company is done largely with the help of Ratio Analysis. Now researchers are asking questions about the efficacy of Ratio as a tool of analysis. Particularly while predicting the bankruptcy of the firm. Altman (Edward I Altman, 1982) revisited his Z Score and ZETA models, which are acknowledged for predicting the bankruptcy. This researcher has noted that, academicians are moving towards eliminating the ratios as an analytical tool, in assessing the performance of the firm. More and more academicians are using statistical tools. The researcher feels that gap between conventional technique like ratios and modern statistical tools be bridged. He used discriminant analysis for his study. Ratio Analysis is limited to the world of Nuts and Bolts, is not a right approach and Altman’s Study neither advocates it either.

The usefulness of ratio as an analytical tool was studied by many researchers Sori et al., (Zulkarnain Muhamad Sori, Mohamad Ali Abdul Hamid, Annuar Md Nassir and Shamsher Mohamad, 2006) Made a study for Malaysian capital market. They studied 66 firms listed on Malaysian Stock exchange. The data of this research is for the period of 1980-1996. They found that data transformation techniques should be used appropriately. However these researchers are not of the opinion that ratio as a tool of assessing the performance of the firm should be disregarded. These researchers also are of the opinion that ratio as a tool needs enrichment.

The relation between corporate value and Tobin’s Q was studied by Mc Connell and Servaes. (John J. McConnell and Henri Servaes, 1990). They considered a sample of 1173 firms for 1976 and 1093 for 1986. A curvilinear relationship was observed between Tobin’s Q and Common Stock owned by corporate insiders. They also found positive relationship between Q and fraction of shares owned by institutional investors. Their study has an evidence for Hypothesis of - Corporate value is a function of the structure of Equity Ownership.
Liberalization and its effect on the corporate capital structure are studied by many scholars studying Corporate finance. Because of liberalization the access to debt was made easy. Corporates started Relying on debt. on such study was made by Lowe and Shuetrim (Philip Lowe and Geoffrey Shuetrim, 1992). These researchers observed that in 1970 total debt accounted for an average of just over 50 per cent of total assets of the firms in their sample. By 1990 this share had gone up to 66 percent. The increased gearing naturally caused significant decline in coverage ratios. In 1970 firms Were relying on trade credit as a source of finance, but in 80’s debt was available on tap. The study clearly confirms that increase in leverage has leads to decrease in coverage Ratio.

The determinants for value of the firm are studied by the researchers. One major determinant Which affects the value of the firm is risk. Risk management and its effect on the value was Studied by Bartram (Söhnke M. Bartram, 2002). Financial risks comprise of changes in Currency prices, changes in interest rates, changes in commodity prices. Shareholders can manage These risks at their individual level. However at firm level risk management avenues such as Corporate hedging is utilized by the companies. This researcher noted that risk management at firm Level represents a means to increase the firm value. The researcher studied the positive risk Management theories and empirical evidences and drawn the conclusion.

In line with the study of value of the firm, an attempt was made to compare whether the valuation Of large businesses and small businesses is done with the help of same metrics. Michel and Barry (Adams Michael and Thornton Barry, 2008). These researchers used linear cross sectional regression Analysis for over 5000 firms. Their study found the evidence for valuation of privately held small Firms and that of Publically held large firms do not use the same methodology.
The value enhancement objective of managers is widely researched. The measures of value enhancement were studied in detail with the intention of gaining insight into competing measures, by Pertavicius and Tamosieuniene (Tomas Petravičius and Rima Tamošiūnienė, 2008). The Four Value enhancement measures considered by researchers were, EVA, Cash flow Return on Investment (CFROI), Market Value Added (MVA), Cash Value Added (CVA). They use case study approach for their study. It was concluded that, Cost of capital is central to shareholder value approach. Only when value creation exceeds the risk-adjusted cost of capital is added value created. Hence value based methods promote maximization of economic worth of an organization by allocating its assets to its best use did not find any evidence.

