Corporations play a crucial role in ensuring fast-paced socio-economic growth and development of any country. India opened up its economy in 1991 which brought up the growth initiators viz. liberalization, privatization and globalization. With the advent of these events, Indian market became more reachable for domestic as well as foreign corporates which was vitally imperative for the growth and survival of the economy. On one hand, these events facilitated firms to have access of funds from capital market but on the other hand, it also brought certain issues. Corporate scams were certainly one of those issues. Indian economy saw a number of scams since then, which brought about the issue of corporate governance into a realm for everyone to discuss. Some of the major scams included Harshad Mehta scam (1992), UTI scam (2001), Ketan Parekh scam (2001), Satyam Fraud case (2009), Speak Asia (2011) Reebok India scam (2012), National Spot Exchange Ltd Scam (2013), Shardha group (2013), Sahara group (2014), Kingfisher money laundering case (2015), & the latest Ricoh India (2016). Such scams forced the regulatory body to pay more focus on the impending requirements and efficacy for an appropriate analysis of companies’ financial statements and to provide guidance to the investors in their financial decisions.

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

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

The present research explores whether a relationship between corporate governance and capital structure of listed companies exists or not. It also analyzes the impacts of different variables (factors) of corporate governance on capital structure.