In line with the previous study, attempts were being made to correlate value measurement and stock prices. The researchers in the field did consider the four parameters as discussed in the preceding study. One such study has been done by Artikis (Panayiotis G. Artikis, 2008). Main objective of this study was to examine the value measurement tools. This researcher has compiled the literature in the area of value measurement. It was observed that, perfect correlation between value measurement and stock price is impossible because, fundamentals of a company cannot fully explain its market capitalization. Besides other factors like speculative activities, markets sentiments, macro-economic factors, calendar effects influence the movements in share prices. Hence co relation between value measurement and stock price was not observed.

Earnings of the firm have great significance on the value of the firm. The manager’s perception of earnings is closely observed and studied by the business analysts. Such observations of analysts are then reported to the stakeholders. The perceptions of analysts has been studied by researchers
Abe de Jong et al., (Abe de Jong, Gerard Mertens Marieke van der Poel and Ronald van Dijk, 2011) studied this aspect. They conducted a survey involving 306 analysts and additionally interviewed 21 analysts. This study revealed that analysts focus on earnings rather than cash flows. Analysts are driven by the demands of the street. They also observed that managers are heuristic in managing the earnings. This study observes that one cannot say with confidence that, managers are rational in their perspective on earning benchmark and earnings management. They stated that managers are not completely rational nor completely heuristic in their perspectives on earnings benchmarks and earnings management.

The emphasis of corporate is more on the disclosures and quality of disclosures. Most of the disclosures are mandatory. The qualitative aspect of disclosures and its effect on cost of capital is studied by Gao (Pingyang Gao, 2008). Then access or availability of information and its impact on the welfare of investor, is a domain of information asymmetry. This study used a mathematical model. The revelations of this study are, cost of capital could increase with disclosure quality when new investment is sufficiently elastic. There are plausible conditions where disclosure quality reduces welfare of current and/or new investors. Cost of capital is not sufficient measure for the impact of Disclosure quality on welfare of existing or potential investors. So, this study concludes by stating disclosure quality improves investors welfare by reducing cost of capital in a competitive market, has no evidence.

How much information need to be revealed to the stakeholders? Would this revelation have any positive impact on the value of the firm? Would the revelation of a good news bring positive impact on the firms value? Such questions were studied by Almazan et al., (Andres Almazan, Javier Suarez and Sheridan Titman, 2004). These researchers used a mathematical model for their study. They observed that, under relatively general condition negative effect of unfavorable information may exceed the positive effect of favorable information. These researchers
Observed that, transparency can reduce the incentives of stakeholders to undertake the relationship specific investments. Increased transparency can lower the firm value. Hence it is observed by this study that, increased transparency cannot increase the firm value.

When the value proposition of the firm is being researched, some of the researchers are of the opinion that managers of the firms should categorically bring the values of their stock, if the firms are overvalued, Jensen (Michael C Jensen, 2004). It was candidly advocated by Jensen that managers should not get their stock prices too high. That is a level at which the management will not be able to deliver the performance required to support market valuation. It was thought by the researcher that solution of this problem is with the Board of Directors. Whenever the boards chose to defend the overvaluation they destroyed the value.

Corporate disclosures and its effect on the cost of capital, of German firms, is studied by Rikanovic (Mladen Rikanovic, 2005). This researcher studied 84 large listed German corporations. It was noted that, discloser level is negatively related to cost of capital. when the risk aspect was studied in the light of the corporate disclosure no evidence was found that says increased disclosures reduces estimation of risk. This study noted that, theoretical disclosure models based on market liquidity and investors’ cognizance was supported but estimation-risk models were not supported.

These studies which dealt with the effect of transparency on the value of the firm have shown that high level of transparency would not increase the value of the firm. On the contrary these studies have shown that such a thing may reduce the value of the firm. Besides researchers like Michael Jensen advocated the need for bringing the stock prices within the realms of reality, if stocks prices have sky rocketed. Jensen gave an example of Mr. Warren Buffet saying that he feels Berkshire Hath way has been overvalued by the markets, accordingly he had cautioned the shareholders.
It is expected that senior managers must understand the drivers of the value and accordingly align their efforts and goals in that direction. They should not so as per analysts expectations.

For the inorganic way of growing commonly adopted route is through mergers. When the merging entities feel that synergy can be achieved then merger takes place. In case of such mergers a desirable win-win situation should prevail. What was the situation five decades ago? Whether mergers were considered as an effective way of corporate takeover? Such aspects were studied by Manne (Henry G. Manne, 1965). The researcher studied the literature and observed that, motives mergers have reflection on the stock prices. It was further noted that, when normal merger took place with the intention of acquiring the control opportunity, then market price of share never used to be a determining factor. The exchange ratio in such cases were observed to be in favor of the acquired firms. Then the prices of the acquiring firm’s shares experienced a decrease. Where as when the motive of the merger was to gain market power, or economies of scale, then the prices of shares of both the firms experienced a gain, on announcement of merger plans. This is not in line with the notion of; merger is the most effective way of corporate takeover.

All mergers may not yield desired synergy. Studying merger between Unocal and Mesa Cost Jensen (Michael C. Jensen, 1985). A front-end loaded hostile, two-tiered takeover bid on Unocal, to counteract this move Unocal board came out with self-tender offer for its shares. The intention was to buyback 49% stock from its shareholders. This move was not a wise move. Finally the matter was referred to the court of law. The Delaware court sanctioned the payment to the shareholders excluding the raiders. In short this was a legal battle and there was no value enhancement in such merger. Hence merger is the most efficient way of corporate takeover is not falling in line with Unocal Mesa attempted merger episode.
The benefit of merger to the shareholders has been studied by Jensen. Whether such mergers really serve any fruitful purpose or not? Jensen (Michael C. Jensen, 1986). Jensen considered free cash Flow theory. This theory predicts which mergers and takeovers are more likely to destroy, rather than create value. It also shows how takeovers are both evidence of conflicts of interests between Shareholders and managers. The theory further predicts, consistent with data, free cash flow theory predicts that, many acquirers would have exceptionally good performance prior to acquisition. Hence there is no clear cut evidence that states, merger is the most effective way of corporate take Over.

Different types of mergers are happening globally. Horizontal, Vertical mergers are fairly common. When two firms plan a merger, when they are unrelated, when their products are unrelated or These firms may be from different geographies, then such mergers are called as conglomerate Mergers. Generally expansion of business, extending the product portfolio is the motive behind Such mergers. Large conglomerate mergers were studied by Boyle (Stanley E. Boyle, 1970). He studied the U S firms for a long, two decade, span from 1048-1968. The objective of his Study was to understand the pre-merger growth and profit characteristics of these firms. A merger Could be called successful when both the firms i.e. the acquiring and the acquired, are deriving Benefit because of merger. Boyle noted that firms where conglomerate merger took place showed Higher profitability against the horizontal merger. He has commented that if the firms which were Acquired, were left without mergers then independently they could have earned better profits. Hence there is no evidence for the belief which says, conglomerate merger is equally beneficial To the acquiring and the acquired firm.

The level of cash flow of acquired company is also a determining factor in Merger and Acquisition Decisions. It is believed that when demand is receding, even though, when the acquired firm has
Free cash flow, the chances of merger would be minimal. Logically this assumption sounds right. However Michael C Jensen (1986) has noted that such an assumption did not have any evidence.

In his study documented in the research paper Jensen (Michael C. Jensen, 1986) has studied the Financing pattern for the mergers and the benefit derived by the firms. He has tried to provide Solutions for the questions such as how debt can substitute dividends, why diversification Programs are more likely to generate losses than takeovers, why bidders and some targets perform Exceptionally well prior to takeover and like. In the same study Jensen has categorically stated That theory predicts that, takeovers financed by cash and debt would generate larger benefits than Those accomplished through exchange of stock. He felt that there is no clear evidence for this Theoretical statement and reasons behind this could be growth opportunities and free cash flow.

In the takeover of a firm the premium paid to the shareholders of the target company is a matter Of concern. Jarrell et al., (Gregg A. Jarrell, James A. Brickley and Jeffry M. Netter, 1988) have Studied the premium paid to the shareholders of the target firm. The researchers found that The shareholders of target firms are offered higher premium in recent tender offers than the Previous ones. Acquirers received modest increases in their stock prices. The evidence suggests That premium in takeovers represent real wealth gains and simply not wealth redistributions.

The above referred study on mergers and takeovers are representative of the fact that many beliefs And perceptions need a re-thinking on the part of the management thinkers. Whether a conglomerate Merger is beneficial to the target and acquiring company? The decline in demand and chances Of merger, the financing patterns for merger etc were studied by the researchers. Still no conclusive Solution for any of these aspects was cited by the researches.
The role of financial Institutions was studied by Pyle (David H Pyle, 1972). He has observed that, financial institutions help to satisfy the intertemporal desires of primary lenders and primary borrowers; however there is a very little analytical reasoning for the same. The intertemporal choice is the study of relative value people assign to pay-offs. However he observed that there was no theoretical reasoning assigned for the help provided by the financial institutions.

The role of stock market in raising the capital and discovering the prices of the securities transacted on the floor of stock exchange is never challenged. Whether the stock markets enjoy such an important role as well in macroeconomic modeling and policy discussions? Was studied by Fischer and Merton (Stanley Fischer and Robert C. Merton, 1984). in their study they have observed that relatively less significance is given to stock markets in macroeconomic modeling and policy discussions. Further they have asserted that stock market is a good predictor of business cycle and component of GNP. One of the probable reasons behind assigning less importance to stock market is because of volatility, rational managers might be disregarding the stock markets while formulating the investment plans. This study has shown that stock markets play a significant role in macroeconomic modeling and policy discussions, does not find any support.

Whether price levels move cyclically or not has been studied by Kydland and Prescott (Business Cycles: Real Facts and a Monetary Myth, 1990). These researchers have opined that, price levels are pro cyclical is a myth. While citing the works of Friedman and Schwartz (1963) they said the real reason behind the monetary disturbances was the main reason behind the fluctuations in the business cycles. Hence, these researchers did not find the evidence for the cyclical nature of price level movements.

The financial stability is sought by every enterprise. It the important goal of the policy. While
Studying the relation between financial stability and economic performance Bernanke and Gertler (Ben Bernanke and Mark Gertler, 1990). These researchers have quoted that, despite Importance attached by policy makers to maintain a sound financial system there are Controversies over mechanisms by which financial factors are supposed to affect the real Economy. They further said the meaning of the term financial stability has been poorly Understood. Financial instability occurs when the entrepreneurs have low net worth and Heavily rely on external finance. To avoid that, net worth of the borrower be increased. Financial fragility is caused because of poor net worth of the borrower has an evidence.

Firm’s priority for balance sheet restructuring and capital expenditure were studied by the Researchers. The phase of economy and firms preference was studied by Mills et al., (Karen Mills, Steve Morling and Warren Tease, 1993). The researchers noted that in the Period of early 1990s the emphasis of the firms was on balance sheet repair. Borrowings Were low, debts were repaid. Overall investment fell sharply. The advances state of balance sheet Repair means firms were in good position to respond to improved economic conditions in the future. It was evident from this study that, when recovery phase in the economy starts, firms are inclined Towards capital expenditure rather than balance sheet restructuring.

The study of stock buying strategy enthused many researchers. What specific thought process or Rationale, investors must be considering was studied by Jagadeesh and Titman. (Narasimhan Jagadeesh and Sheridan Titman, 1993). These researchers used a model to study The stock buying behavior of the investors. They studied the contrarian approach followed by The investors as well. The study did not give any evidence of prediction of stock buying Behavior of the investors.
Early 80s experienced large increase in corporate debt and sustained asset price inflation. Then In 90s the asset prices, particularly commercial property prices have fallen sharply. The effect Of this on the balance sheets of the firms has created interest in the minds of academicians. Lowe and Rohling (Philip Lowe and Thomas Rohling, 1993) studied this aspect. They reviewed The existing theoretical models which link the evolution of business cycle to changes in firm Equity. These researchers created a simple model and observed that collapse of asset prices or Aggregate demand shock which reduces firm’s equity will result in decrease supply of external Finance.

The various types of investors and the extent of monitoring was studied by Khanna and Palepu (Tarun Khanna and Krishna Palepu, 1999). These researchers studied Indian firms Using the data from early 90s. They observed that, amongst family managed business groups, Domestic financial institutions and foreign financial institutions, the later i.e. foreign financial Institutions were good monitors. Further they observed that, when transparency was on rise Then such firms could attract investments from the foreign financial institutions.

The universal testing and applicability of financing and capital structure was studied by Prasad et al., (Sanjiva Prasad, Christopher J. Green, and Victor Murinde, 2001). Their study was in the form of a Survey. The study highlighted certain anomalies such as many firms have a target capital structure Any they try to go for it, this has not been explicitly considered in the literature. Secondly, these Researchers found that, literature has put extra emphasis in leverage than that on overall capital structure. They have opined that the empirical literature on capital structure is fragmented. Less attention has Been paid to the developing countries. Hence no evidence if found to say that Corporate Finance Theories are examined universally, i.e. in Developed as well as developing capital markets.
Can recessionary trend be precisely predicted? What is the role of Policy makers in prediction Of such a trend. Whether such a trend was observed in US and subsequently be conveyed to The concerned? Such questions were studied by V V Chari et al.,

(V.V. Chari, Lawrence Christiano, and Patrick J. Kehoe, 2008). They argued that the policy makers Had not done the hard work of convincing the public or economists of precise nature of the they Saw, of presenting the hard evidence and not speculation. These researchers used the publicaly Available data. So, it not right to assume that the policy makers explained the public and Academicians the precise nature of market failure of 2008.

The effect of liberalization on the allocation of resources was studied by researchers. The data for 14 developing countries was studied, with reference to the cash flow, by Chen et al.,

(Sheng-Syan Chen, Robin K. Chou, and Shu-Fen Chou, 2009). These researchers observed that, During 1980s and 1990s the firm level financial liberalization announcements were associated With significantly positive positive stock returns. They found that stronger association between Investment and profit opportunities in post liberalization period. Hence evidence suggests that, Following liberalization resources are indeed allocated more efficiently.

The presentation of the information in financial statements and the motives of managers, was Studied by Riedl and Srinivasan (Edward J. Riedl and Suraj Srinivasan, 2009). Whether the Motivation is informational, revealing the underlying economics or opportunistic motivation, Where bias is attempted was studied. They studied managers decision of presenting special Items separately on income statement. Their study noted that, special items receiving income Statement presentations are more transitory than those receiving footnote presentations.
Average returns of Firms having small Market Capitalization are high, given their Beta estimates; And average returns of firms having Large Market Capitalization are low. This was shown by Fama and French (Eugene F Fama and Kenneth R French, 1992). These researchers used the COMPUSTST data of annual industrial files of income statements for the period of 1962-1989. They noted that relation between the market beta and average return is flat even when beta is the Only explanatory variable. They found no evidence for the argument, Average returns of Firms having small Market Capitalization are high, Given their Beta estimates; and average returns of Firms having Large Market Capitalization are low.

Whether the type of ownership and operational value added are interrelated? If so then whether Operational value added is similar irrespective of owners dedication or not was studied by Meerkatt and Liechtenstein (Heino Meerkatt and Heinrich Liechtenstein, 2010). These researchers Used a database of 3000 capital committees to private equity and conducted in-depth interviews With the limited partners who invest in private equity. This is a compact research paper where No jargons were used and hardly any complex mathematical modeling was harnessed. They found The evidence, stating, private equity-owned firms outperform their public counterparts in operational Value creation by 6 to 12.7 per cent points per year. They found that for operational value creation Owner’s active dedication has been a prerequisite. Hence it is wrong to state that, In private equity, Operational value creation is similar irrespective of owner’s dedication.
Since long the academicians are asserting the major objective of the firm’s existence is Profit Maximization. Whether the data is in favor of the strong evidence for the same or Otherwise? What is the researchers take on this notion? Has been studied on the basis of Empirical literature as well as a model developed by the researchers. Keen and Standish (Steve Keen and Russell Standish, 2005). These researchers said that careful examination of Models of competition accepted by economists shows that, the simplest version i.e. Cournot-Nash game theoretic competition does not describe the behavior of truly rational profit maximizers. Also, empirical record shows that assumptions made by the economists are seriously at odds with The reality. These accepted assumptions are not simplifications of reality but counterfactuals to It. Further these researchers assert that much work need to be done to develop a sound realistic Theory of competition. They developed a model an used programming language Mathcad, for Their study. The results of these researchers contradict with both Marshallian and Cournot-Nash Versions of accepted neoclassical competition theory. These researchers propose that, firms may Well be rational profit maximizers but neoclassical economists have mis-specified what rational Profit maximizing behavior actually is. So, assumptions made by the economists are not in line with The reality.

These researchers, while studying the private equity noted that private equity sets a good example In terms of: Providing the boards with firepower, evaluating the top management yearly in a Sophisticated manner, Implementing a 100 day program, selecting the board members having
Extensive knowledge of industry and the region, ensuring that the top management has significant
Equity stake in the company.

Perception plays important role in the success of offerings through IPO’s. As per the theory
People consider the perceived gains favorably than perceived losses. A study was done by
Ljungqvist and Wilhelm (Alexander Ljungqvist and William J Wilhelm Jr., 2005). They
 Attempted to study the IPO market behavior. These researchers did not find any evidence claiming
The probable explanation of IPO market behavior.

Ratio analysis has been extensively used as an analytical tool since long. The efficacy of this tool and
Its predictive power was assessed by Altman (Edward I. Altman, 1968). He has started his
Discussion by stating that academicians seem to be moving towards elimination of Ratio analysis
As an analytical technique for assessing the business performance. Further he states that theorists
Have downgraded the arbitrary rules of thumb such as company ratio comparison. This researcher
Has taken the review of the historical literature. He said in 1930’s ratios were efficient in predicting
The failures of the firms. Later MDA (Multiple Discriminant Analysis) was chosen as appropriate
Statistical tool. However it neither was as widely used as regression. This researcher has narrated
The development of the discriminant-ratio model. This model was effective in predicting the
Bankruptcy upto, 94 per cent correctly. So he concluded by saying that, conventional ratios analysis
Has very little academic relevance as well as Descriminant-Ratio is extremely useful in predicting
The bankruptcy. On needs to realize that Altman observed this in 1968, still our academia insists
And at times relies on the ratio analysis.
Hence after re visiting the literature and studying the researchers views on the efficacy of the ratios, The relevance of ratios needs to be examined in our academic literature, particularly when modern Statistical tools are available.

The way of communicating of any corporate event and its impact on the related parties, specifically On the investing community is studied in signaling theory. The relevance of numbers in financial Results and their predictive value have been studied by Salvery (Stanley C W Salvery, 2005). He observed that, contemporary researchers concluded that, numbers in financial statements Were not relevant because 1. They are not isomorphic with the capital values. 2. They do not Have future orientation and 3. They are un-interpretable as they are based on different Measurement attributes. Further he did conclude saying the un-predictability argument of other Researchers holds true. Hence numbers in financial results are not indicative of future performance Of the firm.

Whether profits as reported by the researchers are consistent from firm to firm and from industry To industry? Are accounting practices universally acceptable? Such questions are studied in detail by Fisher and McGowan (Franklin M Fisher and John J McGowan, 1982). The researcher observed that There is a conceptual problem that is, accounting rates of return, even if consistently and properly Measured, does not provide any information about economic rate of return. Hence the notion of, in After tax analysis, differences in accounting rates of return correspond to economic rates of return, Does not hold true.

Very few research papers are in the context of Indian Businesses, one such study has been made by Siegal and Choudhury (Choudhury, 2010). These researchers made a comment that the decade before Their study, large part of research on corporate governance was focused on the what leads to
Superior or deficient corporate governance. Their study was concerned with the tunneling effect. They observed, after studying the relevant data of Indian corporate that, contrary to previous views Indian firms are not engaging the tunneling, in fact, Indian corporate are exhibiting strong corporate Governance. They further expected that, the conventional wisdom about the tunneling needs to be Revisited and reformulated. Their study strongly argues against the view of, Indian Business groups Are strongly following tunneling.

This study has reiterated the progressive and professional approach adopted by the Indian corporates. Particularly because of strong governance norms, and progressive approach a large number of Indian Firms are considered as Indian M N C’s as mentioned by the researchers the outlook of beholders Towards Indian corporate has changed. This is certainly a positive change.

The concept of wealth maximization has been studied by many researchers. What constitutes wealth? Different scholars have varied views. Most commonly accepted notion of wealth is, the maximization Of firms market value. In this light Smith and Warner (Clifford W Smith Jr. and Jerold B Warner, 1979). They have argued that James Scott’s preposition of maximization of value on the basis of Issuance of secured debt would increase the value of the firm. Further Scott argued that the Optimal strategy of the firm should be to issue as much secured debt as possible. Smith and Warner said rather than issuing as much debt as possible, firm would not necessary go to that Limit, it depends on the relative magnitudes of costs and benefits, they have outlined in their Study.

6.4 FINDINGS AND CONCLUSIONS ABOUT OTHER FINANCIAL ISSUES

Table No: 9

<table>
<thead>
<tr>
<th>Theory / Approach / Concept</th>
<th>Mean Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agency Cost Theory</td>
<td>-0.001851852</td>
</tr>
<tr>
<td>Term</td>
<td>Value</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>A R R (Average Rate of Return)</td>
<td>0.00462963</td>
</tr>
<tr>
<td>Behavioral Finance</td>
<td>-0.00462963</td>
</tr>
<tr>
<td>C S R (Corporate Social Responsibility)</td>
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</tr>
<tr>
<td>Cash Flow</td>
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<tr>
<td>Corporate Governance</td>
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<tr>
<td>Debt Equity Ratio</td>
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<tr>
<td>Information Asymmetry</td>
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<td>Mergers and Acquisitions</td>
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<tr>
<td>Other Decisions</td>
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<td>Signaling Theory</td>
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<td>Tax Shield</td>
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<td>Tunneling Effect</td>
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</tr>
<tr>
<td>Wealth Maximization</td>
<td>-0.00462963</td>
</tr>
</tbody>
</table>
It is evident from the above table that, none of the theory/approach/concept is showing the mean value -1 or 0 or 1. This clearly indicates that none of the theory/approach/concept under the other decisions is neither fully accepted nor fully rejected.

ARR, Other Decisions and Ratio analysis show positive mean values While Agency Cost theory, Behavioral Finance, CSR, Cash Flow, Corporate Governance, Debt Equity Ratio, Financial Performance Measurement, Information Asymmetry, Mergers and Acquisitions, Signaling Theory, Tax Shield, Tunneling Effect, Wealth Maximizations show negative mean values.